

*A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada except Quebec 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 this 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 authorized to sell such securities. The securities offered herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the “1933 Act”), or any state securities laws and may not be offered or sold to, or for the account or benefit of, persons in the United States or “U.S. persons” (within the meaning of Regulation S under the 1933 Act) except pursuant to an exemption from the registration requirements of the 1933 Act and applicable state securities laws. See “Plan of Distribution”.*

## PRELIMINARY PROSPECTUS

Initial Public Offering

May 18, 2012



### PURE MULTI-FAMILY REIT LP

\$◆  
◆ Units

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

This prospectus qualifies the distribution of up to ◆ Class A Units (each, a “Unit”) of Pure Multi-Family REIT LP (the “REIT LP”), a newly established limited partnership formed under the *Limited Partnerships Act* (Ontario), at a price of \$◆ per Unit (the “Offering Price”) for aggregate gross proceeds to the REIT LP of \$◆ (the “Offering”), assuming no exercise of the Over-Allotment Option (as defined herein).

The REIT LP’s long-term objectives are to make investments in Pure US Apartments REIT Inc. (the “US REIT”) or other subsidiary entities for the purpose of indirectly: (a) generating stable and growing cash distributions on a tax-efficient basis from investments in multi-family real estate properties in major markets in the United States; (b) enhancing the value of the REIT LP’s assets and maximizing the long-term value of the Properties (as defined herein) through active management; and (c) expanding its asset base and increasing its AFFO through an accretive acquisition program and improvements of the Properties through targeted value added capital programs.

On the completion of the Offering, the REIT LP intends to cause the US REIT to acquire a portfolio comprising an aggregate of 600 multi-family residential units in three properties located in the Dallas-Fort Worth area of Texas (the “Initial Portfolio”). See “The Initial Portfolio” and “Use of Proceeds”. Net proceeds from the Offering which are in excess of the amount required to complete the purchase of the Initial Portfolio will be used to fund the acquisitions of further Properties which have not yet been identified by Pure Multi-Family Management Limited Partnership (the “Managing GP”) and for general working capital purposes. Subject to the availability of financing, the Managing GP believes that the US REIT will be able to acquire \$200 million in new multi-family properties in

each of the next three years and grow its Property portfolio to approximately 2,000 multi-family units by the end of 2012 and 4,500 multi-family units by the end of 2013.

The Managing GP will be the managing general partner of the REIT LP. The Managing GP is affiliated with Sunstone Realty Advisors Inc. (“Sunstone”) and controlled by Darren Latoski and Steve Evans (collectively, the “Sunstone Group”), giving the REIT LP access to the Sunstone Group’s experienced management team and extensive network of relationships in the United States multi-family real estate market. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in nine U.S. multi-family real estate properties acquired since 2008.

As well, Messrs. Latoski and Evans founded Pure Industrial Real Estate Trust (“PIRET”) in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-V) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada’s best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). PIRET remains Canada’s only pure play publicly-traded industrial real estate investment trust.

Prior to the closing of this Offering, the Managing GP will subscribe for 200,000 Class B Units (each a “Class B Unit”) of the REIT LP and will pay cash consideration of \$5.00 per Class B Unit for aggregate proceeds to the REIT LP of \$1,000,000 and as the Class B Unitholder will, upon the closing of the Offering, own a 5% interest in the REIT LP.

Pure Multi-Family REIT (GP) Inc. (the “Governing GP”) will be the governing general partner of the REIT LP and will have sole responsibility and authority for the governance of the REIT LP. The Governing GP will have a board initially consisting of five directors, the majority of whom will be independent.

The REIT LP’s growth strategy will initially be focused on the “Sunbelt” regions of the U.S. due to strong underlying economic and demographic fundamentals which the Managing GP believes provide attractive acquisition opportunities. Based on the Sunstone Group’s recent experience in the U.S., the Managing GP has targeted the Southwestern and Southeastern portions of the country including states such as Texas, Arizona, Georgia and Nevada for investment in income-producing multi-family real estate properties. These areas have generally experienced strong population growth rates above the national average and declining vacancy rates, trends which are expected to persist. The Managing GP expects that new residents in such markets will seek out rental housing rather than buying homes, increasing demand for rental housing and supporting the multi-family real estate market.

On the completion of the purchase of the Initial Portfolio, the US REIT will engage Sunstone Multi-Family Management Inc. (the “Property Manager”), an entity which is affiliated with the Sunstone Group, for the provision of property management services in respect of the Initial Portfolio. It is expected that the Property Manager will assign the property management services in relation to the Initial Portfolio to the Tipton Group (as defined herein).

The REIT LP intends to make regular monthly cash distributions to Unitholders. The REIT LP expects that the initial monthly cash distribution rate will be \$◆ per Unit. The initial cash distribution, which will be for the period from and including the date of closing of the Offering to ◆, 2012, is expected to be paid on ◆, 2012 to Unitholders of record on ◆, 2012 and is estimated to be \$◆ per Unit (assuming the closing of the Offering occurs on ◆, 2012). The distribution of cash to Unitholders is not assured. See “Distribution Policy”.

**Price: \$◆ Per Unit**

	<b>Price to the Public<sup>(1)(2)</sup></b>	<b>Agents' Fee</b>	<b>Net Proceeds to the REIT LP<sup>(3)</sup></b>
Per Unit.....	\$ ◆	\$ ◆	\$ ◆
<b>Total Offering<sup>(4)(5)</sup></b> .....	<b>\$ ◆</b>	<b>\$ ◆</b>	<b>\$ ◆</b>

Notes:

- (1) Except as otherwise stated in this prospectus, all dollar amounts, including the price per Unit, are stated in U.S. dollars.
- (2) The Offering Price was established by negotiation between the REIT LP, the Managing GP and Dundee Securities Ltd. (as lead agent), Canaccord Genuity Corp., National Bank Financial Inc., Raymond James Ltd., Scotia Capital Inc., GMP Securities L.P., HSBC Securities (Canada) Inc., Union Securities Ltd., Sora Group Wealth Advisors Inc., Macquarie Capital Markets Canada Ltd. and Desjardins Securities Inc. (collectively, the “Agents”).
- (3) The Agents will receive a commission (the “Agents’ Commission”) equal to 6% of the gross proceeds of the Offering, payable in cash.
- (4) After deducting the Agents’ Commission but before deducting expenses of the Offering, estimated to be \$600,000, which, together with the Agents’ Commission, will be paid from the proceeds of the Offering. The expenses of the Offering do not include other expenses associated with the acquisition of the Initial Portfolio.
- (5) Does not include the 200,000 Class B Units purchased by the Managing GP.
- (6) If the Over-Allotment Option (as defined herein) is exercised in full, the total number of Units sold under the Offering will be ◆ and the Agents’ Commission will be \$◆. If the Over-Allotment Option is exercised in full, the gross proceeds of the Offering will be \$◆ and the net proceeds to the REIT LP will be \$◆ before deducting the expenses of the Offering, estimated to be approximately \$600,000.

The Agents, as agents of the REIT LP for the purposes of the Offering, conditionally offer the Units for sale on a commercially reasonable efforts basis and subject to prior sale, if, as and when issued by the REIT LP, in accordance with the conditions contained in the Agency Agreement (as defined herein and referred to under “Plan of Distribution”) and subject to the approval of certain legal matters by Clark Wilson LLP on behalf of the REIT LP and Miller Thomson LLP on behalf of the Agents. Unless an amendment to the Final Prospectus (as defined herein) 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.

The REIT LP has granted to the Agents an option (the “Over-Allotment Option”) exercisable, in whole or in part, at any time until 5:00 pm (Vancouver time) on the day that is 30 days following the Closing Date (as defined herein) to purchase up to an aggregate of ◆ additional Units (the “Over-Allotment Units”) at the Offering Price, to cover over-allotments, if any, and for market stabilization purposes. This prospectus also qualifies the granting of the Over-Allotment Option and the issuance of Over-Allotment Units upon the exercise of the Over-Allotment Option. A purchaser who acquires Over-Allotment Units forming part of the Agents’ over-allocation position acquires such Units under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”. References to “Units” in this prospectus shall include the up to ◆ Over-Allotment Units and references to the “Offering” shall include the exercise of the Over-Allotment Option, as applicable in the context used. The following table sets forth the number of securities issuable under the Over-Allotment Option:

<b>Agents’ Position</b>	<b>Maximum number of securities held</b>	<b>Exercise period</b>	<b>Exercise price</b>
<b>Over-Allotment Option</b>	<b>◆ Units</b>	<b>Within 30 days of Closing</b>	<b>\$◆ per Unit</b>

The REIT LP has applied to the TSX Venture Exchange Inc. (the “Exchange”) to list the Units distributed under this Offering on the Exchange under the symbol “RUF.UN.U”. Listing of the Units is subject to the REIT LP fulfilling all of the requirements of the Exchange.

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

**The return on an investment in the Units is not comparable to the return on an investment in a fixed-income security. Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the REIT LP intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future. The REIT LP’s ability to make cash distributions and the actual amount distributed will depend on a number of factors, including the financial performance of the Properties acquired by the US REIT, debt covenants and obligations, interest rates, the occupancy rates of the Properties, working capital requirements, future capital requirements and the US REIT’s ability to complete future acquisitions. The REIT LP may be required to supplement its cash distributions from working capital. See “Risk Factors”. In addition, the market value of the Units may decline if the REIT LP reduces its cash distributions or is unable to meet its cash distribution targets in the future.**

The after-tax return from an investment in Units to Unitholders subject to Canadian income tax will depend, in part, on the composition for income tax purposes of distributions paid by the REIT LP on the Units, portions of which may be fully or partially taxable or may constitute tax deferred distributions which are not subject to tax at the time of receipt but reduce a Unitholder’s cost base in the Unit for tax purposes. The REIT LP estimates that approximately ♦% of the monthly cash distributions to be made by the REIT LP to Unitholders will be tax deferred in 2012. The composition may change over time, thus affecting a Unitholder’s after-tax return. Moreover, the after-tax return from an investment in Units to a Unitholder will depend in part on the Unitholder’s ability to recognize for purposes of the Tax Act U.S. taxes paid by the REIT LP or by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act (refer to “Principal Canadian Federal Income Tax Considerations”).

Subject to the qualifications and assumptions discussed under the heading “Principal Canadian Federal Income Tax Considerations”, the Units will, on the date of closing, be qualified for investment by the Plans. Adverse tax consequences will generally apply to a Plan and/or its annuitant, beneficiary thereunder or holder thereof, if Units cease to be a qualified investment for the Plans. In respect of an RRSP, RRIF or a TFSA, adverse tax consequences will also arise if it acquires or holds property that is or becomes a prohibited investment (refer to “Principal Canadian Federal Income Tax Considerations”).

The US REIT is incorporated under the laws of a foreign jurisdiction and, if incorporated, Pure Apartments TRS Inc. will be incorporated under the laws of a foreign jurisdiction. Although the US REIT and Pure Apartments TRS Inc. have or will have appointed Clark Wilson LLP, 800 – 885 West Georgia Street, Vancouver, BC V6C 3H1, as their agent for service of process in British Columbia, it may not be possible for investors to enforce judgements obtained in Canada against the US REIT or Pure Apartments TRS Inc.

The directors of the Managing GP, the Governing GP and the US REIT are subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates (refer to “Management of the Governing GP – Conflict of Interest Restrictions and Provisions”).

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Book-entry certificates representing the Units will be issued in registered form to The Canadian Depository for Securities Limited (“CDS”) or its nominee and will be deposited with CDS on Closing. The closing of the Offering is expected to occur on or about June 19, 2012. The purchasers of Units will receive only a customer confirmation form from a registered dealer that is a CDS Participant and from or through which the Units are purchased. Certificates will not be issued for the Class B Units. In the event that the Offering does not close, all funds received from purchasers will be returned to purchasers, without interest.

**No person is authorized by the REIT LP 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 Units.**

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## **ABOUT THIS PROSPECTUS**

An investor should rely only on the information contained in this prospectus and should not rely on parts of the information contained in this prospectus to the exclusion of others. The REIT LP has not, and the Agents have not, authorized anyone to provide investors with additional or different information from that contained in this prospectus. The REIT LP is not, and the Agents are not, offering to sell these securities in any jurisdictions where the offer or sale of these securities is not permitted. Unless otherwise stated, the information contained in this prospectus is accurate only as at the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the Units. The REIT LP's business, financial condition, results of operations and prospects may have changed since the date of this prospectus. If, however, after a receipt for the Final Prospectus is issued but before the Closing Date, a material change occurs, the REIT LP will file an amendment to the Final Prospectus as soon as practicable, but in any event within 10 days after the day the change occurs.

For investors outside of Canada, none of the REIT LP nor any of the Agents has done anything which would permit the Offering, possession or distribution of this prospectus in any jurisdiction where action for that purposes is required, other than in Canada. Investors are required to inform themselves about, and to observe any restrictions relating to the Offering and the possession or distribution of this prospectus.

This prospectus contains a summary description of certain material agreements of the REIT LP. See "Material Contracts". The summary description discloses all attributes material to an investor in Units but is not complete and is qualified in its entirety by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and made available electronically on SEDAR at [www.sedar.com](http://www.sedar.com). Investors should read the full text of such material agreements.

## **MEANINGS OF CERTAIN REFERENCES**

Capitalized terms used in this prospectus are defined under "Glossary of Terms".

The REIT LP's investment and operating activities are limited, because the REIT LP's operating activities will be carried out by the US REIT. For simplicity, the REIT LP uses terms in this prospectus to refer to the investments and operations of the REIT LP and US REIT as a whole. Accordingly, in this prospectus, unless the context otherwise requires, the "REIT LP" is referring to the REIT LP and the US REIT, giving effect to the acquisition of the Initial Portfolio. When the REIT LP uses expressions such as "the REIT LP's investments" or "the REIT LP's operations", the REIT LP is referring to the investments and operations of the REIT LP and the US REIT as a whole, in each case, from and after Closing. When the REIT LP uses expressions such as "the Properties", "the REIT LP's portfolio", "the REIT LP owns" or "the REIT LP invests in" in relation to the Properties, the REIT LP is referring to the REIT LP's indirect ownership of and investment in the Properties through its investment in the US REIT. When the REIT LP uses expressions such as "the REIT LP operates", the REIT LP is referring to the REIT LP's indirect operations, as carried out by the US REIT.

Except where otherwise indicated, the disclosure contained in this prospectus assumes that: (i) the Offering has been completed; (ii) the acquisition of the Initial Portfolio has been completed; and (iii) the Over-Allotment Option has not been exercised.

## **EXCHANGE RATE DATA**

Except as otherwise stated in this prospectus, including the price per Unit, all dollar amounts in this prospectus are stated in U.S. dollars. The following table reflects the low and high rates of exchange in Canadian dollars for one U.S. dollar during the periods noted, the average rate of exchange during such periods and the rates of exchange at the end of each such period, based on the Bank of Canada's closing exchange rates for the specified periods and dates:

	Three months ended		Year ended December 31		
	March 31				
	2012	2011	2011	2010	2009
	C\$	C\$	C\$	C\$	C\$
Highest rate during the period	1.0270	1.0015	1.0549	1.0745	1.2991
Lowest rate during the period	0.9859	0.9687	0.9428	0.9946	1.0259
Average rate for the period <sup>(1)</sup>	1.0010	0.9856	0.9891	1.0303	1.1420
Rate at the end of the period	0.9975	0.9696	1.0170	0.9946	1.0510

Notes

(1) Determined by averaging the closing rate on each Business Day during the respective period.

As of May 17, 2012, the Bank of Canada closing exchange rate was \$1.0191 (1.00 CDN\$ = 0.9813 US\$).

## MARKET AND INDUSTRY DATA

This prospectus includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although the Managing GP believes it to be reliable, neither the REIT LP nor the Agents have independently verified any of the data from third-party sources referred to in this prospectus, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon by such sources. Certain providers of market data and forecasts may be advisors to participants in the real estate industry and may present information in a manner that is more favourable to that industry than would be presented by an independent source.

## NON-IFRS MEASURES

In this prospectus, the REIT LP uses certain non-IFRS financial measures, which include funds from operations (“FFO”), adjusted funds from operations (“AFFO”) and net operating income (“NOI”). These terms are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO, AFFO and NOI are supplemental measures of performance for real estate businesses. The REIT LP believes that AFFO is an important measure of economic performance and is indicative of the REIT LP’s ability to pay distributions, while FFO and NOI are important measures of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO, AFFO and NOI is net income. See “Non-IFRS Reconciliation” for a reconciliation of NOI, FFO and AFFO to net income.

“FFO” is defined as net income in accordance with IFRS, excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (v) deferred income tax expense, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

“AFFO” is defined as FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired, amortization of deferred financing and leasing costs, and compensation expense related to deferred unit incentive plans, (ii) adjusting for any differences resulting from recognizing property revenues on a straight-line basis, and (iii) deducting a reserve for normalized maintenance capital expenditures and leasing costs, as determined by the REIT LP. Other adjustments may be made to AFFO as determined by the Managing GP in its discretion.

“NOI” is defined as revenue after operating expenses have been deducted and adjusting for the NOI of equity accounted entities, joint ventures and non-controlling interests.



FFO, AFFO and NOI should not be construed as alternatives to net income or cash flow from operating activities, determined in accordance with IFRS as indicators of the REIT LP's performance. The REIT LP's method of calculating FFO, AFFO and NOI may differ from other issuers' methods and accordingly may not be comparable to measures used by other issuers.

## FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking information. Statements other than statements of historical fact contained in this prospectus may be forward-looking information. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue", or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and the REIT LP's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities; and statements regarding the REIT LP's future economic performance. The REIT LP has based these forward-looking statements on the REIT LP's current expectations about future events. Some of the specific forward-looking statements in this prospectus include, but are not limited to, statements with respect to: (i) the REIT LP's intention to provide stable, sustainable and growing cash flows through investments in multi-family real estate in the United States and the REIT LP's other stated objectives; (ii) the REIT LP's intention to make regular monthly cash distributions; (iii) the REIT LP's plan to cause the US REIT to acquire the Initial Portfolio; (iv) the REIT LP's ability to execute the REIT LP's business and growth strategies, including by making additional acquisitions of properties in the REIT LP's target markets; (v) the REIT LP's forecast financial results for the periods set out in this prospectus under the heading "Financial Forecast"; (vi) forecast NOI figures or data derived from forecast NOI relating to individual properties or property type or geography; (vii) the expected tax treatment of the REIT LP's distributions to Unitholders; (viii) the REIT LP's access to available sources of debt and equity financing; (ix) the percentage of the REIT LP's monthly cash distributions to be paid by the REIT LP to Unitholders that will be tax deferred in 2012; (x) expectations for Units to be considered "regularly traded" on an established securities market; (xi) expectations, including anticipated trends and challenges, in respect of the multi-family real estate sector in the REIT LP's target markets; and (xii) the expected level of foreign tax, if any, payable on amounts that give rise to the REIT LP's distributable income.

Forward-looking statements do not take into account the effect of transactions or other items announced or occurring after the statements are made. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

Although the REIT LP believes that the expectations reflected in such forward-looking information are reasonable, the REIT LP can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this prospectus as well as the following: (i) the REIT LP will receive financing on acceptable terms; (ii) the REIT LP's future level of indebtedness and the REIT LP's future growth potential will remain consistent with the REIT LP's current expectations; (iii) there will be no changes to tax laws adversely affecting the REIT LP's financing capability, operations, activities, structure or distributions; (iv) the REIT LP will retain and continue to attract qualified and knowledgeable personnel as the REIT LP expand the REIT LP's portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on the REIT LP's operations, including the REIT LP's financing capability and asset value, will remain consistent with the REIT LP's current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting the REIT LP's operations; (vii) conditions in the international and, in particular, the United States real estate market, including competition for acquisitions, will be consistent with the climate; and (viii) capital markets will provide the REIT LP with readily available access to equity and/or debt financing.

Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors discussed under

“Risk Factors”. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

The reader is further cautioned that the preparation of the financial forecast included in this prospectus under the heading “Financial Forecast” requires the REIT LP to make certain assumptions, judgments and estimates that affect the forecast of financial results, including assets, revenues, liabilities and expenses. These estimates may change, having either a negative or positive effect on actual results as further information becomes available, and as the economic environment changes.

The forward-looking information contained in this prospectus is expressly qualified in its entirety by these cautionary statements. All forward-looking information in this prospectus is as of the date of this prospectus. The REIT LP does not undertake any obligation to update any such forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. For more information on the risk factors that could cause the REIT LP’s actual results to differ from current expectations. See “Risk Factors”.

The forecast net income figures or data derived from forecast net income relating to individual properties or property type or geography has been prepared by the REIT LP for use by prospective investors in their evaluation of potential investments in the REIT LP (and in particular in order to provide prospective investors with a greater understanding of the relative importance of each of the Properties which comprise the Initial Portfolio) and may not be appropriate for any other purpose.

### **ELIGIBILITY FOR INVESTMENT**

In the view of KPMG LLP and Miller Thomson LLP, provided that the Units are listed on a “designated stock exchange” as defined in the Tax Act (which includes the Exchange (Tiers 1 and 2)), the Units, if issued on the date hereof, would be qualified investments under the Tax Act and the Regulations for trusts governed by Plans.

Notwithstanding the foregoing, a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a “prohibited investment” as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will generally not be a “prohibited investment” for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, does not deal at arm’s length with the REIT LP for the purposes of the Tax Act or has a “significant interest” as defined in the Tax Act in the REIT LP or in a corporation, partnership or trust with which the REIT LP does not deal at arm’s length for the purposes of the Tax Act. Prospective purchasers should consult their own tax advisors to ensure that the Units would not be a “prohibited investment” for a trust governed by a TFSA, RRSP, or RRIF in their particular circumstances.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. For an explanation of certain terms and abbreviations used in this prospectus and not otherwise defined, please refer to the “Glossary of Terms”.*

### **The REIT LP**

Pure Multi-Family REIT LP is a newly established limited partnership formed under the *Limited Partnerships Act* (Ontario) which has been formed to invest in quality multi-family real estate properties in major markets in the United States (the “Properties”). The REIT LP was established by Pure Multi-Family Management Limited Partnership, its managing general partner, and Pure Multi-Family REIT (GP) Inc., its governing general partner, pursuant to the terms of the REIT LP Agreement. The REIT LP’s head office and address for service is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The Managing GP will be the managing general partner of the REIT LP. The Managing GP is affiliated with Sunstone Realty Advisors Inc. and controlled by Darren Latoski and Steve Evans, giving the REIT LP access to the Sunstone Group’s experienced management team and extensive network of relationships in the United States multi-family real estate market. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in nine U.S. multi-family real estate properties acquired since 2008.

As well, Messrs. Latoski and Evans founded Pure Industrial Real Estate Trust in 2007. PIRET is a publicly-listed real estate investment trust established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada’s best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). PIRET remains Canada’s only pure play publicly-traded industrial real estate investment trust.

Prior to the closing of this Offering, the Managing GP will subscribe for 200,000 Class B Units of the REIT LP and will pay cash consideration of \$5.00 per Class B Unit, for aggregate proceeds to the REIT LP of \$1,000,000 and as the Class B Unitholder will, upon the closing of the Offering, own a 5% interest in the REIT LP.

### **Investment Objectives**

The REIT LP’s long-term objectives are to make investments in US REIT or other subsidiary entities for the purpose of indirectly:

- (a) generating stable and growing cash distributions on a tax-efficient basis from investments in multi-family real estate properties in major markets in the United States;
- (b) enhancing the value of the REIT LP’s assets and maximizing the long-term value of the Properties through active management;
- (c) expanding its asset base and increase its AFFO through an accretive acquisition program and improvements of the Properties through targeted value added capital programs.

## **The Market Opportunity**

The Managing GP has established the REIT LP to provide an opportunity for investors to gain exposure to multi-family real estate properties in the United States, benefitting from the proven track record of the Sunstone Group. The REIT LP is a Canadian limited partnership focused exclusively on investments in multi-family real estate properties in the United States and on Closing is expected to be the only publicly traded vehicle in Canada which will offer investors exclusive exposure to U.S. multi-family real estate assets.

Since 2003, the Sunstone Group has launched 11 real estate opportunity funds in total (with gross proceeds raised in excess of \$360 million) and has generated strong investor returns of 18% and 36% from their initial two funds launched in 2003 and 2004 that have since been fully divested. Since 2008, the Sunstone Group has launched four real estate opportunity funds which have focused on acquiring, financing, owning and managing U.S. revenue-producing properties, including multi-family real estate properties. These four U.S. funds have raised \$137 million and have acquired 15 U.S. properties for a total \$288 million. Investors in these U.S. funds have had the opportunity to increase the international component of their real estate investments and have benefited from geographic diversification, investment exposure to the U.S. dollar, the opportunity to enhance their investment returns and the security of long-term, stable cash flows.

The Managing GP believes that there will continue to be attractive opportunities for acquiring multi-family real estate properties in the United States in both the short and long-term, as the Managing GP anticipates that many owners of such properties will be seeking liquidity over the next few years. These owners may include private equity funds that have a fixed investment horizon, lenders that have become owners of real estate (due to foreclosure or otherwise), and private owners seeking to liquidate their portfolios for estate-planning or other purposes. The Managing GP also expects that undercapitalized owners will seek to sell over-leveraged multi-family assets as they face upcoming debt maturities and the prospect of making significant capital expenditures on their properties.

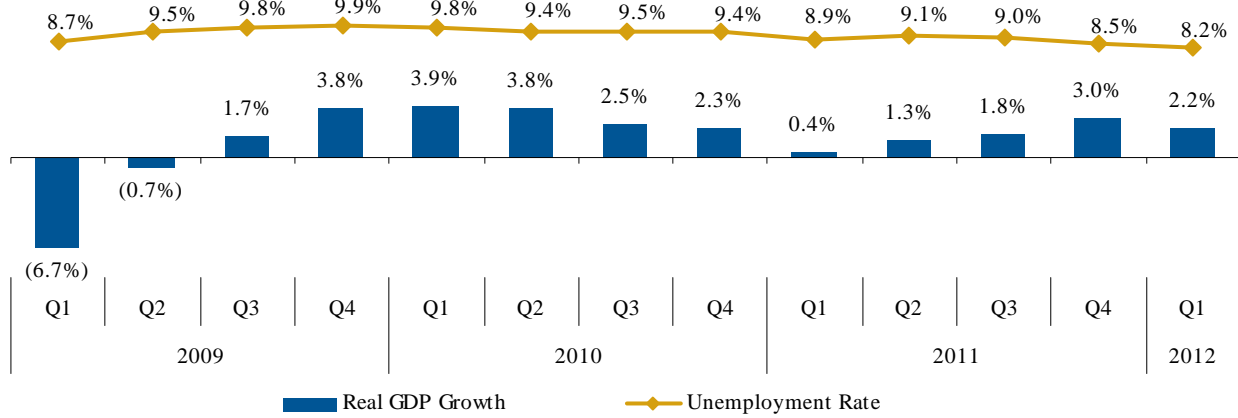
The Managing GP believes that favourable economic conditions in Canada relative to the United States, including the relatively low cost of capital in Canada, have created a strong and sustainable window of opportunity to establish a Canadian investment entity to acquire undervalued U.S. multi-family properties on an opportunistic and accretive basis. In certain circumstances, equity and other forms of real estate financing are not readily available for many potential U.S. buyers of multi-family real estate properties, and the Managing GP believes that this challenging environment has created attractive investment opportunities for well-capitalized buyers seeking to purchase quality multi-family assets at attractive yields.

The Managing GP has targeted the U.S. multi-family sector for investment due to underlying economic fundamentals which it believes provide attractive acquisition and organic growth opportunities, including the following:

### *Economic Recovery Provides Attractive Multi-Family Investment Opportunities*

In the two years prior to 2010, there was a dramatic erosion of real estate values in the United States, 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. Since then, the U.S. economy has begun a slow recovery which has recently begun to accelerate. In the first quarter of 2012, GDP grew at an annual rate of 2.2% and the unemployment rate decreased to 8.2% from 8.5% in the prior quarter. However, real estate prices have been slower to rebound and, as a result, the Managing GP believes there are significant investment opportunities for attractive multi-family investments.

### U.S. Real GDP Growth and Unemployment Rate

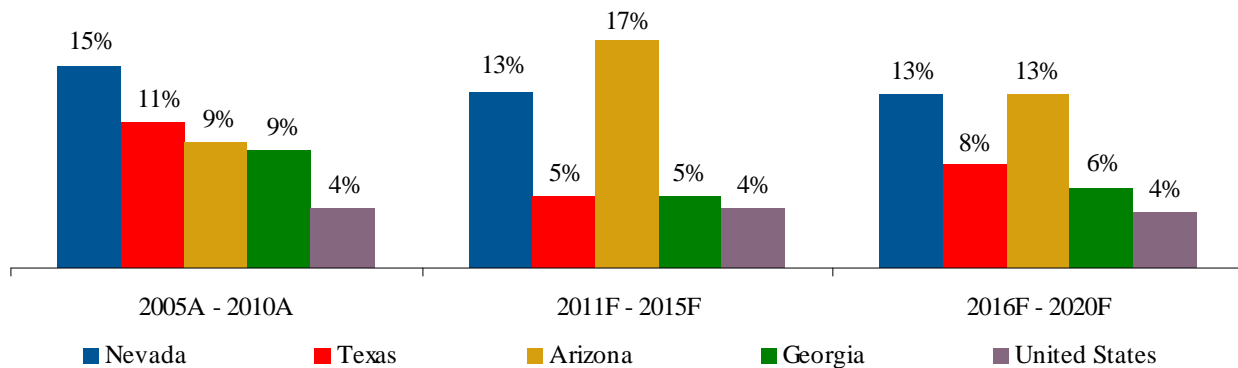


Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics; GDP growth seasonally adjusted at annual rates.

### Strong Economic and Market Indicators Across the U.S. “Sunbelt” Regions

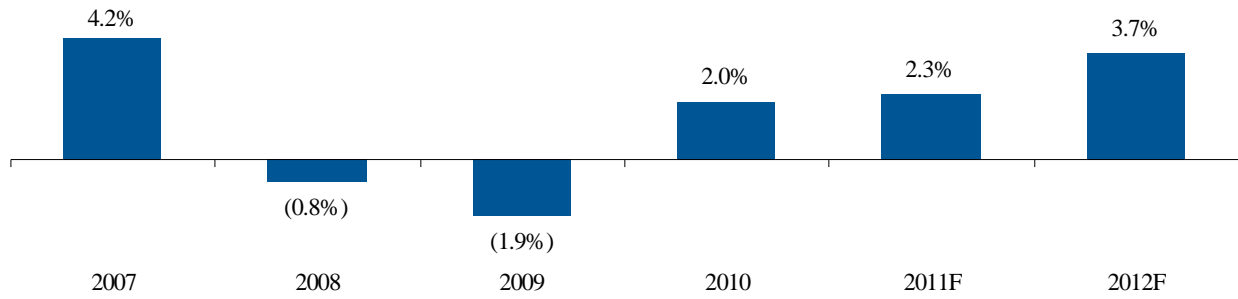
The REIT LP will initially focus on acquiring multi-family properties in the “Sunbelt” regions of the U.S., primarily in the Southwestern and Southeastern areas, although acquisition opportunities may arise in other regions. States such as Texas, Arizona, Georgia and Nevada have generally experienced strong population growth rates well above the national average and declining vacancy rates, trends which are expected to continue in the future, creating additional demand for multi-family properties. The Managing GP expects that many new residents in the Sunbelt regions will first seek out rental housing rather than buying homes, increasing demand for rental housing and supporting the multi-family residential property market.

### Population Growth Rate



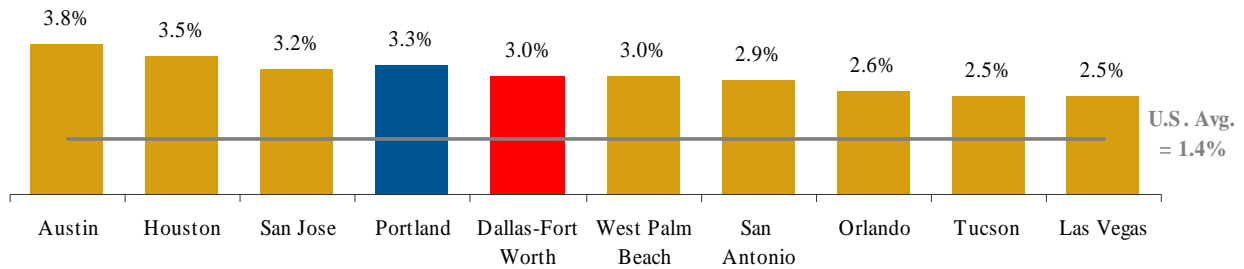
Source: U.S. Census Bureau, Population Division, Interim State Population Projections.

**“Sunbelt” States – Weighted Average Real GDP Growth Rates (2007-2012F)**



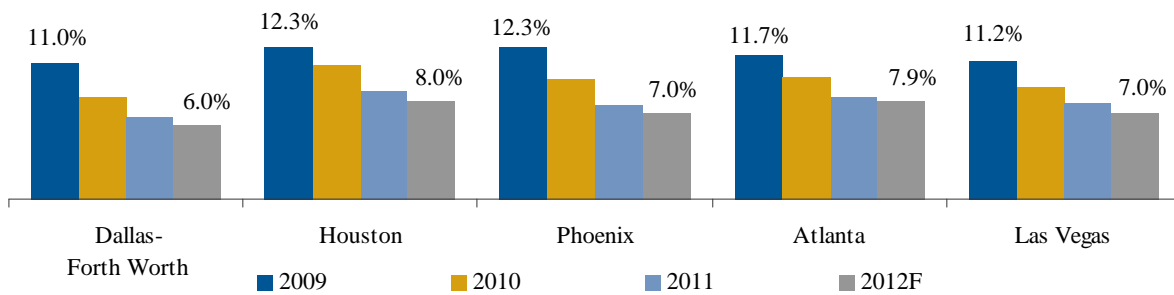
Source: J.P. Morgan Chase, 4Q seasonally adjusted annual rates; “Sunbelt” states include Texas, Nevada, Arizona, Florida, Georgia and California.

**U.S. Markets with Highest Forecasted (2012) Employment Growth**



Source: Marcus & Millichap, 2012 National Apartment Report (Nonfarm employment, YoY change).

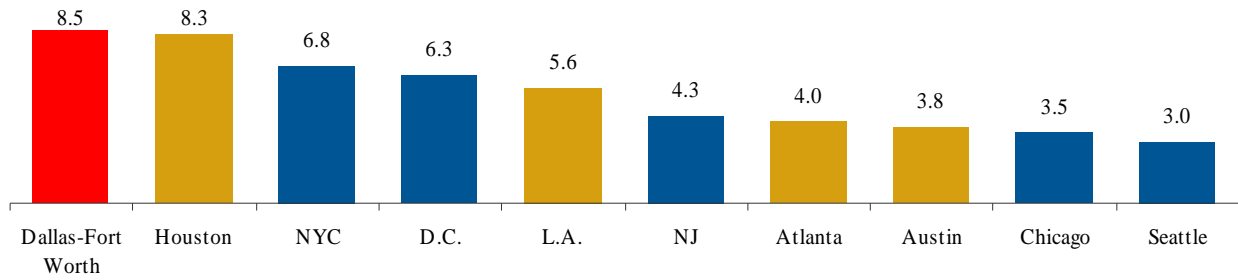
**“Sunbelt” Cities – Declining Vacancy Rates**



Source: Marcus & Millichap, 2012 National Apartment Report.

### U.S. Markets with Highest Forecasted (2012) Absorption

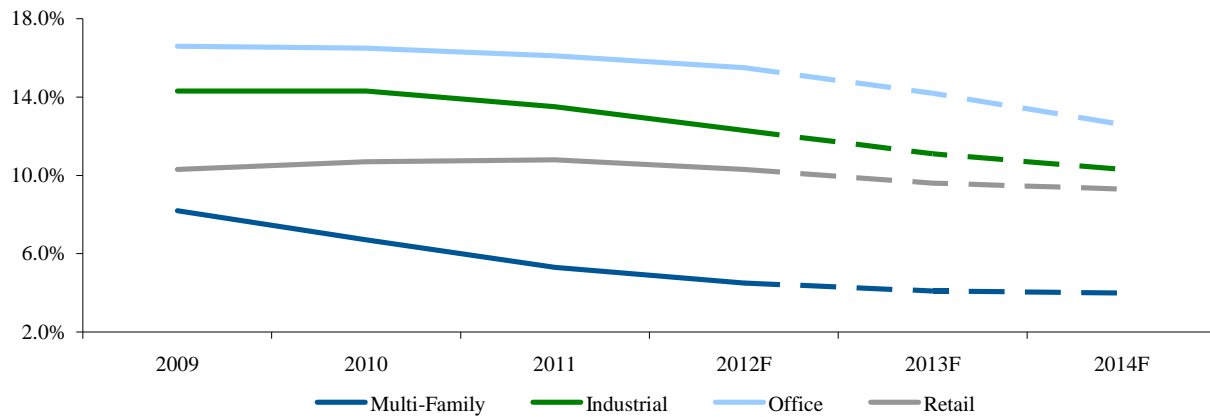
Units in 000's



Source: Marcus & Millichap, 2012 National Apartment Report.

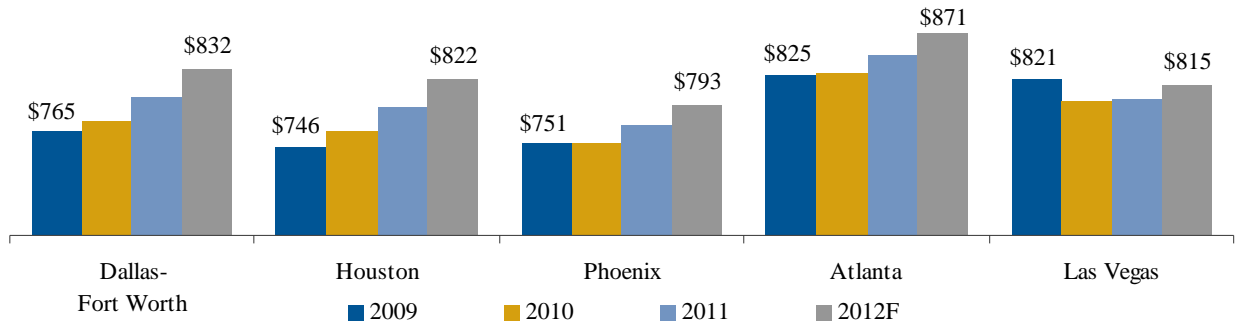
The Managing GP expects that continued growth in population, GDP and employment across the Sunbelt states will continue to put upward demand-side pressure on occupancy levels and rental rates as the economic recovery continues.

### U.S. Vacancy Rate Trends



Source: RREEF.

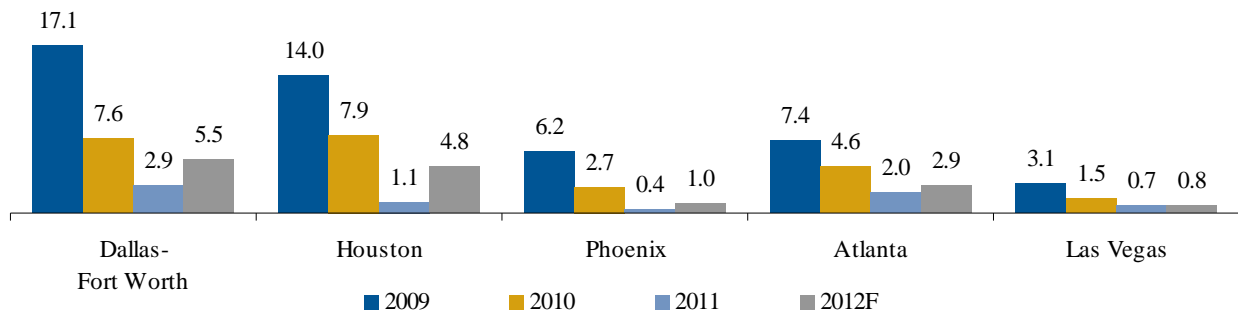
### “Sunbelt” Cities – Asking Rents



Source: Marcus & Millichap, 2012 National Apartment Report.

New supply of rental apartment stock is expected to remain low with completions of multi-family properties remaining substantially below 2009 levels.

### “Sunbelt” Cities – Completions for Multi-family Properties

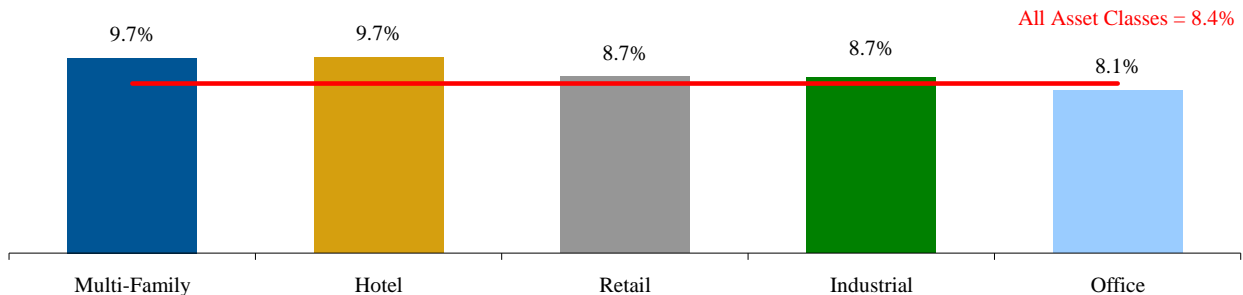


Source: Marcus & Millichap, 2012 National Apartment Report.

### Historically Stable Asset Class

The multi-family asset class has historically provided investors with the lowest variability of risk-adjusted returns among all classes of real estate as shown in the chart below, owing to the necessity for housing, which is typically not materially affected by economic slow-downs.

### U.S. Average Annualized Returns by Real Estate Class (1992 – 2011)



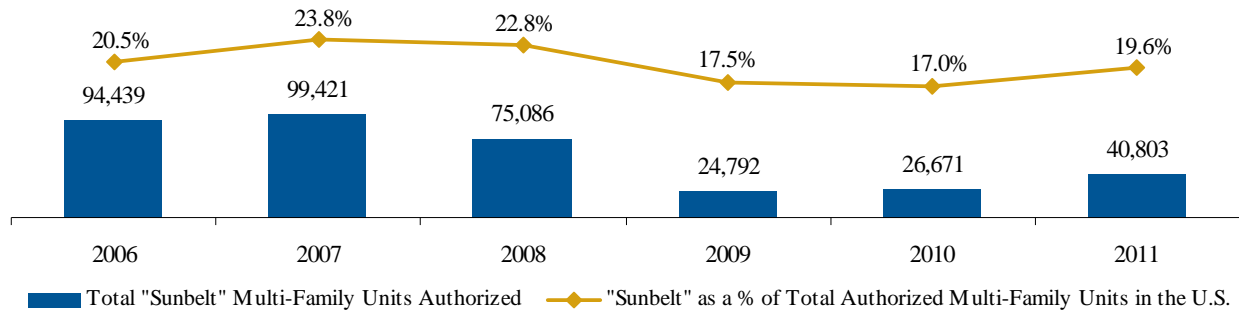
Source: NCREIF.



### Constraints on New Multi-Family Construction

The recent U.S. economic downturn has resulted in a significant reduction in the construction of new homes, including multi-family properties. The Managing GP believes that this should increase demand for units in existing properties and lead to increasing occupancy rates and upward pressure on rental rates. As shown below, authorized building permits for multi-family residential properties in the “Sunbelt” states declined from 2007 to 2009 and currently remain below 2006 levels. The Managing GP believes that this should increase demand for existing rental properties and result in continued increasing occupancy and rental rates.

**“Sunbelt” States – Multi-Family Units Authorized by Building Permits**

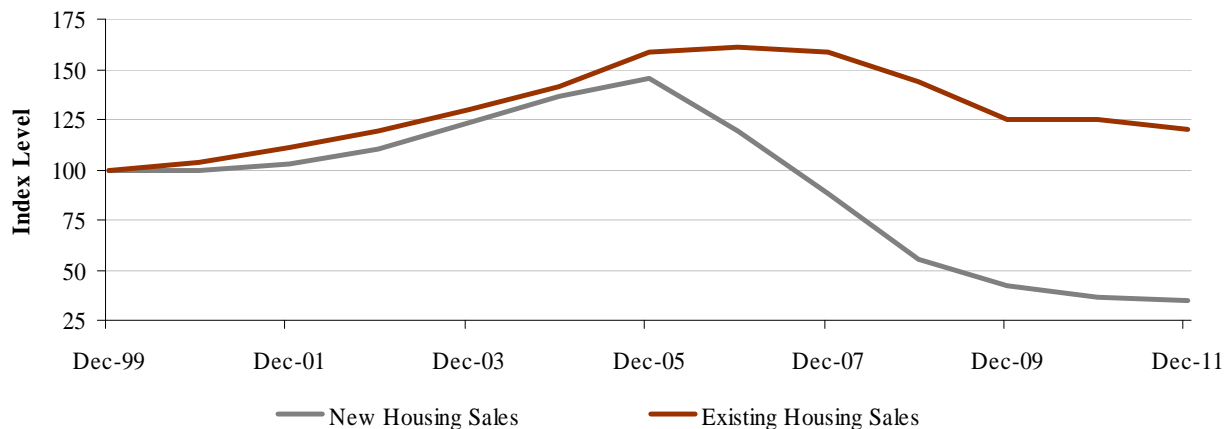


Source: Bureau of Economic Analysis; “Sunbelt” states include Texas, Arizona, Georgia and Nevada.

### Declining U.S. Home Ownership

The level of home ownership in the United States is declining, resulting in additional demand for multi-family rental suites. As of March 31, 2012, the percentage of United States residents living in their own home was 65.4%, a decrease of 3.8% from its all time high of 69.2% in 2004 and close to the historic average of 65.5%. 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 significantly increased from 2007 to 2010, although they have stabilized somewhat in the past year.

**U.S. Housing Sales Index**



Source: National Association of Realtors.

## **Business and Growth Strategies**

The REIT LP intends to pursue the following strategies to achieve the REIT LP's objectives:

### *Acquisition Strategy*

The REIT LP's core strategy is to invest in quality multi-family real estate properties in major markets in the United States. The Managing GP believes that superior returns can be achieved by targeting such properties as a result of the stable income provided by the multi-family property market in the United States, the abundant supply of such properties at attractive price levels, and the emerging recovery of the U.S. economy as a whole. Further, the Managing GP believes that the opportunity exists to acquire multi-family properties at attractive prices with in-place rental rates which were reduced during the recent economic downturn, providing the potential for strong growth in rental rates. The REIT LP intends to cause the US REIT to acquire properties in clusters and asset sizes which will ensure regional economies of scale and geographic diversification in its portfolio. Acquisitions will be primarily in the \$10 to \$30 million range per property. The REIT LP will generally focus on acquiring multi-family properties which were constructed or refurbished in 1990 or later and which are located in markets with strong employment growth, which have exhibited ongoing strong occupancy, which complement the Initial Portfolio and which have the potential to create additional value. The REIT LP intends to cause the US REIT to acquire properties that are in good to superior physical condition with little to no deferred maintenance. The execution of this strategy will be consistently reviewed and will also include engaging in dispositions of properties and optimizing the REIT LP's capital structure.

### *Financing Strategy*

The REIT LP will operate the REIT LP's investments in a disciplined manner, with a focus on balance sheet management to ensure that the REIT LP maintains a prudent capital structure and conservative financial profile. The REIT LP Agreement provides that the REIT LP may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total consolidated indebtedness of the REIT LP would be more than 70% of Gross Book Value. Five, seven and ten year fixed rate amortizing debt will primarily be used, with interest only and short term floating rate loans to be used in appropriate circumstances. The mortgage financing for two of the three Properties comprising the Initial Portfolio will be interest only, with the mortgage financing for the third Property being interest only for the first year of its term. The REIT LP intends to use the current favourable debt and interest rate environment to prudently manage the overall financial leverage within a conservative range of 55% to 65% of Gross Book Value, in order to maximize its return on equity while minimizing financial risk to the REIT LP and maintaining stable cash flows. The REIT LP's preference will be to ultimately stagger the REIT LP's debt maturities to mitigate the REIT LP's interest rate risk and limit re-financing exposure in any particular period. On Closing, the Managing GP expects that the REIT LP's total secured debt will be approximately \$27.7 million, or approximately 62.3% of the acquisition price of the Initial Portfolio. In addition, as a publicly-traded entity, the Managing GP expects that the REIT LP will benefit from having improved access to capital to assist it in executing its growth strategy. See "Financing of the Initial Portfolio" and "Business and Growth Strategies – Financing Strategy".

### *Portfolio Management Strategy*

The REIT LP's portfolio management strategy will focus on maximizing cash flow from the Properties, through maximizing occupancy and average monthly rent after taking into account local market conditions, as well as effectively and efficiently managing its operating costs as a percentage of total revenues. The Sunstone Group will provide asset management and, initially, property management services to the REIT LP and US REIT. It is expected that the Property Manager will assign the property management services in relation to the Initial Portfolio to the Tipton Group. The Sunstone Group's experienced management team plans to capture the economic upside potential in each individual property through strategic management, upgrades to each property where warranted and increasing rents as the market allows.

### *Asset Management*

Pursuant to the Asset Management Agreement, the Managing GP will provide asset management, administrative and reporting services to the REIT LP as its managing general partner. The Managing GP will provide these services to the REIT LP through the provision of qualified senior management. In particular, the Managing GP will provide the services of Messrs. Latoski and Evans and the services of the Managing GP's Chief Financial Officer, Vice President, financial analyst and director of investor relations. These individuals will devote the amount of time necessary to the management of the REIT LP in order to carry out its business objectives.

The Asset Management Agreement also requires the Managing GP to provide the REIT LP with support services consisting of office space and equipment and the necessary clerical and secretarial personnel for the administration of its day-to-day activities, at no cost. The Asset Management Agreement may be terminated by the REIT LP at any time upon the occurrence of certain events of default and at any other time upon not less than 60 days notice, without bonus or penalty. As set out below under "Alignment of Interests", in lieu of the fees typically associated with a third party asset management agreement, the Managing GP will only be entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs but excluding personnel costs) that it incurs providing asset management services to the REIT LP and will not be entitled to any other remuneration or compensation for its services. See "Asset Management Agreement".

### *Property Management*

The Property Manager will provide property management services to the US REIT in respect of each of the Properties pursuant to the Property Management Agreement. The Property Manager will provide on-site supervision and day-to-day management of each of the Properties, including leasing, budgeting, repairs and maintenance, banking and the necessary administrative and related services. In consideration of such services, the US REIT will pay the Property Manager fees equal to the property management fee payable in the market in which each Property is located, which is expected to range between 3% and 4% of the gross revenue from the Property. The Property Management Agreement is for an initial term of five years and will be automatically renewed for successive one year terms unless either party exercises the right to terminate the agreement at the end of any current term on 90 days notice. The Property Management Agreement may also be terminated by the US REIT in respect of a Property which is sold and may be terminated by either party for cause upon not less than 30 days' notice.

On the completion of the purchase of the Initial Portfolio, the Property Manager will contract with the Tipton Group of Dallas, Texas for the provision of property management services to the US REIT in respect of the Properties. The Tipton Group is a property management firm which manages a portfolio of multi-family properties in Texas, Oklahoma and Arizona. Tipton's principal, Bryan Kerns has been active in the field of property management since 1977, and has been employed by the Tipton Group, Inc. in senior executive positions since 1989, becoming the owner of the Tipton Group in 1997. The fees payable to the Tipton Group will be paid from the fees paid by the REIT LP to the Property Manager.

### *Internalization of Management*

When the REIT LP's portfolio of properties reaches a sufficient size to support internal property management, the REIT LP intends to internalize property management of the Properties through the acquisition at fair market value of the Property Manager or of the then existing Property Management Agreement. When the REIT LP's assets reach a sufficient size to support internal asset management, and upon the occurrence of a Determination Event, the REIT LP intends to terminate the Asset Management Agreement and internalize asset management at no cost to the REIT LP.

### *Development Strategy*

The Managing GP believes that there will be development opportunities for multi-family real estate properties in the United States as the economy continues to recover. The Sunstone Group is well-positioned to identify development opportunities and to carry out and complete new developments. Once developed, a new multi-family real estate property may be acquired from the Sunstone Group to become part of the REIT LP's portfolio. The REIT LP

Agreement provides that the REIT LP may, with the prior approval of the Governing GP, invest by way of loan advances to a sidecar fund, in which the REIT LP would advance funds for the development of new multi-family real estate properties, with rights to acquire such properties on pre-agreed terms.

#### *Distribution Strategy*

The REIT LP intends to pay stable and growing monthly cash distributions to Unitholders and expects to initially provide Unitholders with an annual yield of approximately ♦% based on an AFFO payout ratio of approximately ♦% (based on the forecasted AFFO of the Initial Portfolio). The REIT LP intends to satisfy its monthly distributions to Unitholders using available cash to the maximum extent possible. The amount of cash available for distribution will be equal to the monthly cash receipts of the REIT LP less reserves and any other amounts that the Governing GP reasonably considers are required for expenses and other obligations of the REIT LP. All distributions will be made to the holders of the Units and the Class B Units in accordance with the Unit Percentage Interest and Class B Unit Percentage Interest, respectively. As further detailed in the REIT LP Agreement, until a Determination Event occurs, distributions from the REIT LP will generally be made 95% to the Units and 5% to the Class B Units.

The initial cash distribution, which will be for the period from and including the date of closing of the Offering to ♦, 2012, is expected to be paid on ♦, 2012 to Unitholders of record on ♦, 2012 and is estimated to be \$♦ per Unit. Subsequent regular distributions in the estimated amount of \$♦ per Unit are anticipated to be made for each month thereafter, commencing on or about ♦, 2012. The distribution of cash to Unitholders is not assured. See “Distribution Policy” and “Risk Factors”.




The REIT LP intends to make monthly distributions to Unitholders of record on the last business day of each month. Distributions will be paid within 15 days following the end of each month. The REIT LP may also make additional distributions in excess of monthly distributions during the year, as the Managing GP may determine.

**Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the REIT LP intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future.**

## The Initial Portfolio

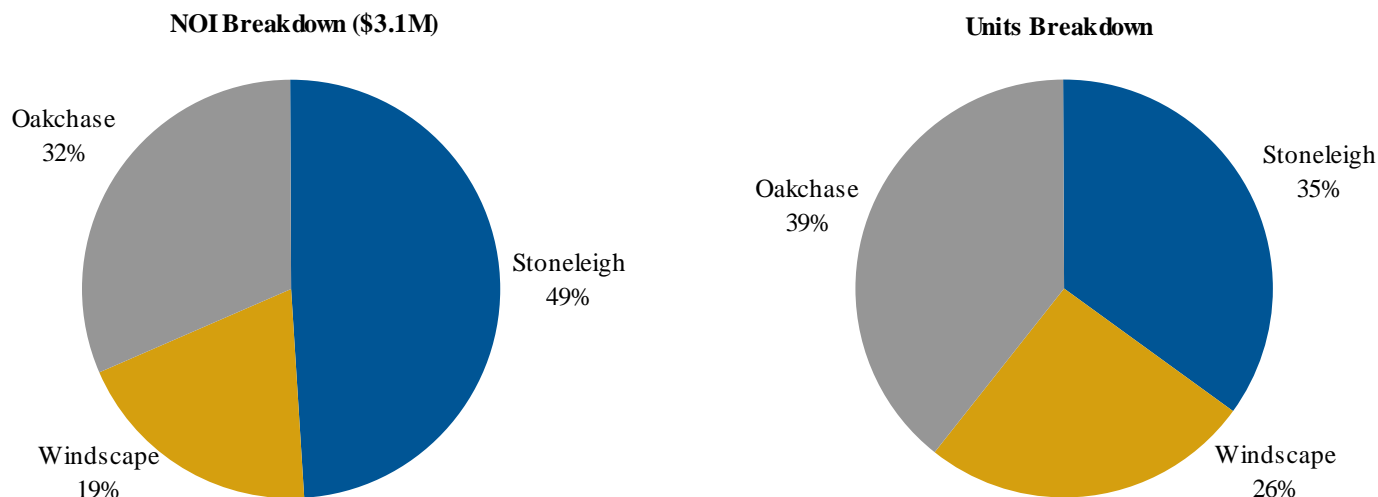
On the completion of the Offering, the REIT LP intends to cause the US REIT to acquire a portfolio comprising an aggregate of 600 multi-family residential units in three properties located in the Dallas-Fort Worth area (the “Initial Portfolio”).

The following table highlights certain information about the Initial Portfolio:

	<b>Stoneleigh</b>	<b>Windscape</b>	<b>Oakchase</b>						
									
<u>Property</u>	<u>Purchase Price<sup>(1)</sup></u>	<u>Total Units</u>	<u>Rentable Area (Sq. Ft)</u>	<u>Average Unit Size (Sq. Ft)</u>	<u>Land Area</u>	<u>Average Occupancy<sup>(2)</sup></u>	<u>Avg. rent Per Sq Ft<sup>(3)</sup></u>	<u>Avg. Monthly Rent Per Unit<sup>3(2)</sup></u>	
<b>Stoneleigh at Valley Ranch</b> 8605 MacArthur Blvd., Irving, Texas	\$22,500,000	210	208,136	991	11.2 acres	94.0%	\$1.11	\$1,097	
<b>Windscape Apartment Homes</b> 3099 Parnham Drive Grand Prairie, Texas	\$8,378,785	154	118,976	773	8.5 acres	99.4%	\$0.98	\$757	
<b>Oakchase Apartments</b> 4924 Sigmond Drive Arlington, TX	\$13,580,133	236	181,372	769	10.8 acres	98.3%	\$0.97	\$745	
<b>Totals</b>	<b>\$44,458,918</b>	<b>600</b>	<b>508,484</b>	<b>847</b>	<b>30.5 acres</b>	<b>97.1%</b>	<b>\$1.03</b>	<b>\$871</b>	

*Notes:* (1) The purchase price of each property comprising the Initial Portfolio has been negotiated by the Sunstone Group with third party vendors.  
 (2) Based on units actually occupied or leased as at May 17, 2012.  
 (3) Based on Consolidated Statements of Forecasted Net Income and Comprehensive Income. See “Financial Forecast”.

The following charts show the breakdown of net operating income and units among the Initial Portfolio.



The Properties comprising the Initial Portfolio are located in the Dallas-Fort Worth area, which is the fourth largest metropolitan area in the United States, with a population of more than 6.4 million. It has a diverse economy with concentrations in such varied industries as aerospace/defense, transportation, healthcare, financial services, technology and distribution. Employment growth of 1.6% was experienced during the year ended December 31, 2011, representing the third highest annual job growth in the United States. According to Moody's forecasts, for the five year period from 2010 to 2015, Dallas-Fort Worth will rank first in the United States in population growth and second in job growth, with a projected population growth of over 700,000 and job growth of over 400,000.

Dallas-Fort Worth is the largest apartment market in Texas. As of the fourth quarter of 2011, the metropolitan average apartment occupancy rate was 93.1%, a 1.8 percentage point increase over the fourth quarter of 2010. Average apartment rental rates are \$0.93 per square foot per month, or \$804 per month.

Each of Stoneleigh at Valley Ranch, Windscape Apartment Homes and Oakchase Apartments is a well-located, well-maintained garden apartment property with a wide array of amenities to attract and keep tenants. Each property is owned by a separate vendor, all of whom are arm's length to the Sunstone Group. The Sunstone Group has entered into purchase agreements with such owners in respect of the purchase of the Initial Portfolio, which agreements are subject to the satisfaction of standard due diligence and other conditions. See "The Initial Portfolio – Acquisition".

The Managing GP has estimated that in-place rental rates for some suites within the Properties in the Initial Portfolio are below market. The Managing GP estimates that there is an opportunity to increase net income over the short to mid-term from below market rental rates in the Initial Portfolio an average of 7.87%, being an aggregate annual rental increase in the range of \$457,600.

In the event that the Offering is not fully subscribed for, Sunstone U.S. Opportunity (No. 4P) Limited Partnership, a Nevada limited partnership which is part of the Sunstone Group, may acquire a minority interest in one of the properties comprising the Initial Portfolio. See "Management of the Governing GP – Independent Director Matters" and "Management of the Governing GP – Conflict of Interest Restrictions and Provisions".

## Independent Appraisals of the Initial Portfolio

The Sunstone Group retained Deverick & Associates Inc. of Dallas, Texas to provide an independent appraisal of the fair market value of each of the properties comprising the Initial Portfolio. Each of such appraisals was completed in May, 2012. The appraisals were prepared in accordance with Standards Rule 2.2 of the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Pursuant to such Standards, market value is defined as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus”. The appraisals indicate that the “As Is” market value of each property comprising the Initial Portfolio is as follows:

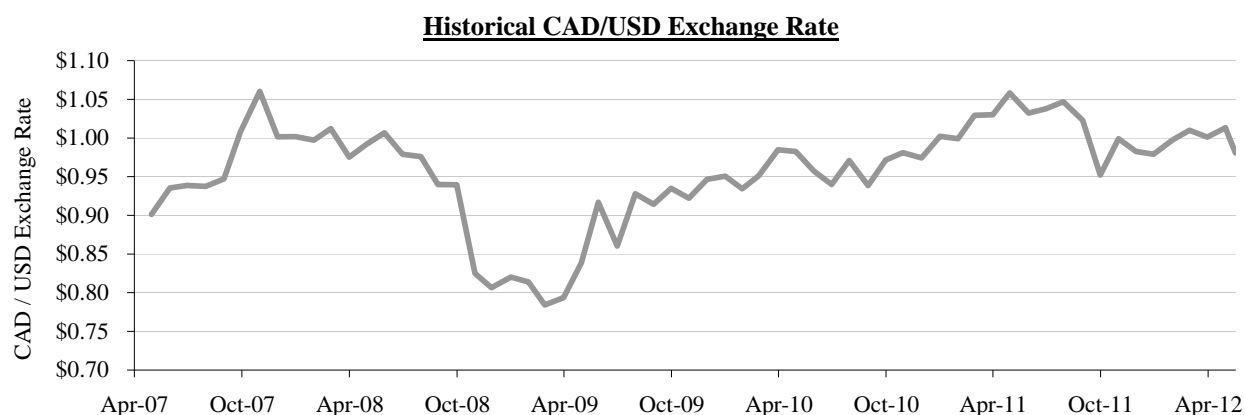
Property	Estimated Value
Stoneleigh at Valley Ranch	\$22,500,000
Windscape Apartment Homes	\$8,500,000
Oakchase Apartments	\$13,600,000
Total	\$44,600,000

Copies of the appraisals will be filed following Closing on SEDAR at [www.sedar.com](http://www.sedar.com).

## Investment Highlights

### *Unique Status as Canada’s Only Pure-Play U.S. Multi-Family Investment Publicly-Traded Vehicle*

On Closing, the REIT LP is expected to be the only publicly traded vehicle in Canada which will offer investors exclusive exposure to U.S. multi-family assets. With the Canadian dollar trading near to or over par in relation to the U.S. dollar for most of the past three years, the REIT LP believes that this is an opportune time for Canadian investors to invest in a U.S. dollar denominated security of an investment vehicle that will own U.S. assets.



Source: Bloomberg Financial Markets: as at May 17, 2012.

### *Attractive, Sustainable Yield with a Conservative Financial Profile*

The REIT LP intends to pay stable and growing monthly cash distributions to Unitholders and expects to initially provide Unitholders with an annual yield of approximately  $\blacklozenge$ % based on an AFFO payout ratio of approximately  $\blacklozenge$ % (based on the forecasted AFFO of the Initial Portfolio). The REIT LP will focus on providing strong risk-adjusted yields through management of the Property portfolio by the US REIT using a prudent capital structure and conservative financial profile. In order to limit its financial risk, the REIT LP intends to target a conservative ratio

of debt to Gross Book Value within a range of 60% to 65% and is restricted under the REIT LP Agreement to a maximum of 70%. On Closing, the Managing GP expects that the REIT LP's total secured debt will be approximately \$22.7 million, or approximately 62.3% of the acquisition price of the Initial Portfolio. In addition, as a publicly-traded entity, the Managing GP expects that the REIT LP will benefit from having improved access to capital to assist it in executing its growth strategy.

#### *Initial Portfolio Provides a Platform for Accretive Growth*

The Initial Portfolio is comprised of 600 multi-family residential units in three properties in the Dallas–Fort Worth area, is over 97% occupied and is well-located in a growing market. See “The Initial Portfolio”. The REIT LP's investment in the Initial Portfolio through the US REIT will provide a platform on which to build the US REIT's portfolio through a combination of additional acquisitions and organic growth. In addition, as a publicly-traded entity, the REIT LP expects to benefit from having greater access to capital, while having already incurred the start-up costs of the REIT LP's formation and other one-time costs. The Managing GP believes that this will provide the REIT LP with the ability to generate positive returns to Unitholders from future acquisitions, since the impact of additional transaction costs will be less significant over a larger asset base. Subject to the availability of financing, the Managing GP believes that the US REIT will be able to acquire \$200 million in new multi-family properties in each of the next three years and grow its Property portfolio to approximately 2,000 multi-family units by the end of 2012 and 4,500 multi-family units by the end of 2013.

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

The Sunstone Group, through the Managing GP and Property Manager, will provide asset management and property management services to the REIT LP and the US REIT. As a result, the REIT LP and US REIT will have the benefit of an experienced real estate management team with a breadth of experience in all facets of real estate, including acquisitions, asset management, property management, property development, lease administration and finance. Darren Latoski and Steve Evans are co-founders, sole directors and senior officers of the Sunstone Group, a Vancouver based sponsor and general partner of a number of real estate opportunity funds established for the purpose of investing directly in various classes of real estate. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in nine U.S. multi-family and hotel real estate properties acquired since 2008. As well, Messrs. Latoski and Evans founded PIRET in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-V) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada's best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). PIRET remains Canada's only pure play publicly-traded industrial real estate investment trust.

#### *Alignment of Interests*

In order to fully align the interests of Unitholders with those of the Managing GP, in lieu of the fees typically associated with a third party asset management agreement, the Managing GP will only be entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs but excluding personnel costs) that it incurs providing asset management services to the REIT LP as its managing general partner. The interests of the Managing GP in the REIT LP will be aligned with those of all Unitholders as the returns that the Managing GP will derive from the REIT LP will be linked directly and dependent solely on the returns that the Managing GP achieves from its original cash investment in Class B Units and on the Managing GP's ability to successfully grow the REIT LP. Until the occurrence of a Determination Event, such investment provides for a 5% interest in the REIT LP's cash distributions (subordinated to the Target Distribution for a three year period) and a 5% equity interest in the net assets of the REIT LP, with no requirement for the Managing GP to contribute additional capital beyond their original purchase of Class B Units. As such, the Managing GP's interests are strongly aligned with the



interests of all Unitholders and the returns that the Managing GP will derive from the REIT LP depend solely on its investment in Class B Units and its ability to successfully grow the REIT LP.

The designation of units of the REIT LP into Units and Class B Units, the investment by the Managing GP in the REIT LP by acquiring Class B Units and the right of the Managing GP, as the holder of the Class B Units, to share in a 5% equity interest in all distributions and all net assets of the REIT LP are all similar to provisions included in the capital structure of PIRET.

### **Units and Class B Units**

The interests in the REIT LP are divided into Units and Class B Units. The Units are the subject of this Offering. The Class B Units will be subscribed for by the Managing GP prior to the closing of this Offering. Except as set out in the REIT LP Agreement and described in this Prospectus, no Unit or Class B Unit has any preference or priority over another.

Upon completion of the Offering, holders of the Units will share in a 95% equity interest in all distributions and all net assets of the REIT LP and the Managing GP, as the holder of the Class B Units, will share in a 5% equity interest in all distributions and all net assets of the REIT LP. These respective interests, which are called the Unit Percentage Interest and Class B Unit Percentage Interest, will remain fixed, notwithstanding the issue of further Units, until the occurrence of a Determination Event. Following the occurrence of a Determination Event, the number of Units to which the Class B Unitholder is entitled upon exercising Conversion Rights becomes fixed, and future issuances of Units will result in a decline in the Class B Unit Percentage Interest.

#### *Priority Distribution to Unitholders*

The REIT LP has estimated that the initial cash distribution will be \$◆ per Unit per month (the “Target Distribution”). During the Initial Period, being that period which ends on the earlier of the third anniversary of this Offering or a Determination Event, holders of the Class B Units are not entitled to receive a monthly cash distribution in a particular month unless the Unitholders have received payment of the Target Distribution. Once the Target Distribution has been paid to Unitholders, an amount equal to 5/95ths of the Target Distribution will be distributed to the Class B Unitholders and thereafter any additional distributions to be made in the month will be paid 95% to the Unitholders and 5% to the Class B Unitholders. Unpaid portions of the Target Distribution will accumulate and will be payable to the Unitholders in priority to distributions to the Class B Unitholder.

#### *Conversion of Class B Units and Restriction on Sale*

Pursuant to the REIT LP Agreement, the Class B Unitholders as a class are entitled to convert some or all of their Class B Units into Units based on the Specified Ratio. See “Conversion Rights of Class B Units”.

Upon the Class B Unitholders exercising their Conversion Rights, they will own that number of Units which is equal to the Class B Unit Percentage Interest (initially 5%) of all Units outstanding after such conversion. The Class B Unit Percentage Interest will remain fixed at 5% notwithstanding the issue of further Units, until the occurrence of a Determination Event. Following the occurrence of a Determination Event, the number of Units to which the Class B Unitholder is entitled upon exercising Conversion Rights becomes fixed, and future issuances of Units will result in a decline in the Class B Unit Percentage Interest. A Determination Event is the earliest to occur of the following: (a) the REIT LP’s Market Capitalization exceeding \$300,000,000 for a period of 10 consecutive trading days; (b) an arm’s length take-over bid being made for the Units, provided that not less than 51% of the Units not held by the offeror are taken-up in such bid; and (c) substantially all of the assets of the REIT LP being sold or the REIT LP being liquidated.

The Managing GP will be required to exercise its Conversion Rights upon a take-over bid by a person acting at arm’s length to the Managing GP (or any Affiliate of Associate of or affiliate of the Managing GP or person acting jointly or in concert with the Managing GP) being made for the Units, provided that not less than 51% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or Affiliates or Associates of

the offeror) are taken-up and paid for pursuant to the take-over bid, or the REIT LP completing the sale of all or substantially all of its assets.

Pursuant to the REIT LP Agreement, the Managing GP has agreed to not transfer the Class B Units held by it other than to its Affiliates and Associates and that neither it nor any of its Affiliates or Associates which is then the Class B Unitholder will dispose of more than one-third of the Units received by it upon the conversion of the Class B Units in each consecutive twelve month period ending after the first anniversary of the earlier of: (i) the date a Determination Event occurs; and (ii) the date upon which the conversion is completed. This limitation will not apply where the Conversion Rights have been exercised in connection with a take-over bid or a sale of substantially all of the REIT LP's assets. In addition, pursuant to the Voting Agreement Darren Investments Inc. and Triple E Investments Inc., the holdings companies of Messrs Latoski and Evans, respectively, and the limited partners of the Managing GP, have agreed to not assign their limited partnership interests in the Managing GP other than to their respective Affiliates and Associates until the expiration of the period during which the Managing GP has agreed to hold the Class B Units held by it.

The designation of units of the REIT LP into Units and Class B Units, the investment by the Managing GP in the REIT LP by acquiring Class B Units and the right of the Managing GP, as the holder of the Class B Units, to share in a 5% equity interest in all distributions and all net assets of the REIT LP are all similar to provisions included in the capital structure of PIRET.

### **Governance**

As required by law, the REIT LP Agreement provides for the management and control of the REIT LP by a general partner rather than a board of directors and officers. The Managing GP will provide day-to-day management of the REIT LP. However, major decisions relating to the operation and business of the REIT LP will be governed exclusively by the Governing GP, which will have sole responsibility and authority for the governance of the REIT LP. The Governing GP has a board consisting of five directors, the majority of whom are independent. For a description of the management and governance structure of the REIT LP, see "Governance of the REIT LP.

The board of directors and management of the Governing GP consist of the following individuals:

<b>Name and Municipality of Residence</b>	<b>Position with the Governing GP</b>	<b>Principal Occupation</b>
DARREN T. LATOSKI <sup>(1)(3)</sup> Vancouver, British Columbia	Director and Executive Chairman	President, Sunstone Realty Advisors Inc. CEO, WesternOne Equity Income Fund Co-CEO, PIRET
STEPHEN J. EVANS <sup>(3)</sup> North Vancouver, British Columbia	Director and Chief Executive Officer	Chief Operating Officer, Sunstone Realty Advisors Inc. Co-CEO, PIRET
ROBERT W. KING <sup>(1)(2)</sup> Vancouver, British Columbia	Lead Independent Director	President, King Pacific Capital Corporation
JAMES L. REDEKOP <sup>(2)</sup> White Rock, British Columbia	Independent Director	President, Redekop Holdings Inc.
DOUGLAS R. SCOTT, C.A. <sup>(1)(2)</sup> Surrey, British Columbia	Independent Director	Corporate Director and Consultant
SCOTT SHILLINGTON Richmond, British Columbia	Chief Financial Officer	Controller of Sunstone Realty Advisors Inc.

(1) Member of Audit Committee

(2) Member of Compensation and Nominating and Governance Committee

(3) Not an independent director because the individual is an executive officer of the Governing GP

## Forecast Non-IFRS Reconciliation

The following table reconciles forecast net income to FFO and AFFO. See “Non-IFRS Measures” and “Financial Forecast”.

<b>(in \$ thousands)</b>	<b>Three month periods ending (Forecast)</b>				<b>Twelve month period ending March 31, 2013 (Forecast)</b>
	<b>June 30, 2012</b>	<b>September 30, 2012</b>	<b>December 31, 2012</b>	<b>March 31, 2013</b>	
<b>Revenues</b>					
Rental	\$ 1,519.8	\$ 1,551.7	\$ 1,581.1	\$ 1,618.8	\$ 6,271.5
<b>Rental expenses</b>					
Insurance	34.1	34.1	34.1	34.1	136.5
Management fees	45.6	46.6	47.4	48.6	188.1
Property taxes	170.3	170.3	238.9	238.9	818.5
Property operating expenses	498.9	524.1	498.9	524.1	2,046.0
	749.0	775.1	819.4	845.7	3,189.1
<b>Operating income</b>	<b>770.9</b>	<b>776.6</b>	<b>761.8</b>	<b>773.1</b>	<b>3,082.4</b>
<b>Net finance costs</b>					
Class B Unit distributions	(18.8)	(18.8)	(18.8)	(18.8)	(75.0)
Mortgage interest	(260.9)	(261.0)	(261.2)	(261.3)	(1,044.4)
	(279.7)	(279.8)	(279.9)	(280.0)	(1,119.4)
<b>Net other expenses</b>					
General and administration	(31.3)	(31.3)	(31.3)	(31.3)	(125.0)
<b>Net income and comprehensive income</b>	<b>459.9</b>	<b>465.6</b>	<b>450.6</b>	<b>461.9</b>	<b>1,838.0</b>
Add:					
Class B Unit distributions	18.8	18.8	18.8	18.8	75.0
Replacement reserves	37.5	37.5	37.5	37.5	150.0
Amortization of mortgage transaction costs	12.2	12.3	12.4	12.5	49.4
<b>FFO<sup>(1)</sup></b>	<b>528.4</b>	<b>534.1</b>	<b>519.3</b>	<b>530.6</b>	<b>2,112.4</b>
Deduct:					
Replacement reserves	(37.5)	(37.5)	(37.5)	(37.5)	(150.0)
<b>AFFO<sup>(1)</sup></b>	<b>490.9</b>	<b>496.6</b>	<b>481.8</b>	<b>493.1</b>	<b>1,962.4</b>
<b>Portfolio occupancy</b>	<b>96.7%</b>	<b>96.7%</b>	<b>96.7%</b>	<b>96.7%</b>	<b>96.7%</b>
<b>NOI<sup>(1)</sup> Calculation</b>					
Rental income on investment properties	1,519.8	1,551.7	1,581.1	1,618.8	6,271.5
Deduct:					
Rental expenses	749.0	775.1	819.4	845.7	3,189.1
<b>Forecast NOI<sup>(1)</sup></b>	<b>770.9</b>	<b>776.6</b>	<b>761.8</b>	<b>773.1</b>	<b>3,082.4</b>

(1) FFO, AFFO and NOI are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO, AFFO and NOI as computed by the REIT LP may differ from similar computations as

reported by other real estate investment companies and, accordingly, may not be comparable to FFO, AFFO and NOI as reported by such issuers. See “Forecast Non-IFRS Measures”.

### Selected Financial and Operating Information

The following selected financial information of the Initial Portfolio has been derived from, and should be read in conjunction with, the audited combined financial statements of the Initial Portfolio for the years ended December 31, 2011 and 2010 and notes thereto and unaudited interim financial statements of the Initial Portfolio for the three month period ended March 31, 2012.

	Three months ended March 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
<b>Income Statement Data</b>			
<b>Revenues:</b>			
Rental	\$1,522,902	\$ 5,813,891	\$ 5,645,935
<b>Rental expenses:</b>			
Insurance	24,962	102,216	98,968
Property management fees	47,135	193,021	173,698
Property taxes	181,845	683,336	717,656
Property operating expenses	595,919	2,432,515	2,426,734
	<b>849,861</b>	<b>3,411,088</b>	<b>3,417,056</b>
<b>Operating income from properties</b>	<b>673,041</b>	<b>2,402,803</b>	<b>2,228,879</b>
Fair value adjustments to investment properties	682,963	3,030,667	6,455,882
<b>Income from properties</b>	<b>\$1,356,004</b>	<b>\$ 5,433,470</b>	<b>\$ 8,684,761</b>

See “Non-IFRS Measures” and “Financial Forecast”.

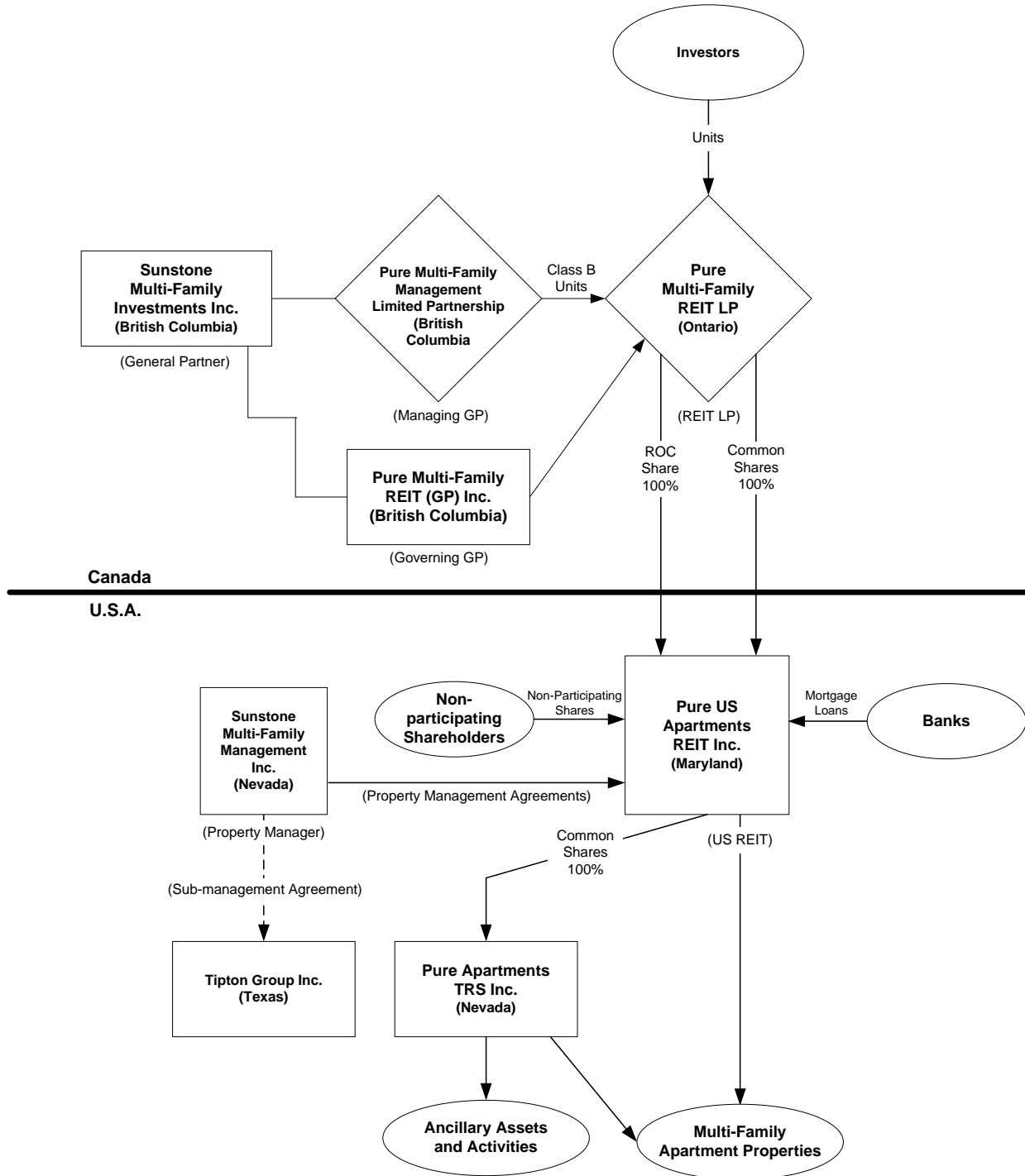
### Reconciliation of Net Income to Forecasted Net Income

Below is a reconciliation of NOI for the twelve months ended December 31, 2011 to the NOI for the forecast twelve months ended March 31, 2013. This reconciliation is illustrative in nature and has been prepared by management as a supplement for the reader to the financial forecast. The assumptions used in respect of rental rates, realty taxes, utility expenses, payroll expenses, repairs, maintenance and turnover expenses, and general and administrative expenses in order to arrive at the figures below constitute forward-looking information. While these assumptions are considered reasonable by the management of the REIT LP as of the date of this prospectus, they are inherently subject to significant uncertainties and contingencies that may affect the outcome of the forward-looking information. Investors should use caution when considering such forward-looking information, and the REIT LP cautions readers not to place undue reliance on these statements. See “Forward-Looking Information”.

	<u>(in \$000s)</u>
Add (Deduct):	
2011 actual revenue	5,813.9
2011 actual rental expenses <sup>(1)</sup>	<u>(3,411.1)</u>
<b><i>Actual NOI from properties for the 12 months ended December 31, 2011</i></b>	<b>\$ 2,402.8</b>
Rental rate increases to market rates	457.6
Revised payroll at properties through new property management company	131.5
Removal of one time upgrades expensed at properties during 2011 (non-recurring)	93.8
Elimination of previous consulting fee expense	65.7
Other general and administrative efficiencies at the properties	47.7
Revised repairs, maintenance and turnover expenses	34.4
Utility savings from fixed contracts and lower rates	13.4
Revised management fees with new property management company	4.9
Increase in realty tax expense to reflect expected rates	(135.1)
Increase in insurance expenses, from required policies	<u>(34.3)</u>
<b><i>Forecast NOI for the 12 months ended March 31, 2013</i></b>	<b>\$ 3,082.4</b>

<sup>(1)</sup> Consists of insurance expense, management fees, property taxes and property operating expenses.

## INVESTMENT STRUCTURE



## THE OFFERING

- Offering:**                   ◆ Units (◆ Units if the Over-Allotment Option is exercised in full).
- Offering Size:**           \$◆ (\$◆ if the Over-Allotment Option is exercised in full).
- Offering Price:**         \$◆ per Unit.
- Over-Allotment Option:** The REIT LP has granted to the Agents the Over-Allotment Option, exercisable in whole or in part for a period of 30 days from the closing of the Offering, to purchase up to an additional ◆ Units on the same terms as the Offering to cover over-allotments, if any and for market stabilization purposes.
- Use of Proceeds:**       The net proceeds of the Offering are estimated to be approximately \$◆ after deduction of the Agents' Commission and the estimated expenses of the Offering. The REIT LP will use the net proceeds of the Offering to indirectly acquire its interest in the Initial Portfolio. In particular, the REIT LP will acquire (i) Common Shares of the US REIT at a price of \$1.00 per Common Share and (ii) one ROC Share of the US REIT. The subscription price of the ROC Share will be mutually determined by the US REIT and the Managing GP upon the completion of the Offering. The US REIT will use approximately \$◆ raised from the issuance of Common Shares and the ROC Share to the REIT LP to acquire the Initial Portfolio. The remaining \$◆ will be allocated for working capital, 12-month administration expenses and to acquire additional Properties.
- The net proceeds of the Over-Allotment Option, if exercised in full, will be approximately \$◆, after deduction of the Agents' Commission and the estimated expenses of completing the Over-Allotment Option. The REIT LP intends to use the net proceeds received by it on the exercise of the Over-Allotment Option to make further investments in the US REIT to fund the acquisitions of further Properties, for general working capital purposes and for 12-month administration expenses.
- See "Use of Proceeds", "The REIT LP's Structure and Formation" and "Plan of Distribution".
- Unit Attributes:**       The REIT LP is authorized to issue an unlimited number of Units and an unlimited number of Class B Units.
- So long as there are any issued and outstanding Class B Units, each Unit represents an equal undivided beneficial interest in and to the Unit Percentage Interest of any distributions from the REIT LP, whether of net income, net realized capital gains or other amounts, and in the Unit Percentage Interest of any net assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP. While there are no Class B Units issued and outstanding, each Unit is entitled to an equal undivided beneficial interest in and to all distributions from the REIT LP, whether of net income, net realized capital gains or other amounts, and in all assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.
- So long as there are any issued and outstanding Units, each Class B Unit represents an equal undivided beneficial interest in and to the Class B Unit Percentage Interest of any distributions from the REIT LP, whether of net income, net realized capital gains

or other amounts, and in the Class B Unit Percentage Interest of any net assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP. While there are no Units issued and outstanding, each Class B Unit is entitled to an equal undivided beneficial interest in and to all distributions from the REIT LP, whether of net income, net realized capital gains or other amounts, and in all assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

**Distribution Policy:**

The REIT LP intends to make regular monthly cash distributions to Unitholders derived from the REIT LP's indirect investment in the Properties. The REIT LP expects that the initial monthly cash distribution rate will be \$◆ per Unit. The initial cash distribution, which will be for the period from and including the date of Closing to ◆, 2012, is expected to be paid on ◆, 2012 to Unitholders of record on ◆, 2012 and is estimated to be \$◆ per Unit (assuming the Closing occurs on June 19, 2012). See "Distribution Policy".

**Risk Factors:**

An investment in Units is subject to a number of risk factors that should be carefully considered by a prospective purchaser. The REIT LP's cash distributions are not guaranteed and will be based, in part, upon the financial performance of the Properties, which is susceptible to a number of risks. These risks, and other risks associated with an investment in Units, include:

**Risks relating to the REIT LP and its business and the Initial Portfolio**

- Prospective purchasers will, in large part, be relying on the good faith and expertise of the US REIT and its directors, Darren Latoski, Steve Evans and Rob King;
- Risks inherent in the real estate industry may adversely affect the REIT LP's financial performance;
- Investments may not perform in accordance with expectations, including occupancy levels and costs of improvements;
- Financing risks, leverage and restrictive covenants may limit the REIT LP's ability for growth;
- Changes in interest rates could adversely affect the REIT LP's cash flows and the REIT LP's ability to pay distributions and make interest payments;
- Environmental contamination on Properties may expose the REIT LP to liability and adversely affect the REIT LP's financial performance;
- Investments in, and profits and cash flows from, properties may be lost in the event of uninsured or underinsured losses to properties or losses from title defects;
- The REIT LP relies on the Managing GP for asset management services and the US REIT relies on the Property Manager for property management services;
- The US REIT will face competition from various sources, including other multi-family buildings located near to the US REIT's properties;
- Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under mortgage financing or to fund changes in the variable rates of interest charged in respect of such



financing'

- Multi-family real estate properties generally trade at prices based on market capitalization rates, which remain outside the control of the US REIT;
- Properties held in joint venture in which the US REIT has a minority position may be subject to decision-making which is outside the control of the US REIT;
- Concentration of Properties in the United States and, in particular, of the Initial Portfolio in Dallas-Fort Worth may adversely affect the REIT LP's financial performance;
- Real property investments are relatively illiquid, which may tend to limit the ability of the US REIT to dispose of Properties in a timely manner;
- Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the Properties within the Initial Portfolio
- Demand for multi-family real estate properties is impacted by and inversely related to the relative cost of home ownership. As economic conditions,, particularly employment growth, improves and interest rates offered by financial institutions for home mortgage loans remain low, demand for home ownership may increase and demand for multi-family real estate properties decrease;
- Changes in government regulations may affect the REIT LP's investment in the Initial Portfolio through the US REIT;
- The REIT LP may incur significant capital expenditures and other fixed costs;
- Acquisitions of properties may expose the REIT LP to undisclosed defects and obligations;
- The Managing GP and Governing GP may be put in a position of conflict as a result of its positions held and interests in other businesses;
- The REIT LP may not be able to source suitable acquisitions;
- The REIT LP may be subject to various legal proceedings which could be costly and time-consuming.

#### **Risks Relating to the Offering, the Units and the Initial Acquisition**

- Absence of a prior public market and determination of Offering Price;
- An active and liquid market for the Units may not develop following the completion of the of the Offering;
- The market price for the Units may be volatile and subject to wide fluctuations;
- Pro forma financial information may not be indicative of future results;
- The REIT LP has the ability to reduce or suspend distributions and the return on investment is not guaranteed;
- The REIT LP's investments may be subject to currency risk as a result of fluctuations in Canadian/U.S. dollar exchange rate;
- Certain financial measures used in this Prospectus are not stated in

accordance with IFRS and are therefore unlikely to be comparable to similar measures stated in accordance with IFRS;

- The REIT LP's financial forecast may not be accurate;
- The issuance of additional Units will result in dilution;

#### **Canadian Tax-Related Risks Factors**

- The REIT LP cannot assure Unitholders that it will be able to make cash distributions to them in amounts that are sufficient to fund their tax liabilities;
- The after-tax return from an investment in Units to a Unitholder will depend in part on the Unitholder's ability to recognize for purposes of the Tax Act U.S. taxes paid by the REIT LP or by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act. There is a risk of double taxation due to limits on the maximum foreign tax credit, and timing of recognition of expenses and income and other factors;
- If the SIFT Measures or the FAPI rules were to apply to the activities of the REIT LP or the US REIT, such measures may have an adverse impact on the REIT LP and the after-tax distributions received by Unitholders;
- If the Units do not continue to be "qualified investments" under the Tax Act for Plans, adverse consequences will arise to a holder that is a Plan;
- A holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are or become a "prohibited investment" as defined in the Tax Act for the TFSA, RRSP or RRIF;
- Changes in tax law and practice may have a material adverse effect on the REIT LP and the Unitholders; and
- Tax proposals may deny the deductibility of losses arising from Unitholders' Units in computing their income for Canadian federal income tax purposes.

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

The following summary of U.S. tax risks relate to situations described in more detail below in the section "Principal United States Federal Income Tax Considerations". All of the terms below have the same meaning as they do in that section; please refer to that section for more detailed information.

- The REIT LP could cease to be treated as a partnership for U.S. federal income tax purposes under certain circumstances, resulting in materially reduced distributions if the REIT LP is subject to U.S. corporate level income tax.
- The REIT LP may not be considered to be "regularly traded". If for any quarter the REIT LP is not considered to be "regularly traded" all Unitholders, including those holding 5 percent or smaller interests, would be subject to U.S. federal income tax and U.S. filing requirements following the disposition of Units.
- Non-Exempt Gains recognized by the US REIT or REIT LP may cause all Unitholders to be subject to U.S. federal income tax and U.S. filing obligations.

- Should the US REIT fail to qualify as a REIT for U.S. federal income tax purposes, it would be subject to U.S. federal income tax as an entity. This treatment may result in materially lower distributions to the Unitholders.
- Withholding certificates, used to grant a reduction in U.S. withholding taxes, may not be accepted by the IRS, thus resulting in higher withholding amounts that may reduce distributions to Unitholders.
- An investment in the REIT LP may have U.S. gift and estate tax consequences to the Unitholders.

See “Risk Factors”.

### Financial Information

The following table summarizes selected annual and interim financial information of the Initial Portfolio on a combined basis for the financial years ended December 31, 2011 and 2010 and the three months ended March 31, 2012, and should be read in conjunction with the audited annual combined financial statements of the Initial Portfolio and related notes and unaudited interim financial statements of the Initial Portfolio and related notes, together with the management’s discussion and analysis of financial condition and results of operations, as included elsewhere in this prospectus:

<b>Item</b>	<b>Three months ended March 31, 2012 (Unaudited)</b>	<b>Year ended December 31, 2011 (Audited)</b>	<b>Year ended December 31, 2010 (Audited)</b>
Revenues	<b>\$1,522,902</b>	<b>\$5,813,891</b>	\$5,645,935
Rental Expenses	<b>\$849,861</b>	<b>\$3,411,088</b>	\$3,417,056
Income from Properties	<b>\$673,041</b>	<b>\$2,402,803</b>	\$2,228,879

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Financial Statements”.

## THE REIT LP

### Establishment and Objectives

Pure Multi-Family REIT LP is a newly established limited partnership formed under *Limited Partnerships Act* (Ontario). The REIT LP's long-term objectives are to make investments in US REIT or other subsidiary entities for the purpose of indirectly:

- (a) generating stable and growing cash distributions on a tax-efficient basis from investments in multi-family real estate properties in major markets in the United States;
- (b) enhancing the value of the REIT LP's assets and maximizing the long-term value of the Properties through active management;
- (c) expanding its asset base and increase its AFFO through an accretive acquisition program and improvements of the Properties through targeted value added capital programs.

On the completion of the Offering, the REIT LP intends to cause the US REIT to acquire the Initial Portfolio comprising an aggregate of 600 multi-family residential units in three properties located in the Dallas-Fort Worth area. See "The Initial Portfolio" and "Use of Proceeds".

The Managing GP will be the managing general partner of the REIT LP, giving the REIT LP access to the Managing GP's experienced management team and extensive network of relationships in the United States multi-family real estate market. The Managing GP is affiliated with the Sunstone Group. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in nine U.S. multi-family real estate properties acquired since 2008. As well, Messrs. Latoski and Evans founded PIRET in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-V) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada's best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). PIRET remains Canada's only pure play publicly-traded industrial real estate investment trust.

Prior to the closing of this Offering, the Managing GP will subscribe for 200,000 Class B Units of the REIT LP and will pay cash consideration of \$5.00 per Class B Unit, for aggregate proceeds to the REIT LP of \$1,000,000 and as the Class B Unitholder will, upon the closing of the Offering, own a 5% interest in the REIT LP.

The REIT LP's growth strategy will initially be focused on the "Sunbelt" regions of the U.S. for investment due to underlying economic fundamentals which the Managing GP believes provide attractive acquisition opportunities. Based on its recent experience in the U.S. markets, the Managing GP has targeted several markets in the "Sunbelt" regions of the U.S. for investment in income-producing real estate properties. Population growth in the U.S. continues at the rate of nearly 1.0% annually, with much of the growth concentrated in the Southwestern and Southeastern portions of the country. The Managing GP expects that new residents in such markets will seek out rental housing rather than buying homes, increasing demand for rental housing, supporting the multi-family real estate property market.

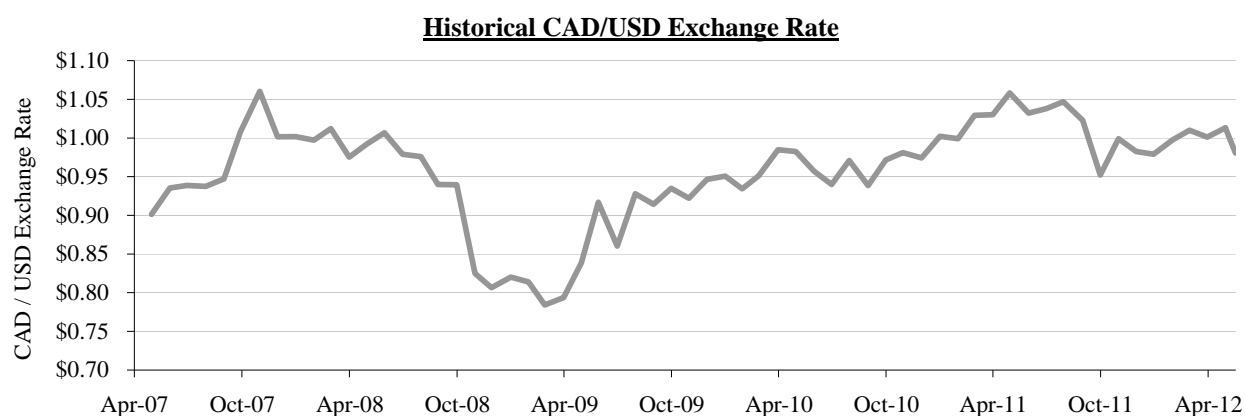
The REIT LP will invest the proceeds from the issuance of Units in the acquisition of (i) Common Shares of the US REIT at a price of \$1.00 per Common Share and (ii) one ROC Share of the US REIT. The subscription price of the ROC Share will be mutually determined by the US REIT and the Managing GP upon the completion of the Offering. The US REIT will use approximately \$◆ raised from the issuance of its Common Shares and the ROC Share to the REIT LP to acquire the Initial Portfolio (refer to the Investment Structure chart on page 47). As a

result, an investment in Units will be an indirect investment in the acquisition, ownership and operation of the Properties and the returns on and of capital payable in respect of the Common Shares and the ROC Share will ultimately flow through to Unitholders.

## Key Investment Highlights

### *Unique Status as Canada's Only Pure-Play U.S. Multi-Family Publicly Traded Vehicle*

On Closing, the REIT LP is expected to be the only publicly traded vehicle in Canada which will offer investors exclusive exposure to U.S. multi-family assets. With the Canadian dollar trading near to or over par in relation to the U.S. dollar for most of the past three years, the REIT LP 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.



Source: Bloomberg Financial Markets: as at May 17, 2012.

### *Attractive, Sustainable Yield with a Conservative Financial Profile*

The REIT LP intends to pay stable and growing monthly cash distributions to Unitholders and expects to initially provide Unitholders with an annual yield of approximately  $\blacklozenge$ % based on an AFFO payout ratio of approximately  $\blacklozenge$ % (based on the forecasted AFFO of the Initial Portfolio). The REIT LP will focus on providing strong risk-adjusted yields through management of the Property portfolio by the US REIT using a prudent capital structure and conservative financial profile. In order to limit its financial risk, the REIT LP intends to target a conservative ratio of debt to Gross Book Value within a range of 60% to 65% and is restricted under the REIT LP Agreement to a maximum of 70%. On Closing, the Managing GP expects that the REIT LP's total secured debt will be approximately \$22.7 million, or approximately 62.3% of the acquisition price of the Initial Portfolio. In addition, as a publicly-traded entity, the Managing GP expects that the REIT LP will benefit from having improved access to capital to assist it in executing its growth strategy.

### *Initial Portfolio Provides a Platform for Accretive Growth*

The Initial Portfolio is comprised of 600 multi-family residential units in three properties located in the Dallas-Fort Worth area. The Initial Portfolio is over 98% occupied and well-located in a growing market. See "The Initial Portfolio". The REIT LP's investment in the Initial Portfolio through the US REIT will provide a platform on which to build the US REIT's portfolio and activities through a combination of additional acquisitions and organic growth. In addition, as a publicly-traded entity, the REIT LP expects to benefit from having greater access to capital, while having already incurred the REIT LP's formation and other one-time start-up costs. The Managing GP believes that this will provide the REIT LP with the ability to generate positive returns to Unitholders from future acquisitions, since the impact of additional transaction costs will be less significant over a larger asset base. Subject to available financing, the Managing GP believes that the US REIT will be able to acquire \$200 million in new multi-family

properties in each of the next three years and grow its Property portfolio to approximately 2,000 multi-family units by the end of 2012 and 4,500 multi-family units by the end of 2013.

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

The Sunstone Group, through the Managing GP and Property Manager, will provide asset management and property management services to the REIT LP and US REIT. As a result, the REIT LP and US REIT will have the benefit of an experienced real estate management team with a breadth of experience in all facets of real estate, including acquisitions, asset management, property management, property development, lease administration and finance. Darren Latoski and Steve Evans are co-founders, sole directors and senior officers of the Sunstone Group, a Vancouver based sponsor and general partner of a number of real estate opportunity funds established for the purpose of investing directly in various classes of real estate. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in U.S. multi-family and hotel real estate properties acquired since 2008. As well, Messrs. Latoski and Evans founded PIRET in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-V) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada's best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). PIRET remains Canada's only pure play publicly-traded industrial real estate investment trust.

#### *Alignment of Interests*

In order to fully align the interests of the Unitholders with those of the Managing GP, in lieu of the fees typically associated with a third party asset management agreement, the Managing GP will only be entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs but excluding personnel costs) that it incurs providing asset management services to the REIT LP as its managing general partner. The Managing GP will not be entitled to any other remuneration or compensation for its services. The interests of the Managing GP in the REIT LP will be aligned with those of all Unitholders as the returns that the Managing GP will derive from the REIT LP will be linked directly and dependent solely on the returns that the Managing GP achieves from its original cash investment in Class B Units and on the Managing GP's ability to successfully grow the REIT LP. Until the occurrence of a Determination Event, such investment provides for a 5% interest in the REIT LP's cash distributions (subordinated to the Target Distribution for a three year period) and a 5% equity interest in the net assets of the REIT LP, with no requirement for the Managing GP to contribute additional capital beyond their original purchase of Class B Units. As such, the Managing GP's interests are strongly aligned with the interests of all Unitholders and the returns that the Managing GP will derive from the REIT LP depend solely on its investment in Class B Units and its ability to successfully grow the REIT LP.

The designation of units of the REIT LP into Units and Class B Units, the investment by the Managing GP in the REIT LP by acquiring Class B Units and the right of the Managing GP, as the holder of the Class B Units, to share in a 5% equity interest in all distributions and all net assets of the REIT LP are all similar to provisions included in the capital structure of PIRET.

### **THE MARKET OPPORTUNITY**

The Managing GP has established the REIT LP to provide an opportunity for investors to gain exposure to multi-family real estate properties in the United States, benefiting from the proven track record of the Sunstone Group. The REIT LP intends to provide sustainable monthly cash distributions, while allowing investors to diversify their real estate holdings beyond the Canadian market. Upon Closing, the REIT LP is expected to be the only publicly traded vehicle in Canada which will offer investors exclusive exposure to U.S. multi-family assets.

Over the past several years, the Sunstone Group has been participating in the acquisition, financing, ownership and management of multi-family real estate properties in the United States through private real estate investment trusts established for that purpose. Since 2003, the Sunstone Group has launched 11 real estate opportunity funds in total (with gross proceeds raised in excess of \$360 million) and has generated strong investor returns of 18% and 36% from their initial two funds launched in 2003 and 2004 that have since been fully divested. Since 2008, the Sunstone Group has launched four real estate opportunity funds which have focused on acquiring, financing, owning and managing U.S. revenue producing properties, including U.S. multi-family real estate properties. These four U.S. funds have raised \$137 million and have acquired 15 U.S. properties for a total \$288 million. Investors in these U.S. funds have had the opportunity to increase the international component of their real estate investments and have benefited from geographic diversification, investment exposure to the U.S. dollar, the opportunity to enhance their investment returns and the security of long-term, stable cash flows.

The Managing GP believes that there will continue to be attractive opportunities for acquiring multi-family real estate properties in the United States in both the short and long-term, as the REIT LP anticipates that many owners of such properties will be seeking liquidity over the next few years. These owners may include private equity funds that have a fixed investment horizon, lenders that have become owners of real estate (due to foreclosure or otherwise), and private owners seeking to liquidate their portfolios for estate-planning or other purposes. The Managing GP also expects that undercapitalized owners will seek to sell over-leveraged multi-family assets as they face upcoming debt maturities and the prospect of making significant capital expenditures on their properties.

The Managing GP believes that favourable economic conditions in Canada relative to the United States, including the relatively low cost of capital in Canada, have created a strong and sustainable window of opportunity to establish a Canadian investment entity to acquire undervalued U.S. multi-family properties on an opportunistic and accretive basis. In certain circumstances, equity and other forms of real estate financing are not readily available for many potential U.S. buyers of multi-family real estate properties and the Managing GP believes that this challenging financing environment has created attractive investment opportunities for well-capitalized buyers seeking to purchase quality multi-family assets at attractive yields.

### **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 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.

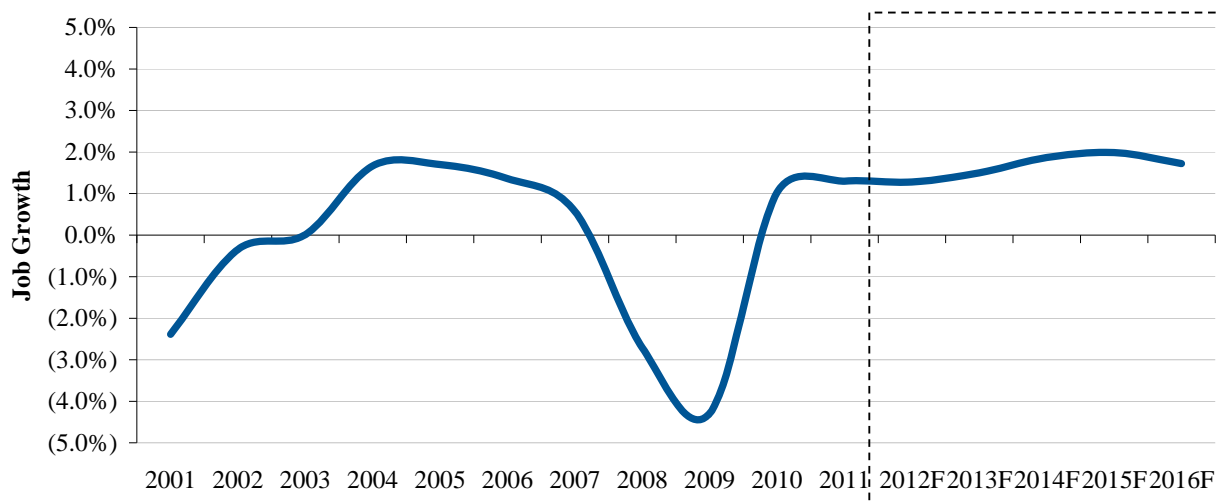
Economic recession resulted in growing vacancies and a reduction in net operating incomes from real estate assets, which put substantial downward pressure on real estate values and led to a deleveraging of the global financial system. As a result, numerous properties nationwide are in various stages 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 injected substantial levels of liquidity into the financial system and took 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. Since then, the U.S. economy began a slow recovery which has only recently begun to accelerate: GDP grew at an annual rate of 2.2% in the first quarter of 2012 and the unemployment rate decreased to 8.2% in the first quarter of 2012 from 8.5% in the prior quarter.

### United States Job Growth

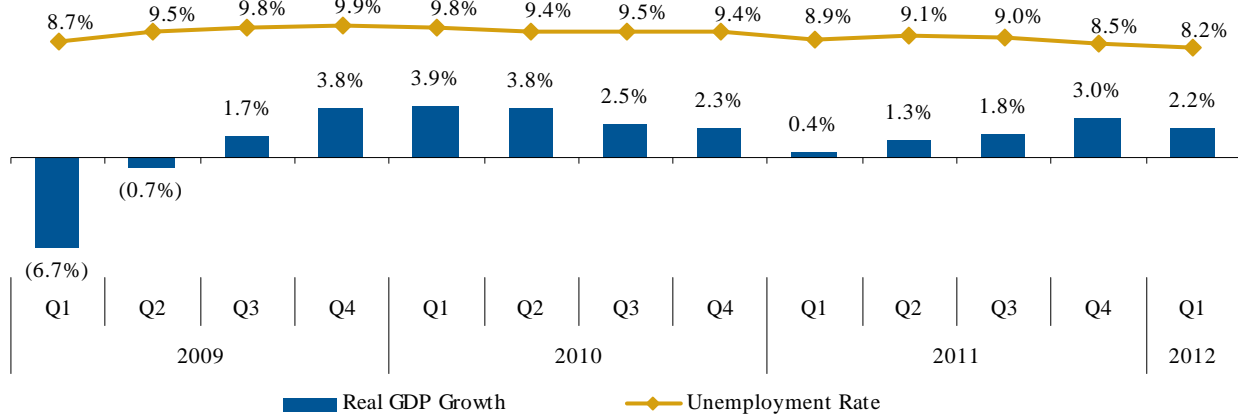


Source: BLS and RREEF Research.

The Managing GP 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. Mortgage financing for real estate properties has become available to well-capitalized purchasers of income-producing properties.

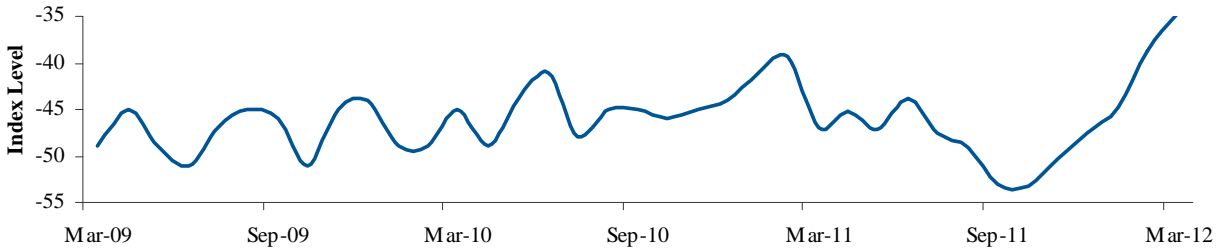


### U.S. Real GDP Growth and Unemployment Rate



Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics; GDP growth seasonally adjusted at annual rates.

### U.S. Consumer Confidence



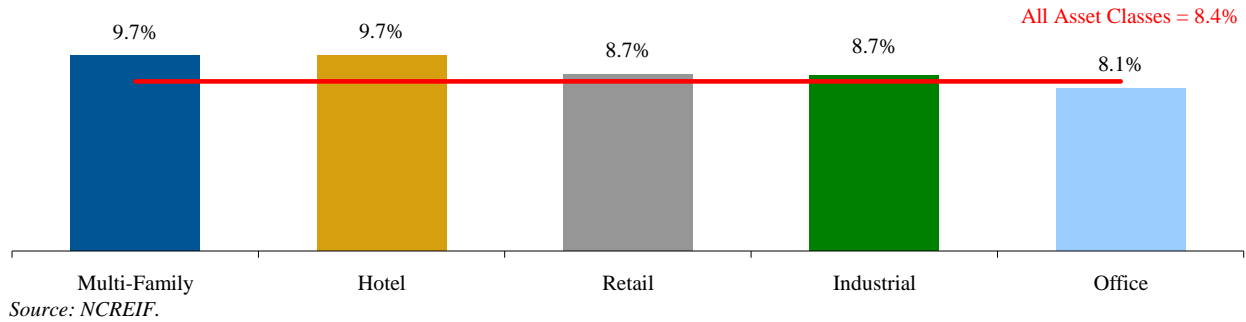
Source: Bloomberg Financial Markets; 1985 = 100.

### The Multi-Family Property Market in the United States

The Managing GP believes that multi-family real estate properties provide investors with the lowest variability of risk-adjusted returns among all classes of real estate, owing to the necessity for housing, which is typically not materially affected by economic slow-downs.

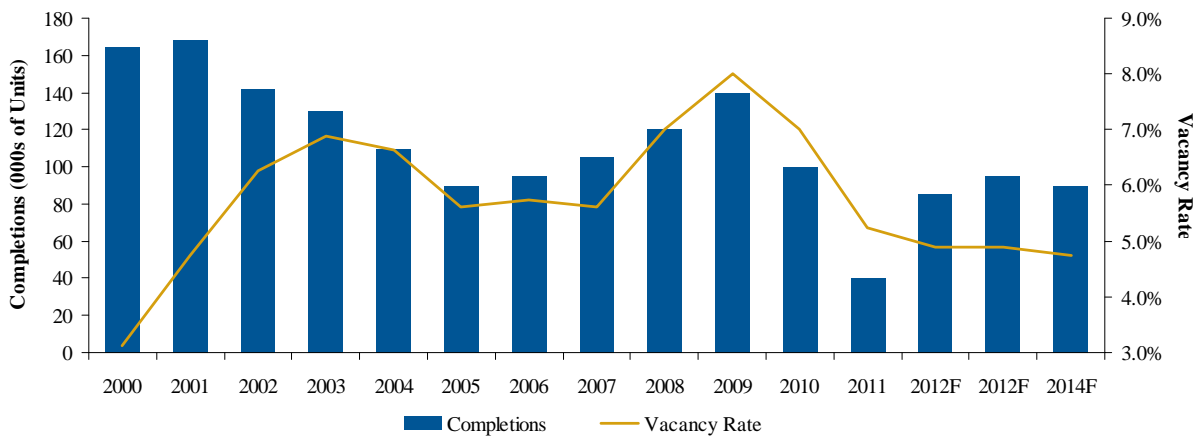
The multi-family property sector provides investors with favourable investment characteristics and attractive risk-adjusted returns in comparison to other major real estate asset classes. According to the National Council of Real Estate Investment Fiduciaries, the multi-family asset class has historically provided investors with the highest average annualized returns of all real estate asset classes

**U.S. Average Annualized Returns by Real Estate Class (1992 – 2011)**

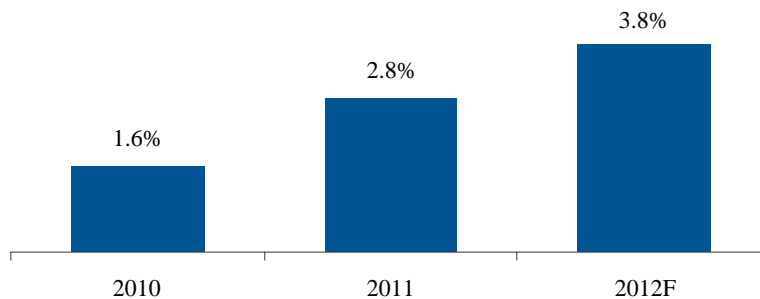


Overall occupancy rates in multi-family properties in major southwest markets have steadily increased over the past two years, putting upward pressure on rental rates, which had declined since 2008. According to Reis, Inc., vacancy rates for the multi-family real estate sector in the United States are projected to decline over the next few years. The vacancy rate in the United States was 5.3% as at December 31, 2011, as compared to 6.7% at the end of 2010, and is projected to further decrease to approximately 4.8% as at December 31, 2012. In addition, apartment rent growth has increased from 1.6% in 2010 to 2.8% in 2011, with 3.8% rental growth expected in 2012.

**U.S. Multi-Family Completions and Vacancy Rates**



**U.S. Multi-Family Rent Growth**

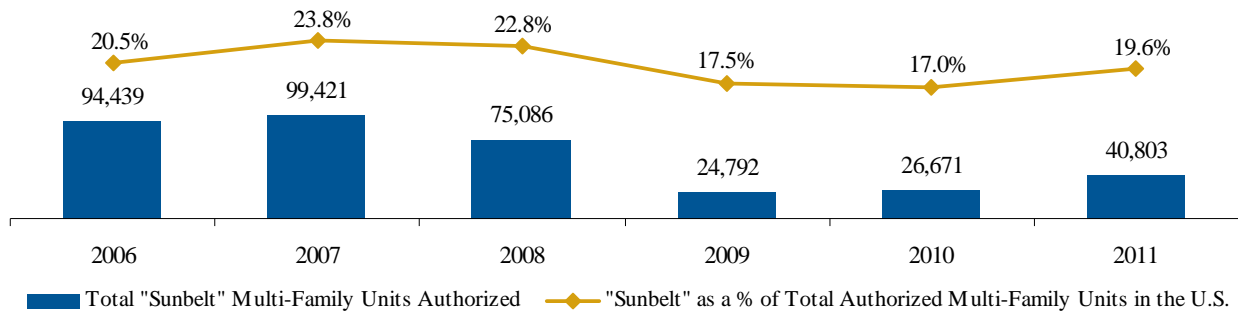


**Constraints on New Multi-Family Construction**

The recent U.S. economic downturn has resulted in a significant reduction in the construction of new homes, including multi-family properties. The Managing GP believes that this should increase demand for units in

existing properties and lead to increasing occupancy rates and upward pressure on rental rates. As shown below, authorized building permits for multi-family residential properties in the “Sunbelt” states have declined from 2007 to 2009 and currently remain below 2006 levels. The Managing GP believes that this should increase demand for existing rental properties and result in continued increasing occupancy and rental rates.

**“Sunbelt” States – Multi-Family Units Authorized by Building Permits**

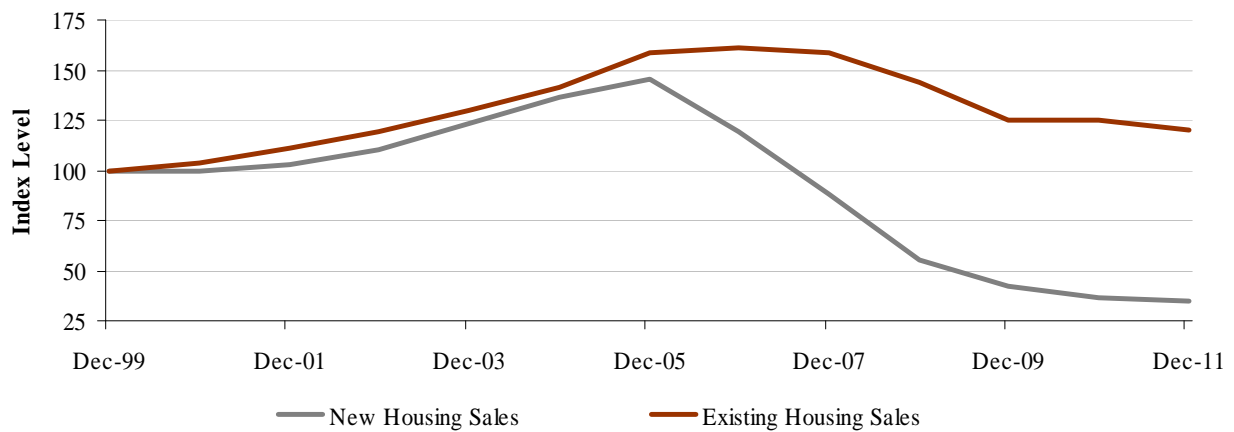


Source: Bureau of Economic Analysis; “Sunbelt” states include Texas, Arizona, Georgia and Nevada.

*Declining Rate of U.S. Home Ownership*

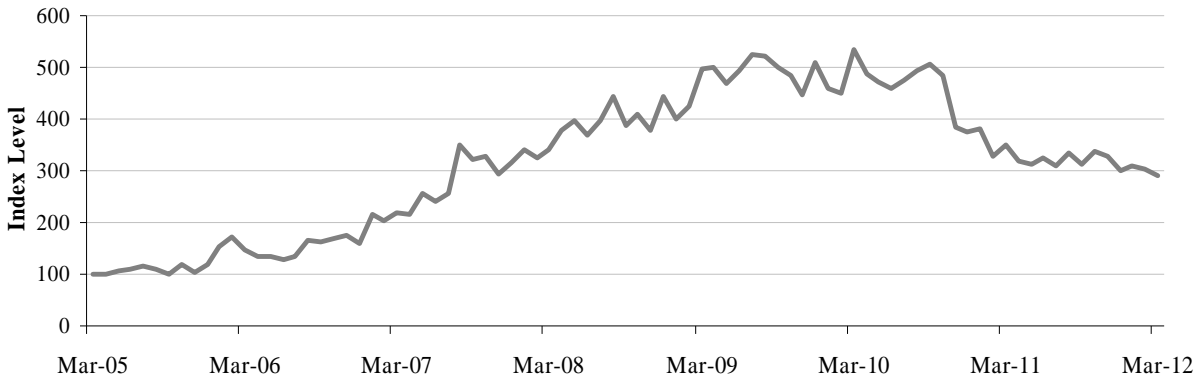
The level of home ownership in the United States is declining, resulting in additional demand for multi-family rental suites. As of March 31, 2012, the percentage of United States residents living in their own home was 65.4%, a decrease of 3.8% from its all time high of 69.2% in 2004 and close to the historic average of 65.5%. 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 significantly increased from 2007 to 2010, although they have stabilized somewhat in the past year.

**U.S. Housing Sales Index**



Source: National Association of Realtors.

### U.S. Home Foreclosure Index



Source: National Association of Realtors

### **Target Property Criteria**

The Managing GP will primarily target properties in select cities within the Southwestern and Southeastern regions of the U.S. The Managing GP 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, the Managing GP 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.

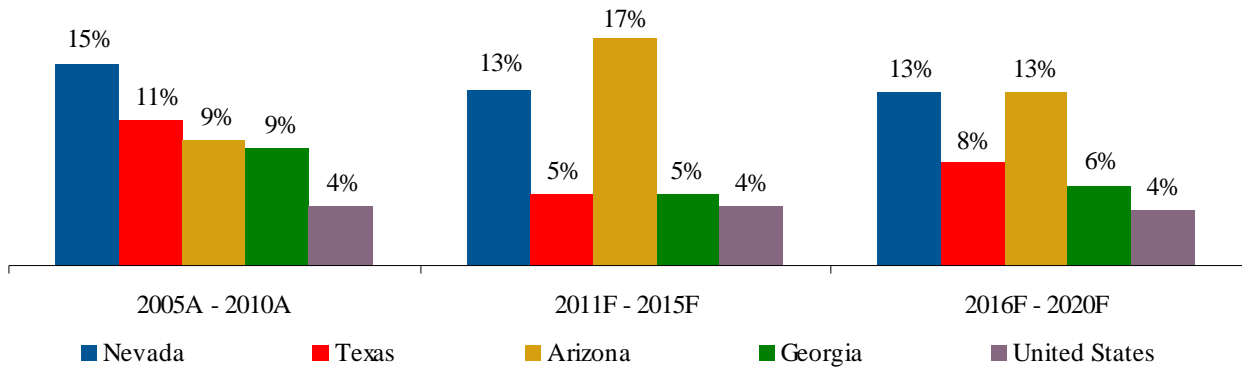
#### *Focus on Newer Properties*

The Managing GP will generally focus on the acquisition of existing Properties which were constructed or refurbished in 1990 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 multi-family sector in particular, the Managing GP believes limiting the REIT LP's focus to newer Properties will not limit the investment opportunities which are available. Due to current economic conditions in the U.S., the Managing GP expects there will be a decrease in new construction of multi-family properties, fuelling an increasing demand for available premises in existing properties, thereby increasing occupancy rates.

#### *Strong Economic and Market Indicators Across the U.S. "Sunbelt" Regions*

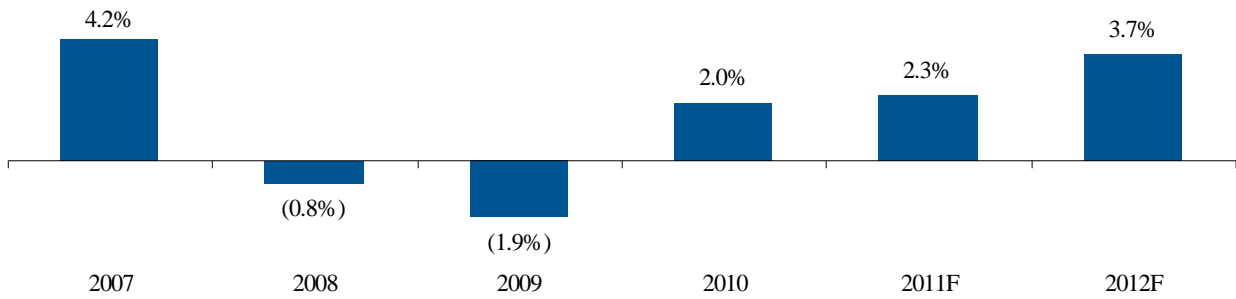
The REIT LP will initially focus on acquiring multi-family properties in the "Sunbelt" regions of the U.S., primarily in the Southwestern and Southeastern areas, although acquisition opportunities may arise in other regions of the U.S. States such as Texas, Arizona, Georgia and Nevada have generally experienced strong population growth rates well above the national average and declining vacancy rates, trends which are expected to continue in the future, creating additional demand for multi-family properties. The Managing GP expects that many new residents in the Sunbelt regions will first seek out rental housing rather than buying homes, increasing demand for rental housing and supporting the multi-family residential property market.

### Population Growth Rate



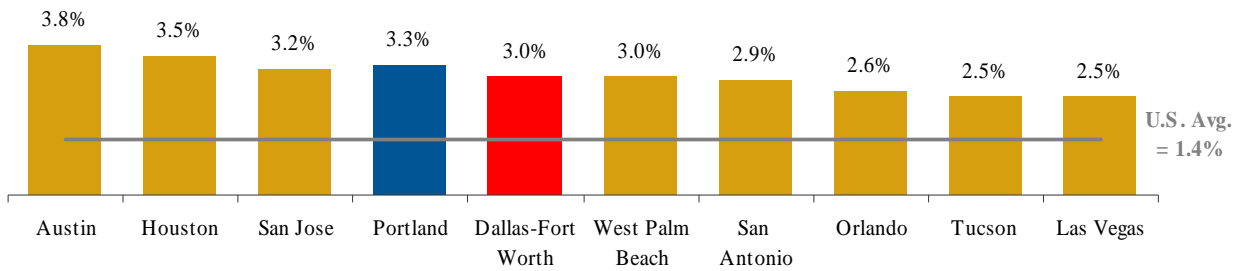
Source: U.S. Census Bureau, Population Division, Interim State Population Projections.

### “Sunbelt” States – Weighted Average Real GDP Growth Rates (2007-2012F)



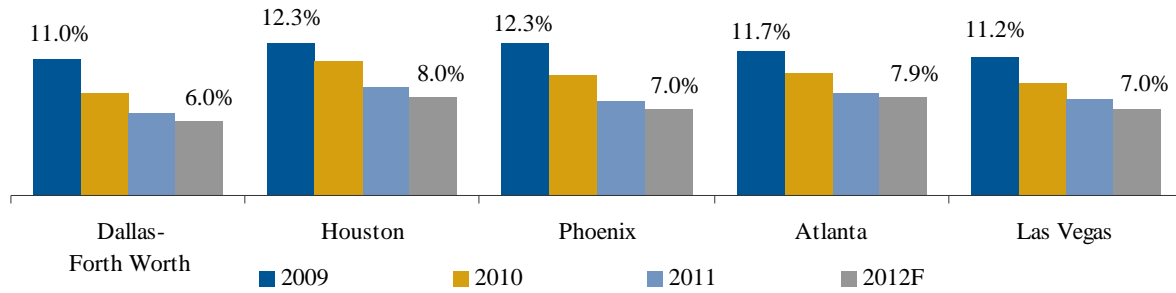
Source: J.P. Morgan Chase, 4Q seasonally adjusted annual rates; “Sunbelt” states include Texas, Arizona, Georgia and Nevada.

### U.S. Markets with Highest Forecasted (2012) Employment Growth



Source: Marcus & Millichap, 2012 National Apartment Report (Nonfarm employment, YoY change).

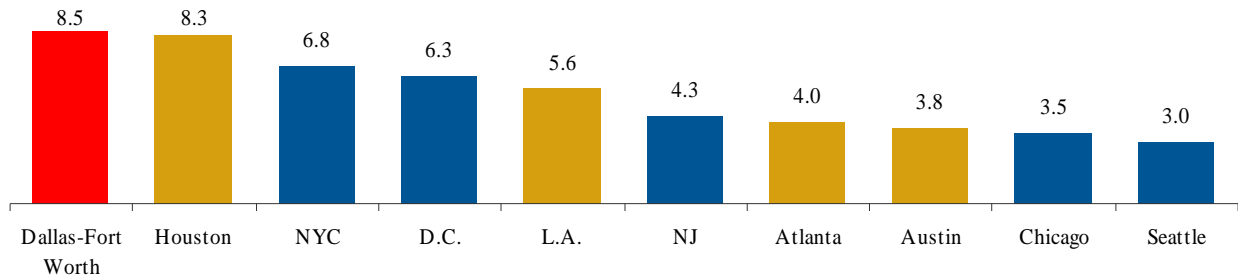
### “Sunbelt” Cities – Declining Vacancy Rates



Source: Marcus & Millichap, 2012 National Apartment Report.

### U.S. Markets with Highest Forecasted (2012) Absorption

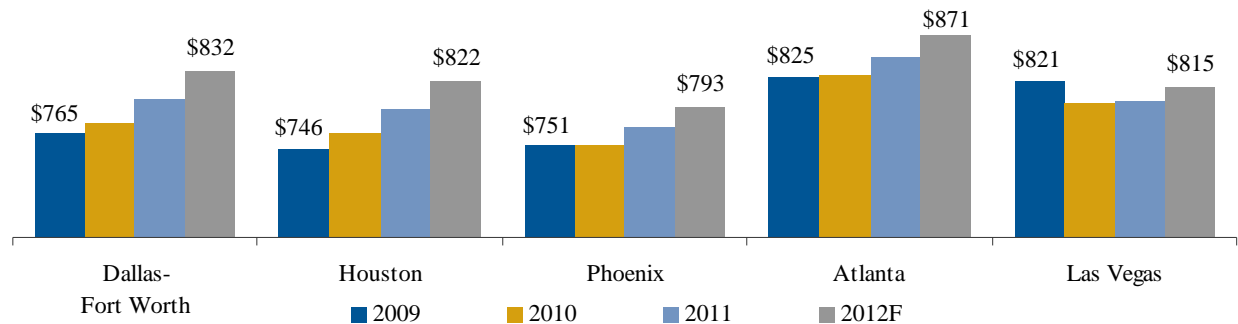
Units in 000's



Source: Marcus & Millichap, 2012 National Apartment Report.

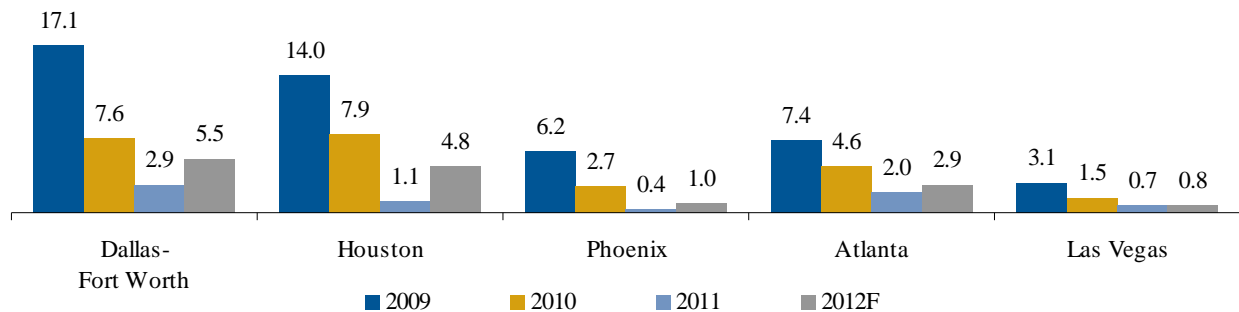
The Managing GP expects that this continued population growth will result in upward demand-side pressure on occupancy and rental rates as new supply of rental apartment stock is expected to remain below historic levels and the economic recovery continues. As well, the Managing GP expects that new residents in the Sunbelt regions will first seek out rental housing rather than buying homes, increasing demand for rental housing and supporting the multi-family residential property market. As other regions of the U.S. experience population and economic growth, the Managing GP may extend its acquisition programs to those areas.

### “Sunbelt” Cities – Asking Rents



Source: RREEF.

### “Sunbelt” Cities – Completions for Multi-family Properties



Source: Marcus & Millichap, 2012 National Apartment Report.

### BUSINESS AND GROWTH STRATEGIES

The REIT LP intends to pursue the following strategies to achieve the REIT LP’s objectives:

#### Acquisition Strategy

The REIT LP’s core strategy is to invest in quality multi-family real estate properties in major markets in the United States. The Managing GP believes that superior returns can be achieved by targeting such properties as a result of the stable income provided by the multi-family property market in the United States, the abundant supply of such properties at attractive price levels, and the emerging recovery of the U.S. economy as a whole. Further, the Managing GP believes that the opportunity exists to acquire multi-family properties at attractive prices with in-place rental rates which were reduced during the recent economic downturn, providing the potential for strong growth in rental rates. The REIT LP intends to cause the US REIT to acquire properties in clusters and asset sizes which will ensure regional economies of scale and geographic diversification in its portfolio. Acquisitions will be primarily in the \$10 to \$30 million range per property. The REIT LP will generally focus on acquiring multi-family properties which were constructed or refurbished in 1990 or later and which are located in markets with ongoing employment growth, which have exhibited ongoing strong occupancy, which complement the Initial Portfolio and which have the potential to create additional value. The REIT LP intends to cause the US REIT to acquire properties that are in good to superior physical condition with little to no deferred maintenance. The execution of this strategy will be consistently reviewed and will also include engaging in dispositions of properties and optimizing the REIT LP’s capital structure.

#### Financing Strategy

The REIT LP will operate the REIT LP’s investments in a disciplined manner, with a focus on financial analysis and balance sheet management to ensure that the REIT LP maintains a prudent capital structure and conservative financial profile. The REIT LP Agreement provides that the REIT LP may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total consolidated indebtedness of the REIT LP would be more than 70% of Gross Book Value. Five, seven and ten year fixed rate amortizing debt will primarily be used, with interest only and short term floating rate loans to be used in appropriate circumstances. The mortgage financing for two of the three Properties comprising the Initial Portfolio will be interest only, with the mortgage financing for the third Property being interest only for the first year of its term. The REIT LP intends to use the current favourable debt and interest rate environment to prudently manage the overall financial leverage within a conservative range of 55% to 65% of Gross Book Value, in order to maximize its return on equity while minimizing financial risk to the REIT LP and maintaining stable cash flows. The REIT LP’s preference will be to ultimately stagger the REIT LP’s debt maturities to mitigate the REIT LP’s interest rate risk and limit re-financing exposure in any particular period. On Closing, the Managing GP expects that the REIT LP’s total secured debt will be approximately \$22.7 million, or approximately 62.3% of the acquisition price of the Initial Portfolio. In addition, as a publicly-traded entity, the Managing GP expects that the REIT LP will benefit from having improved access to capital to assist it in executing its growth strategy. See “Financing of the Initial Portfolio” and “Debt Strategy”.

### *Portfolio Management Strategy*

The REIT LP's portfolio management strategy will focus on maximizing cash flow from the Properties, through maximizing occupancy and average monthly rent after taking into account local market conditions, as well as effectively and efficiently managing its operating costs as a percentage of total revenues. The Sunstone Group will provide asset management and, initially, property management services to the REIT LP and US REIT. The Sunstone Group's experienced management team plans to capture the economic upside potential in each individual property through strategic management, upgrades to the property and increasing rents as the market allows.

### *Asset Management*

Pursuant to the Asset Management Agreement, the Managing GP will provide asset management, administrative and reporting services to the REIT LP as its managing general partner. The Managing GP will provide these services to the REIT LP through the provision of qualified senior management. In particular, the Managing GP will provide the services of Messrs. Latoski and Evans and the services of the Managing GP's Chief Financial Officer, Vice President, financial analyst and director of investor relations. These individuals will devote the amount of time necessary to the management of the REIT LP in order to carry out its business objectives.

The Asset Management Agreement also requires the Managing GP to provide the REIT LP with support services consisting of office space and equipment and the necessary clerical and secretarial personnel for the administration of its day-to-day activities, at no cost. The Asset Management Agreement may be terminated by the REIT LP at any time upon the occurrence of certain events of default and at any other time upon not less than 60 days notice, without bonus or penalty. As set out above under "Alignment of Interests", in lieu of the fees typically associated with a third party asset management agreement, the Managing GP will only be entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs but excluding personnel costs) that it incurs providing asset management services to the REIT LP and will not be entitled to any other remuneration or compensation for its services. See "Asset Management Agreement".

### *Property Management*

The Property Manager will provide property management services to the US REIT in respect of each of the Properties pursuant to the Property Management Agreement. The Property Manager will provide on-site supervision and day-to-day management of each of the Properties, including leasing, budgeting, repairs and maintenance, banking and the necessary administrative and related services. In consideration of such services, the US REIT will pay the Property Manager fees equal to the property management fee payable in the market in which each Property is located, which is expected to range between 3% and 4% of the gross revenue from the Property. The Property Management Agreement is for an initial term of five years and will be automatically renewed for successive one year terms unless either party exercises the right to terminate the agreement at the end of any current term on 90 days notice. The Property Management Agreement may also be terminated by the US REIT in respect of a Property which is sold and may be terminated by either party for cause upon not less than 30 days' notice.

On the completion of the purchase of the Initial Portfolio, the Property Manager will contract with the Tipton Group of Dallas, Texas for the provision of property management services to the US REIT in respect of the Properties. It is expected that the Property Manager will assign the property management services in relation to the Initial Portfolio to the Tipton Group. The Tipton Group is a property management firm which manages a portfolio of multi-family properties in Texas, Oklahoma and Arizona. Tipton's principal, Bryan 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, becoming the owner of the Tipton Group in 1997.

### *Internalization of Management*

When the US REIT's portfolio of properties reaches a sufficient size to support internal property management, the US REIT intends to internalize property management of the Properties through the acquisition at fair market value of the Property Manager or of the then existing Property Management Agreement. When the REIT LP's assets reach a sufficient size to support internal asset management, and upon the occurrence of a Determination Event, the



REIT LP intends to terminate the Asset Management Agreement and internalize asset management at no cost to the REIT LP.

#### *Development Strategy*

The Managing GP believes that there will be development opportunities for multi-family real estate properties in the United States as the economy continues to recover. The Sunstone Group is well-positioned to identify development opportunities and to carry out and complete new developments. Once developed, a new multi-family real estate property may be acquired from the Sunstone Group to become part of the REIT LP's portfolio. The REIT LP Agreement provides that the REIT LP may, with the prior approval of the Governing GP, invest by way of loan advances to a sidecar fund, in which the REIT LP would advance funds for the development of new multi-family real estate properties, with rights to acquire such properties on pre-agreed terms.

#### *Distribution Strategy*

The REIT LP intends to satisfy its monthly distributions to Unitholders using available cash to the maximum extent possible. The amount of cash available for distribution will be equal to the monthly cash receipts of the REIT LP less reserves and any other amounts that the Governing GP reasonably considers are required for expenses and other obligations of the REIT LP. All distributions will be made to the holders of the Units and the Class B Units in accordance with the Unit Percentage Interest and Class B Unit Percentage Interest, respectively. As further detailed in the REIT LP Agreement, until a Determination Event occurs, all distributions from the REIT LP will be made 95% to the Units and 5% to the Class B Units.

The initial cash distribution, which will be for the period from and including the date of closing of the Offering to ♦, 2012, is expected to be paid on ♦, 2012 to Unitholders of record on ♦, 2012 and is estimated to be \$♦ per Unit. Subsequent regular distributions in the estimated amount of \$♦ per Unit are anticipated to be made for each month thereafter, commencing on or about ♦, 2012.

The REIT LP intends to make monthly distributions to Unitholders of record on the last business day of each month. Distributions will be paid within 15 days following the end of each month. The REIT LP may also make additional distributions in excess of monthly distributions during the year, as the Managing GP may determine.


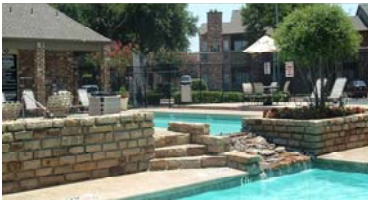

**Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the REIT LP intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future.**

## THE INITIAL PORTFOLIO

### Overview

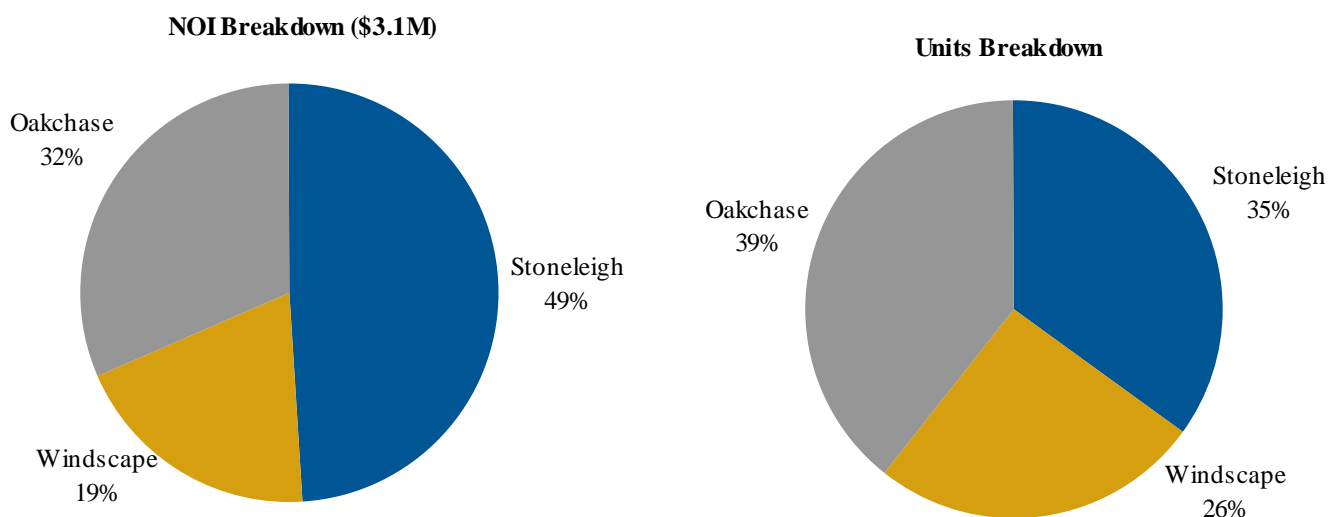
The Initial Portfolio consists of an aggregate of 600 multi-family residential units located in three properties located in the Dallas-Fort Worth area. The Properties are in desirable geographic locations, well tenanted and indicative of the types of properties the REIT LP intends to continue to cause the US REIT to acquire as part of its business strategy.

The following table highlights certain information about the Initial Portfolio:

	<b>Stoneleigh</b>	<b>Windscape</b>	<b>Oakchase</b>					
								
<b><u>Property</u></b>	<b><u>Purchase Price<sup>(1)</sup></u></b>	<b><u>Total Units</u></b>	<b><u>Rentable Area (Sq. Ft)</u></b>	<b><u>Average Unit Size (Sq. Ft)</u></b>	<b><u>Land Area</u></b>	<b><u>Average Occupancy<sup>(2)</sup></u></b>	<b><u>Avg. rent Per Sq Ft<sup>(3)</sup></u></b>	<b><u>Avg. Monthly Rent Per Unit<sup>(3)</sup></u></b>
<b>Stoneleigh at Valley Ranch</b> 8605 MacArthur Blvd., Irving, Texas	\$22,500,000	210	208,136	991	11.2 acres	94.0%	\$1.11	\$1,097
<b>Windscape Apartment Homes</b> 3099 Parnham Drive Grand Prairie, Texas	\$8,378,785	154	118,976	773	8.5 acres	99.4%	\$0.98	\$757
<b>Oakchase Apartments</b> 4924 Sigmond Drive Arlington, TX	\$13,580,133	236	181,372	769	10.8 acres	98.3%	\$0.97	\$745
<b>Totals</b>	<b>\$44,458,918</b>	<b>600</b>	<b>508,484</b>	<b>847</b>	<b>30.5 acres</b>	<b>97.1%</b>	<b>\$1.03</b>	<b>\$871</b>

- Notes:*
- (1) The purchase price of each property comprising the Initial Portfolio has been negotiated by the Sunstone Group with third party vendors.
  - (2) Based on units actually occupied or leased as at May 17, 2012.
  - (3) Based on Consolidated Statements of Forecasted Net Income and Comprehensive Income. See “Financial Forecast”.

The following charts show the breakdown of net operating income and units among the Initial Portfolio.



### The Dallas-Fort Worth Area

The Dallas-Fort Worth area is the fourth largest metropolitan area in the United States, with a population of more than 6.4 million. It has grown by more than one million residents for each of the past two decades, and added nearly one million new residents from 2004 to 2010 alone. According to Moody's forecasts, for the five year period from 2010 to 2015, the Dallas-Fort Worth area will rank first in the United States in population growth, with a projected population growth of over 700,000.

With a favourable business climate, the Dallas-Fort Worth area has a diverse economy with concentrations in such varied industries as aerospace/defence, transportation, healthcare, financial services, technology and distribution. The region ranks at or near the top of all U.S. metropolitan areas for business relocations. According to Site Selection magazine, the Dallas-Fort Worth area ranked third in the United States in 2010 for expansion or construction of new corporate facilities, trailing only Chicago and Houston.

The Dallas-Fort Worth area had an unemployment rate of 7.1% in February, 2012, below the national average of 8.2%. Employment growth of 1.6%, or 47,500 jobs, was experienced during the year ended December 31, 2011, representing the third highest annual job growth total in the United States. According to Moody's forecasts, for the five year period from 2010 to 2015, the Dallas-Fort Worth area is projected to generate 458,000 new jobs, ranking second in the United States in job growth. Some of the largest employers in the Dallas-Fort Worth area include Wal-mart, American Airlines, Bank of America and Verizon Communications. Twenty four of the companies on the Fortune 500 list have their head offices in the Dallas-Fort Worth area, the third highest concentration in the United States, trailing only New York and Chicago.

The Dallas-Fort Worth International Airport is the third busiest airport in the world in terms of operations (takeoffs and landings), handling an estimated 56.9 million passengers in 2010, and has a significant impact on the local economy, contributing an estimated \$16.6 billion annually to the North Texas economy.

## The Dallas-Fort Worth Area Apartment Market

With an inventory of 610,517 units, the Dallas-Fort Worth area is the largest apartment market in Texas. The market absorbed 15,240 units during 2011, one of the largest absorption totals recorded in the last decade. New construction in 2012 is expected to be limited to 6,540 units (approximately 1.0% of the existing inventory).

As of the fourth quarter of 2011, the metropolitan average apartment occupancy rate was 93.1%, representing a 1.8 percentage point increase over the fourth quarter of 2010. From 2005 to 2011, the average occupancy level in the Dallas-Forth Worth area has primarily been between 89% and 93%, with a high of 94% at the end of 2007. MPF Research projects that the average occupancy rate will increase by 1.5 percentage points to 94.6% by the end of 2012, taking occupancy back to pre-recession levels.

Average apartment rental rates are \$0.93 per square foot per month, or \$804 per month. Properties built since 2000 receive an average of \$1.09 per square foot per month, or \$1,073 per month, while product built between 1990 and 2000 receive an average of \$1.03 per square foot or \$951 per month. MPF Research projects rents to rise 5.0% in North Texas in 2012.

### Description of the Initial Portfolio

#### *Stoneleigh at Valley Ranch*

Stoneleigh at Valley Ranch is located in the Valley Ranch planned community, in the centre of the Dallas-Fort Worth area, approximately 20 minutes from both the Dallas and Fort Worth central business districts. Valley Ranch is a 2,500 acre community, with over 30,000 residents and 30 distinct suburban neighbourhoods. Deed restrictions and architectural standards maintain the character of Valley Ranch, and are governed by three community associations.

Located immediately to the south of Stoneleigh at Valley Ranch is Las Colinas, a 12,000 acre business and residential master-planned community, located adjacent to the Dallas-Fort Worth International Airport. Las Colinas is home to approximately 2,000 companies, including 45 Fortune 500 firms, and includes over 30 million square feet of office space and approximately 10 million square feet of industrial space. As a result, an estimated 120,000 people are employed in Las Colinas, providing residents of Stoneleigh at Valley Ranch with a range of employment opportunities and the property with a large number of prospective tenants.

Stoneleigh at Valley Ranch is located at 8605 North MacArthur Boulevard in Irving, Texas. The property has a total of 210 multi-family units as follows:

<b>Unit type</b>	<b>Sq. Ft</b>	<b>Number</b>
One bedroom, one bathroom	598	18
One bedroom, one bathroom	770	26
One bedroom, one bathroom	812	8
One bedroom, one bathroom	822	18
One bedroom, one bathroom	852	8
Two bedrooms, one bathroom	948	18
Two bedrooms, one bathroom	961	8
Two bedrooms, one bathroom	1,018	18
Two bedrooms, two bathrooms	1,150	18
Two bedrooms, two bathrooms	1,164	26

Two bedrooms, two bathrooms	1,172	26
Three bedrooms, two bathrooms	1,374	18
Total	208,136	210

Stoneleigh at Valley Ranch was constructed in 1999 and includes 14 buildings. The buildings are wood frame over reinforced concrete. Buildings have pitched roofs made up of composition shingles, and painted stucco exteriors. Windows are insulated, with aluminum frames with baked-on finish. Doors are reinforced metal-clad. The units have nine-foot ceilings, some of which are vaulted, with ceiling fans in some units. Living rooms feature crown moldings with a painted finish and all walls feature baseboards. Designer kitchens include wall-hung cabinets, faux-granite counter-tops, frost-free refrigerators with ice maker, garbage disposals, range, dishwasher and microwaves with vent hoods. All units have full-size washer and dryer connections. Select units have attached garages with direct entry. Each unit includes an intrusion alarm and smoke alarms.

The property has a total of 401 parking spaces.

*Windscape Apartment Homes*

Windscape Apartment Homes are located at 3099 Parham Drive in Grand Prairie, Texas. The property has a total of 154 multi-family units as follows:

<b>Unit type</b>	<b>Sq. Ft</b>	<b>Number</b>
One bedroom, one bathroom	592	12
One bedroom, one bathroom	625	28
One bedroom, one bathroom	733	32
One bedroom, one bathroom and den	775	24
Two bedrooms, two bathrooms	842	28
Two bedrooms, two bathrooms	958	30
Total	118,976	154

Windscape Apartment Homes were constructed in 1985 and includes 13 two-story apartment buildings, one leasing office, one laundry room and one maintenance shop. The buildings are constructed with reinforced concrete slabs-on-grade with concrete footings and wood framing which forms the support for the wood roof decks. The buildings have pitched roof systems which are covered with composition asphalt shingles. The exterior finish of the buildings consists of brick veneer and painted wood siding and trim. Windows are double pane, insulated glass with aluminum frames. Typical interior finishes of the apartment units include vinyl floor tile, carpeting, painted drywall and ceilings, fiberglass tub surrounds and ceramic tile around the fireplaces.

Renovations were completed in 2005 through 2011 and included interior unit upgrades, replacement of the composition roof shingles, exterior painting, repair of exterior wood and siding, leasing office interior renovations, upgrades to the fitness center and fitness center equipment, replacement of the pool filtration system, replacement of failed concrete in the parking lot and driveways, replacement of the wood perimeter fence on the East and South sides of the property and installation of wrought iron fencing along the West and North sides of the property including limited access gates. All units contain frost-free refrigerators (some with ice makers), garbage disposals, range, dishwasher and either microwaves or cooktop vent hoods. Domestic hot water is provided to each unit by its own electric 40-gallon hot water heater. HVAC is provided by split systems consisting of a pad-mounted condensing unit with an interior fan coil unit.

The property has 323 surface parking spaces, four of which are handicapped. Twenty of the parking spaces are covered under metal carport canopy structures.

The property includes a long list of amenities designed to attract and retain tenants, including a multi-level pool with waterfall, jacuzzi, picnic and barbeque area, fitness center, laundry center, nine-foot ceilings, walk-in closets, private patios and balconies, ceramic tile, hardwood style flooring, ceiling fans, private alarms, outside storage, French doors and ceiling fans.

*Oakchase Apartments*

Oakchase Apartments are located at 4924 Sigmond Drive in Arlington, Texas. The property has a total of 236 multi-family units as follows:

<b>Unit type</b>	<b>Sq. Ft</b>	<b>Number</b>
One bedroom, one bathroom	544	20
One bedroom, one bathroom	625	24
One bedroom, one bathroom	660	88
Two bedrooms, two bathrooms	913	84
Three bedrooms, two bathrooms	1,036	20
<b>Total</b>	<b>181,372</b>	<b>236</b>

Oakchase Apartments were constructed in 1984 and include 17, two-story buildings, one leasing office, two laundry rooms and one maintenance shop. The buildings are constructed with reinforced concrete slabs-on-grade with concrete footings and wood framing which forms the support for the wood roof decks. The buildings have pitched roof systems which are covered with composition asphalt shingles. The exterior finish of the buildings consists of brick veneer and painted wood siding and trim. Windows are single pane glass with aluminum frames. Typical interior finishes of the apartment units include vinyl floor tile, carpeting, painted drywall and ceilings and fiberglass tub surrounds.

Renovations were completed from 2005 through 2011 and included interior unit upgrades, exterior painting, repair of exterior wood and siding, leasing office interior renovations, upgrades to the fitness center and fitness center equipment, replacement of failed concrete in the parking lot and driveways, installation of wrought iron perimeter fencing on the North, South and West sides of the property and installation of limited access gates. All units contain frost-free refrigerators (with some ice makers), garbage disposals, range, dishwasher and either microwaves or cooktop vent hoods. Domestic hot water is provided to each unit by its own electric 40-gallon hot water heater. HVAC is provided by split systems consisting of a pad-mounted condensing unit with an interior fan coil unit.

The property has 417 surface parking spaces, twelve of which are handicapped.

The property includes a long list of amenities designed to attract and retain tenants, including two swimming pools, jacuzzi, two tennis courts, two laundry centers, 24 hour fitness center, ceiling fans, hardwood style flooring, walk-in closets, wood-burning fireplaces, private alarms, private patios and balconies and dishwashers.

**Potential Gain to Lease**

The Managing GP has estimated that in-place rental rates for some suites within the Properties in the Initial Portfolio are below market. As well, residential tenancy laws in Texas do not restrict the ability of a landlord to increase rents to the same extent that similar laws provide in various provinces of Canada. The Managing GP estimates that there is an opportunity to increase net operating income over the short to mid-term from below market rental rates in the Initial Portfolio an average of 7.87%, being an aggregate annual rental increase in the range of \$457,600.

## Acquisition

The REIT LP intends to cause the US REIT to acquire the Initial Portfolio on Closing for total purchase price of approximately \$44,560,000 pursuant to the following purchase agreements:

*Stoneleigh at Valley Ranch* - Pursuant to a Purchase and Sale Agreement made April 20, 2012 between CRP-2 Stoneleigh, L.P., a Delaware limited partnership, as seller, and Sunstone Realty Advisors (Delaware) Inc., as buyer, Sunstone Realty Advisors (Delaware) Inc. agreed to purchase Stoneleigh at Valley Ranch from CRP-2 Stoneleigh, L.P. for the purchase price of \$22,500,000. The obligation of the buyer to complete the purchase of Stoneleigh at Valley Ranch is subject to the buyer obtaining mortgage financing for the purchase on terms specified in the purchase agreement on or before May 31, 2012, provided that the buyer may extend the financing deadline by up to 10 business days by providing written notice of such extension to the seller at least two business days in advance. The purchase of the property will complete on June 19, 2012, provided that such date will be extended by any period of extension for the financing period. Prior to the completion date, Sunstone Realty Advisors (Delaware) Inc. will assign its rights under the Purchase and Sale Agreement to the US REIT at no cost, other than the reimbursement of deposits paid and all third party due diligence costs.

*Windscape Apartment Homes* - Pursuant to a Purchase and Sale Agreement made April 27, 2012 between Windscape II Investors, a Washington limited partnership, as seller, Sunstone Realty Advisors (Delaware) Inc., as buyer, and Benchmark Title Company, as escrow agent, Sunstone Realty Advisors (Delaware) Inc. agreed to purchase Windscape Apartment Homes from Gentry's Investors, Ltd. for the purchase price of \$8,378,785. The obligation of the buyer to complete the purchase of Windscape Apartment Homes is subject to the buyer's inspection and the approval thereof on or before June 1, 2012, and the buyer obtaining mortgage financing. Subject to the satisfaction or waiver of such conditions precedent, the purchase of the property will complete on June 29, 2012, provided that the buyer may extend the completion date by up to two periods of 30 days each, upon payment to the seller of a non-refundable deposit of \$50,000 for each such extension. Prior to the completion date, Sunstone Realty Advisors (Delaware) Inc. will assign its rights under the Purchase and Sale Agreement to the US REIT at no cost, other than the reimbursement of deposits paid and all third party due diligence costs.

*Oakchase Apartments* - Pursuant to a Purchase and Sale Agreement made April 27, 2012 between Gentry's Investors, Ltd., a Texas limited partnership, as seller, Sunstone Realty Advisors (Delaware) Inc., as buyer, and Benchmark Title Company, as escrow agent, Sunstone Realty Advisors (Delaware) Inc. agreed to purchase Oakchase Apartments from Gentry's Investors, Ltd. for the purchase price of \$13,580,133. The obligation of the buyer to complete the purchase of Windscape Apartment Homes is subject to the buyer's inspection and the approval thereof on or before June 1, 2012, and the buyer obtaining mortgage financing. Subject to the satisfaction or waiver of such conditions precedent, the purchase of the property will complete on June 29, 2012, provided that the buyer may extend the completion date by up to two periods of 30 days each, upon payment to the seller of a non-refundable deposit of \$50,000 for each such extension. Prior to the completion date, Sunstone Realty Advisors (Delaware) Inc. will assign its rights under the Purchase and Sale Agreement to the US REIT at no cost, other than the reimbursement of deposits paid and all third party due diligence costs.

In the event that the Offering is not fully subscribed for, Sunstone U.S. Opportunity (No. 4P) Limited Partnership, a Nevada limited partnership which is part of the Sunstone Group, may acquire a minority interest in one of the properties comprising the Initial Portfolio. See "Management of the Governing GP – Independent Director Matters" and "Management of the Governing GP – Conflict of Interest Restrictions and Provisions".

## Financing of the Initial Portfolio

Based on initial discussions with mortgage lenders and their correspondents, the REIT LP expects that it will obtain first mortgage financing for the acquisition of each of the Initial Portfolio on the following terms:

*Stoneleigh at Valley Ranch* – The US REIT has applied for a first mortgage loan in respect of the purchase of Stoneleigh at Valley Ranch in the amount of up to \$13,680,000, for a seven year term. The loan will be interest-only for the whole of its term. The Managing GP estimates that interest will be payable on such loan at the annual rate of 3.63%. Such loan will be secured by a first mortgage of Stoneleigh at Valley Ranch and such other security

as is standard for such loans. Other than for standard exclusions such as fraud, gross negligence and environmental hazards, the loan will be non-recourse to the US REIT.

*Windscape Apartment Homes* - The US REIT has applied for a first mortgage loan in respect of the purchase of Windscape Apartment Homes in the amount of up to \$5,090,000, for a seven year term. The loan will be interest-only for the whole of its term. The Managing GP estimates that interest will be payable on such loan at the annual rate of 3.68%. Such loan will be secured by a first mortgage of Windscape Apartment Homes and such other security as is standard for such loans. Other than for standard exclusions such as fraud, gross negligence and environmental hazards, the loan will be non-recourse to the US REIT.

*Oakchase Apartments* - The US REIT has applied for a first mortgage loan in respect of the purchase of Oakchase Apartments in the amount of up to \$8,940,000, for a five year term. The loan will be interest-only for the first year of its term, and then will amortize based on a 30 year amortization period. The Managing GP estimates that interest will be payable on such loan at the annual rate of 3.48%. Such loan will be secured by a first mortgage of Oakchase Apartments and such other security as is standard for such loans. Other than for standard exclusions such as fraud, gross negligence and environmental hazards, the loan will be non-recourse to the US REIT.

### **Building Condition Assessments**

Building condition assessment reports (“BCA Reports”) were prepared for each property comprising the Initial Portfolio by independent engineering firms, for the purposes of assessing and documenting the existing condition of each building and major building operating system. The assessments also identified and quantified any major defects in materials or systems which might significantly affect the value of any of the properties within the Initial Portfolio or the continued operation thereof.

#### *Stoneleigh at Valley Ranch*

The BCA Report for Stoneleigh at Valley Ranch was completed on May 4, 2012. The report states that the property appears to have been constructed within industry standards in force at the time of construction and to have been well maintained during recent years, and is in adequate overall condition. The report recommended a variety of capital needs over the next nine years, as summarized in the table below. Such repair work will be funded from the repairs and maintenance reserve established for the property by the US REIT. Otherwise, no immediate repair work was identified by the report.

#### *Windscape Apartment Homes*

The BCA Report for Windscape Apartment Homes was completed on May 11, 2012. The report states that the property appears to have been constructed within industry standards in force at the time of construction and to have been well maintained during recent years, and is in adequate overall condition. The report recommended the installation of ground fault circuit interrupters in each residential unit and a variety of capital needs over the next nine years, as summarized in the table below. Such repair work will be funded from the repairs and maintenance reserve established for the property by the US REIT. Otherwise, no immediate repair work was identified by the report.

#### *Oakchase Apartments*

The BCA Report for Oakchase Apartments was completed on May 11, 2012. The report states that the property appears to have been constructed within industry standards in force at the time of construction and to have been well maintained during recent years, and is in adequate overall condition. The report recommended the installation of ground fault circuit interrupters in each residential unit and a variety of capital needs over the next seven years, as summarized in the table below. Such repair work will be funded from the repairs and maintenance reserve established for the property by the US REIT. Otherwise, no immediate repair work was identified by the report.



**Initial Portfolio  
Immediate Needs and Capital Needs Estimate  
(\$)**

	Year										Total
	Current	1	2	3	4	5	6	7	8	9	
Stoneleigh at Valley Ranch	-	34,250	76,250	37,712	34,250	42,250	36,822	34,250	34,250	79,713	409,747
Windscape Apartment Homes	7,700	29,088	33,800	44,489	44,490	41,089	29,089	33,801	29,089	29,089	321,724
Oakchase Apartments	11,800	45,513	75,530	69,114	45,515	57,515	45,515	51,932			402,434
<b>Total</b>	<b>19,500</b>	<b>108,851</b>	<b>185,580</b>	<b>151,315</b>	<b>124,255</b>	<b>140,854</b>	<b>111,426</b>	<b>119,983</b>	<b>63,339</b>	<b>108,802</b>	<b>1,133,905</b>

**Environmental Site Assessments**

Each of the properties comprising the Initial Portfolio is the subject of a Phase I environmental site assessment report prepared by an independent environmental consultant in May, 2012. The purpose of these Phase I environmental site assessment reports was to assess whether evidence of potential or actual environmental contamination exists at any of the properties comprising the Initial Portfolio. The reports were prepared in accordance with general industry practice for Phase I environmental site assessment reports. Each report indicated that there is no evidence of recognized environmental conditions at any of the properties comprising the Initial Portfolio. The report for Windscape Apartment Homes identified elevated concentrations of radon in four of 14 units tested and recommended ongoing monitoring. The report for Oakchase Apartments identified elevated concentrations of radon in one out of 18 units tested and the inability to retrieve the test kit from a further three units and recommended further testing. Otherwise, the reports recommended no further investigation of the properties.

The Managing GP is not aware of any non-compliance with environmental laws at any of the properties comprising the Initial Portfolio that would have a material adverse effect on the REIT LP. The Managing GP is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties comprising the Initial Portfolio that would materially adversely affect the REIT LP or the values of the Initial Portfolio, taken as a whole, as determined pursuant to the appraisals discussed below.

**Independent Appraisals of the Initial Portfolio**

The Sunstone Group retained Deverick & Associates Inc. of Dallas, Texas to provide an independent appraisal of the fair market value of each of the properties comprising the Initial Portfolio. Each of such appraisals was completed in May, 2012. The appraisals were prepared in accordance with Standards Rule 2.2 of the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Pursuant to such Standards, market value is defined as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus”. The appraisals indicate that the “As Is” market value of each property comprising the Initial Portfolio is as follows:

<b>Property</b>	<b>Estimated Value</b>
Stoneleigh at Valley Ranch	\$22,500,000
Windscape Apartment Homes	\$8,500,000
Oakchase Apartments	\$13,600,000
<b>Total</b>	<b>\$44,600,000</b>

Copies of the appraisals will be filed following Closing on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Property Management**

The Property Manager will provide property management services to the US REIT in respect of each of the Properties. The Property Manager will provide on-site supervision and day-to-day management of each of the Properties, including the necessary administrative and related services. In consideration of such services, the US REIT will pay the Property Manager fees equal to the property management fee payable in the market in which each Property is located, which is expected to range between 3% and 4% of the gross revenue from the Property. On the completion of the purchase of the Initial Portfolio, the Property Manager will contract with the Tipton Group of Dallas, Texas for the provision of property management services to the US REIT in respect of the Properties. It is expected that the Property Manager will assign the property management services in relation to the Initial Portfolio to the Tipton Group. The Tipton Group is a property management firm which manages a portfolio of multi-family properties in Texas, Oklahoma and Arizona comprising 51 multi-family real estate properties and an aggregate of 12,295 multi-family residential units. Tipton's principal, Bryan 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, becoming the owner of the Tipton Group in 1997.

Residential tenancies in the State of Texas are governed by several statutes, particularly Chapter 92 of the Texas Property Code. Such statutes set out a comprehensive and balanced set of landlord and tenant rights and are consistent with such laws throughout the United States.

## **THE REIT LP'S STRUCTURE AND FORMATION**

### **The REIT LP**

The REIT LP is a newly established limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in high quality multi-family real estate properties in major markets in the United States. The REIT LP was formed pursuant to the terms of the REIT LP Agreement. The REIT LP's head office is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. A copy of the REIT LP Agreement can be obtained from the REIT LP during the period of distribution of the Units and will be available following Closing on SEDAR at [www.sedar.com](http://www.sedar.com).

The REIT LP was established, among other things, for the purposes of:

- (a) acquiring Common Shares and the ROC Share;
- (b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the REIT LP and making distributions to Unitholders;
- (c) in connection with the undertaking set out above, reinvesting income and gains of the REIT LP and taking other actions besides the mere protection and preservation of the REIT LP Property.

The principal business of the REIT LP will be to issue Units and to acquire and hold Common Shares and the ROC Share.

### **The US REIT**

The US REIT is a corporation formed pursuant to the *Maryland General Corporation Law* on April 25, 2012 under file number 1000362003206366. The head office and address for service of the US REIT is located at 6529 Preston Rd., Suite 100 Plano, Texas. The US REIT's principal office in the State of Maryland is c/o The Corporation Trust Incorporated, 351 West Camden Street, Baltimore, MD. The US REIT intends to take the necessary steps to qualify as a real estate investment trust pursuant to the Code.

The US REIT was established, among other things, for the purposes of acquiring, owning and operating the Properties. In order to accommodate the expected requirements of lenders and to segregate any risks of ownership between Properties, the US REIT may have each of the Properties owned by a separate underlying limited partnership established and owned by the US REIT.

### **The Managing GP**

Pure Multi-Family Management Limited Partnership is a British Columbia limited partnership established on April 24, 2012 under number LP581764. The Managing GP's head office is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2 and its registered office is at 800 – 885 West Georgia Street, Vancouver, BC V6C 3H1. The Managing GP is the managing general partner of the REIT LP, giving the REIT LP access to the Managing GP's experienced management team and extensive network of relationships in the United States multi-family real estate market.

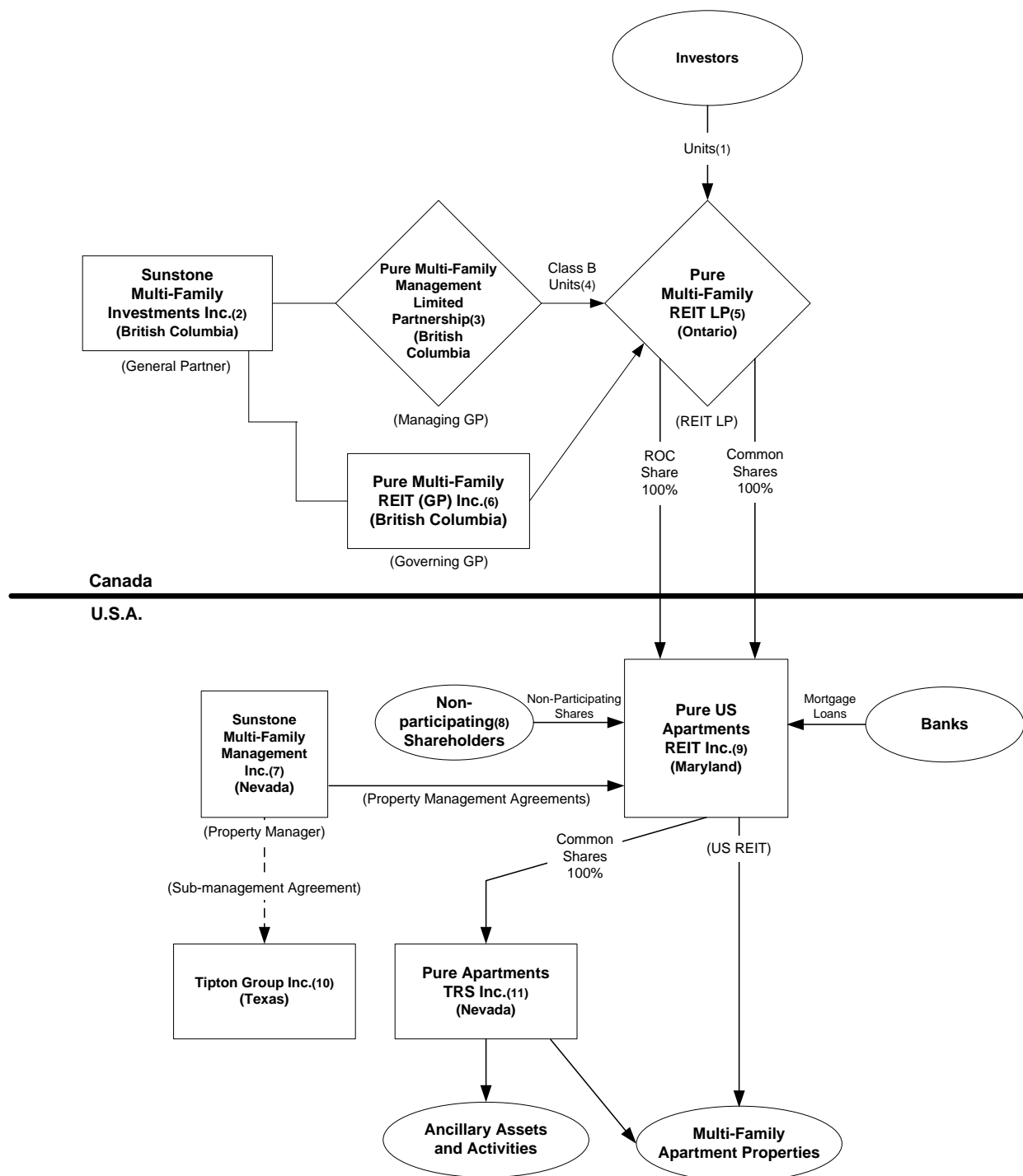
### **The Governing GP**

Pure Multi-Family REIT (GP) Inc. is a British Columbia corporation. The Governing GP's head office is located at 910 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2 and its records and registered office is at 800 – 885 West Georgia Street, Vancouver, BC V6C 3H1. The Governing GP is the governing general partner of the REIT LP and has the sole responsibility and authority for the governance of the REIT LP. The Governing GP will have a board initially consisting of five directors, the majority of whom will be independent.

### **Simplified Organizational Structure**

The following chart sets forth the relationships among the REIT LP, the Managing GP and the Governing GP. The chart also illustrates the means by which funds invested by the public under this Prospectus flow through the REIT LP to the US REIT and are invested by the US REIT in the Properties.

## INVESTMENT STRUCTURE



**Notes:**

- (1) The Units are the subject of this Offering. The REIT LP has applied to the Exchange to list the Units on the Exchange under the symbol "RUF.UN.U". Listing of the Units is subject to the REIT LP fulfilling all of the requirements of the Exchange.

- (2) Sunstone Multi-Family Investments Inc. is a British Columbia corporation, the shareholders of which are Darren Investments Inc. and Triple E Investments Inc. Darren Latoski is the sole director and officer of Darren Investments Inc. Steve Evans is the sole director and officer of Triple E Investments Inc. Messrs. Latoski and Evans are the sole directors and officers of Sunstone Multi-Family Investments Inc.
- (3) Pure Multi-Family Management Limited Partnership (the “Managing GP”) is a British Columbia limited partnership established on April 24, 2012 under number LP581764. The limited partners of the Managing GP are Darren Investments Inc. and Triple E Investments Inc. Darren Latoski is the sole director and officer of Darren Investments Inc. Steve Evans is the sole director and officer of Triple E Investments Inc. The General Partner of the Managing GP is Sunstone Multi-Family Investments Inc.
- (4) Prior to the closing of this Offering, the Managing GP will subscribe for 200,000 Class B Units and will pay cash consideration of \$5.00 per Class B Unit for aggregate proceeds to the REIT LP of \$1,000,000. The Class B Units will not be listed for trading.
- (5) The REIT LP is an Ontario limited partnership. Details of the REIT LP are included in this prospectus.
- (6) Pure Multi-Family REIT (GP) Inc. (the “Governing GP”) is a British Columbia corporation, the sole shareholder of which is Sunstone Multi-Family Investments Inc. The initial directors of the Governing GP are Darren Latoski, Steve Evans, Robert King, James Redekop and Douglas Scott. Pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has agreed that any voting rights with respect to the Governing GP will be voted in favour of the election of directors approved by the Unitholders of the REIT LP.
- (7) Sunstone Multi-Family Management Inc. is a Nevada corporation, the shareholders of which are Darren Investments Inc., Triple E Investments Inc. and Bryan Kerns. Darren Latoski is the sole director and officer of Darren Investments Inc. Steve Evans is the sole director and officer of Triple E Investments Inc. Messrs. Latoski, Evans and Kerns are the sole directors and officers of the Property Manager.
- (8) In order to satisfy Code requirements to be treated as a REIT, the US REIT will issue its Class B Shares 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 Share of the US REIT are summarized in “Securities Offered – The US REIT”.
- (9) Pure US Apartments REIT Inc. (the “US REIT”) is a Maryland corporation incorporated on April 25, 2012. The directors and officers of the US REIT are Darren Latoski, Steve Evans and Robert King. The REIT LP will use the net proceeds of the Offering to acquire Common Shares at a price of \$1.00 per Common Share and the ROC Share. The subscription price of the ROC Share will be mutually determined by the US REIT and the Managing GP upon the completion of the Offering.
- (10) The Property Manager will contract with the Tipton Group of Dallas, Texas for the provision of property management services to the US REIT in respect of the Properties. Bryan Kerns, a director and indirect shareholder of the Property Manager, is the sole shareholder, director and officer of Tipton Group Inc.
- (11) Pure Apartments TRS Inc., if necessary, will be incorporated as a Nevada corporation, the sole shareholder of which will be the US REIT. Steve Evans and Bryan Kerns are expected to be the directors and officers of Pure Apartments TRS Inc., if necessary.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS**

*The following management’s discussion and analysis of the Initial Portfolio’s results of operations should be read in conjunction with the audited combined financial statements and related notes thereto contained elsewhere in this Prospectus. The combined financial statements of the Initial Portfolio are prepared in accordance with the significant accounting policies in note 3 to the combined financial statement which are consistent with the recognition and measurements principles of IFRS. We draw attention to Notes 1 and 2 to the combined statement of operations which indicate that the combined financial statements present aggregated financial information of the rental activities of Initial Portfolio and that in preparing the combined financial statements certain expense items relating to the vendors of the properties have been excluded. The combined financial statements may not necessarily be indicative of the results that would have been achieved if the combined business had operated as independent entities.*

*The reporting periods of the Initial Portfolio are December 31, 2011 and December 31, 2010, and all amounts are in United States dollars.*

*This discussion contains forward-looking statements. Please see “Forward Looking Statements” for a discussion of the risks, uncertainties and assumptions relating to these statements.*

## **INITIAL PORTFOLIO**

### *Overview*

The Initial Portfolio is comprised of three multi-family real estate properties that are located in the Dallas-Fort Worth area and include Stoneleigh at Valley Ranch, Windscape Apartment Homes and Oakchase Apartments. The Initial Portfolio has a combined rentable square footage of 504,484 and represents an overall land area in excess of 30.5 acres. The Initial Portfolio is comprised of 600 units with an average unit size of 847 square feet. The three properties were built in 1999, 1988 and 1984 respectively and include amenities such as fitness centres, barbeque areas, private patios, parking stalls, pools and laundry centres. The amenities are offered as part of the ongoing owner’s program to attract new tenants and maintain a high retention rate of existing tenants. The expenses relating to the amenities form part of the overall operating costs of the Initial Portfolio and are typical of the multi-family real estate asset class.

### *Selected Financial and Operating Information*

The following selected financial information of the Initial Portfolio has been derived from, and should be read in conjunction with, the audited combined financial statements of the Initial Portfolio for the years ended December 31, 2011 and 2010 and notes thereto.

	<b>Year ended December 31, 2011</b>	<b>Year ended December 31, 2010</b>
<b>Income Statement Data</b>		
<b>Revenues:</b>		
Rental	<b>\$ 5,813,891</b>	\$ 5,645,935
<b>Rental expenses:</b>		
Insurance	<b>102,216</b>	98,968
Property management fees	<b>193,021</b>	173,698
Property taxes	<b>683,336</b>	717,656
Property operating expenses	<b>2,432,515</b>	2,426,734
	<b>3,411,088</b>	3,417,056
<b>Operating income from properties</b>	<b>2,402,803</b>	2,228,879
Fair value adjustments to investment properties	<b>3,030,667</b>	6,455,882
<b>Income from properties</b>	<b>\$ 5,433,470</b>	\$ 8,684,761

### *Results of Operations*

*Fiscal Period Ended December 31, 2011 compared to the Fiscal Year ended December 31, 2010.*

#### Rental Revenue and Expenses

The following is a general discussion of revenues and operating expenses for the Initial Portfolio.

There are very few significant changes in the operating financial information from December 31, 2010 to December 31, 2011. Revenues have remained stable through both periods, with some minor increases in 2011. Overall, operating expenses remained in line year over year, with the exception of property taxes which resulted in a decrease from 2010 to 2011. Rental revenue is recorded in accordance with tenants' lease agreements and also includes recoveries from tenants of specified services provided by owner in accordance with the terms of the leases.

Fair value adjustments to investment properties

Of note is the change in the fair value adjustments during the same period. In consultation with third party appraisers, management has reviewed capitalization rates in the Dallas Fort-Worth area for the periods January 1, 2010, December 31, 2010 and December 31, 2011. In first half of the year ended December 31, 2010 there was very little sales activity and the capitalization rates started the year in the 7-8% range depending on the quality and location of the property. By year-end, property sales had increased and capitalization rates had decreased in the range of 75 basis points. As such, management has recorded a fair value adjustment as at December 31, 2010 to reflect the improving market conditions. This trend slowed somewhat in 2011 stabilizing towards the end of the year however over-all rental revenues have increased thus resulting in increased valuations as at December 31, 2011.

*Results of Quarterly Operations*

*Period Ended March 31, 2012 compared to the Period Ended March 31, 2011.*

The following selected financial information of the Initial Portfolio has been derived from, and should be read in conjunction with the interim combined financial statements of the Initial Portfolio for the periods ended March 31, 2012 and 2011 and notes thereto.

	Period ended March 31, 2012	Period ended March 31, 2011
<b>Income Statement Data</b>		
<b>Revenues:</b>		
Rental	\$ 1,522,902	\$ 1,425,341
<b>Rental expenses:</b>		
Insurance	24,962	24,361
Property management fees	47,135	44,079
Property taxes	181,845	184,182
Property operating expenses	595,919	546,797
	<b>849,861</b>	<b>799,419</b>
<b>Operating income from properties</b>	<b>673,041</b>	<b>625,922</b>
Fair value adjustments to investment properties	682,963	-
<b>Income from properties</b>	<b>\$1,356,004</b>	<b>\$ 625,922</b>

Rental Revenue and Expenses

The following is a general discussion of revenues and operating expenses for the Initial Portfolio.

Revenues increased in the period ended March 31, 2012 to \$1,522,902 (March 31, 2011 - \$1,425,341) as a result of declining vacancy rates and increases in rental rates. Overall, operating expenses remained in line year over year, with the exception of operating expenses which in the period ended March 31, 2012 were \$595,919 (March 31, 2011 - \$546,797). The increase in property operating expenses is primarily a result of interior upgrades

and repairs and maintenance work done to the investment properties during the three months ended March 31, 2012. The increase in this work during the three months ended March 31, 2011 compared to the same period during 2010 was approximately \$48,000. Rental revenue is recorded in accordance with tenants' lease agreements and also includes recoveries from tenants of specified services provided by owner in accordance with the terms of the leases.

#### Fair value adjustments to investment properties

Of note is the change in the fair value adjustments during the same period. In consultation with third party appraisers, management has reviewed capitalization rates in the Dallas Fort-Worth area for the periods March 31, 2011 and March 31, 2012. During the three months ended March 31, 2011, there were minimal capitalization rate changes in the area and therefore management has not recorded any fair value changes during this period. The weighted average capitalization rate was 6.63% during this same period. During the three months ended March 31, 2012, again there were minimal capitalization rate changes noted compared to the period ended December 31, 2011. However, through a slight reduction in capitalization rates combined with an increase in the stabilized net income, management recorded a fair value income adjustment of \$682,963 during this period. During the same period, the weighted average capitalization rate was 6.24%.

#### **Critical Judgments in Applying Accounting Policies**

The following are the critical judgments that have been made in applying the Initial Portfolio accounting policies and that have the most significant effect on the amounts in the combined financial statements:

#### Investment Properties

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property) and capitalization rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment properties are set out in note 4 of the financial statements.

#### Critical Accounting Estimates and Assumptions

The preparation of the combined financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting periods. In determining estimates of fair market value for its investment properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of investment are outlined in note 3.



## ***Future Accounting Policy Changes***

### *Financial instruments: classification and measurement*

In November 2009, as part of the IASB's project to replace International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9, *Financial Instruments*, which introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities and is applicable for annual periods starting on or after January 1, 2015. As the Initial Portfolio does not have any financial instruments this standard will not have an impact on the combined financial statements.

### *Joint arrangements*

In May 2011, the IASB issued IFRS 11, *Joint Arrangements*. This new standard replaces IAS 31, *Interests in Joint Ventures*. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures and will be effective for the Initial Portfolio's year end beginning January 1, 2015. As the Initial Portfolio does not have any joint arrangements this standard will not have an impact on the combined financial statements.

### *Consolidated financial statements*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. This new standard replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12, *Consolidation – Special Purpose Entities*. The new standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. The adoption of IFRS 10 is not expected to have a significant impact on the Initial Portfolio's combined financial statements.

### *Disclosure of interests in other entities*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. This new standard includes disclosure requirements about subsidiaries, joint ventures and associates. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities and the nature and risks associated with interests in other entities. IAS 28, *Investments in Associates*, has been amended and will set the requirements for the application of the equity method when accounting for investments in associates. This standard will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. The adoption of IFRS 12 is not expected to have a significant impact on the Initial Portfolio's combined financial statements.

### *Fair value measurement*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. This new standard establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. This standard will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. This standard will not have an impact on the combined financial statements.

### ***Risk and Uncertainties***

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments. Since the Initial Portfolio invests directly in real estate, the success of the properties will affect the success of the offering as a whole. See "Risk Factors".

## FINANCIAL FORECAST

The following financial forecast was prepared by the Managing GP on behalf of the REIT LP, using assumptions with an effective date of May 11, 2012, and was approved by the board of the Managing GP on May 18, 2012. Pursuant to applicable securities policies, the REIT LP will be required to update the forecast during the forecast period by identifying any material changes from the forecast resulting from events that have occurred since it was issued and by comparing such forecast with annual audited actual results and interim unaudited actual results for the periods covered. The results of this comparison will accompany the REIT LP's annual or interim Management's Discussion and Analysis for the relevant periods.

The forecast has been prepared in accordance with the rules surrounding the measurement, presentation and disclosure of financial forecasts as established by the Canadian Securities Administrators in Part 4A and 4B of National Instrument 51-102, Continuous Disclosure Obligations. The forecast has been prepared using assumptions that reflect management's intended courses of action for the REIT LP for the periods covered, given management's judgment as to the most probable set of economic conditions. The forecast has been prepared after giving effect to the Offering and the other transactions contemplated in this prospectus to be completed before or concurrently with Closing. The forecast assumes the Closing occurred on April 1, 2012.

**The assumptions used in the preparation of a forecast, although considered reasonable by management at the time of preparation, may not materialize as forecast and unanticipated events and circumstances may occur subsequent to the date of the forecast. Accordingly, there is a significant risk that actual results achieved for the forecast period will vary from the forecast results and that such variations may be material. There is no representation that actual results achieved during the forecast period will be the same in whole or in part as those forecast. Important factors that could cause actual results to vary materially from the forecast include those disclosed under "Risk Factors". See also "Forward-Looking Information".**

The financial forecast which follows should be read in conjunction with the REIT LP's unaudited pro forma consolidated financial statements, the REIT LP's audited opening balance sheet and the audited combined financial statements of the Initial Portfolio contained in this prospectus.

## REPORT ON CONSOLIDATED FINANCIAL FORECAST

To the Directors of Pure Multi-Family REIT (GP) Inc.

The accompanying consolidated financial forecast of Pure Multi-Family REIT LP (“REIT LP”), consisting of the consolidated statements of forecasted net income and comprehensive income for each of the three-month periods ending June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013 and the twelve-month period ending March 31, 2013, has been prepared by management of Pure Multi-Family Management Limited Partnership (the “Managing GP”) on behalf of Pure Multi-Family REIT LP using assumptions with an effective date of May 11, 2012. We have examined the support provided by the Managing GP for the assumptions, and the preparation and presentation of this forecast. Our examination was made in accordance with the applicable Audit Guideline issued by the Canadian Institute of Chartered Accountants. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as at the date of this report, the assumptions developed by the Managing GP are suitably supported and consistent with the plans of the REIT LP, and provide a reasonable basis for the financial forecast;
- this financial forecast reflects such assumptions; and
- the financial forecast complies with the presentation and disclosure standards for future oriented financial information established in Part 4A and 4B of National Instrument 51-102, Continuous Disclosure Obligations.

Since this financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this financial forecast will be achieved.

Chartered Accountants,  
Vancouver, Canada  
May ◆, 2012

**PURE MULTI-FAMILY REIT LP**

## Consolidated Statements of Forecasted Net Income and Comprehensive Income

(Expressed in United States dollars)

	Three month periods ending				Twelve months ending March 31, 2013
	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013	
<b>REVENUES</b>					
Rental	\$ 1,519,836	\$ 1,551,738	\$ 1,581,117	\$ 1,618,807	\$ 6,271,498
<b>RENTAL EXPENSES</b>					
Insurance	34,125	34,125	34,125	34,125	136,500
Management fees	45,595	46,552	47,434	48,564	188,145
Property taxes	170,344	170,344	238,887	238,887	818,462
Property operating expenses	498,904	524,096	498,904	524,096	2,046,000
	748,968	775,117	819,350	845,672	3,189,107
<b>OPERATING INCOME</b>	770,868	776,621	761,767	773,135	3,082,391
<b>NET FINANCE COSTS</b>					
Class B Unit distributions	(18,750)	(18,750)	(18,750)	(18,750)	(75,000)
Mortgage interest	(260,925)	(261,040)	(261,158)	(261,277)	(1,044,400)
	(279,675)	(279,790)	(279,908)	(280,027)	(1,119,400)
<b>NET OTHER EXPENSES</b>					
General and administrative	(31,250)	(31,250)	(31,250)	(31,250)	(125,000)
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	\$ 459,943	\$ 465,581	\$ 450,609	\$ 461,858	\$ 1,837,991
<b>Basic and diluted net income per unit</b>	\$◆	\$◆	\$◆	\$◆	\$◆

See accompanying notes to consolidated statements of forecasted net income and comprehensive income.

Approved on behalf of the General Partner Pure Multi-Family REIT (GP) Inc.:

\_\_\_\_\_  
Rob King Director

\_\_\_\_\_  
Darren Latoski Director

## **PURE MULTI-FAMILY REIT LP**

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### **1. PURPOSE OF THE FINANCIAL FORECAST**

This financial forecast has been prepared by management of Pure Multi-Family Management Limited Partnership (the “Managing GP”) on behalf of Pure Multi-Family REIT LP (the “REIT LP”) for use by prospective investors in their evaluation of potential investments in the REIT LP and may not be appropriate for any other purpose.

### **2. BASIS OF PRESENTATION OF FINANCIAL FORECAST**

The financial forecast consists of the consolidated statements of forecasted net income and comprehensive income of the REIT LP for the three-month periods ending June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013 and the twelve month period ending March 31, 2013. The financial forecast has been prepared by management of the Managing GP on behalf of the REIT LP using assumptions with an effective date of May 11, 2012, and reflects the assumptions described in note 4.

The financial forecast has been prepared using assumptions that reflect management’s intended course of action for the periods presented, given management’s judgement as to the most probable set of economic conditions. The financial forecast will be compared with the reported results for the financial forecast periods and any significant differences will be disclosed. The actual results achieved during the financial forecast periods will vary from the forecasted results, and these variations may be material.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial forecast has been prepared in accordance with International Financial Reporting Standards (“IFRS”) and reflects the following policies:

#### ***(a) Revenue recognition***

Rental revenue is recognized on a straight line basis over the term of the lease subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred provided that collectability is reasonably assured.

#### ***(b) Investment properties***

Investment properties comprise property held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of operations in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

## **PURE MULTI-FAMILY REIT LP**

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(c) Finance costs**

Finance costs comprise distributions to Class B unitholders, mortgage interest and amortization of costs incurred to enter into the mortgages both of which are amortized over the term of the debt using the effective interest method.

#### **(d) Income taxes**

The REIT LP is not subject to tax under Part I of the Income Tax Act (Canada) (the "Tax Act"). Each partner of the REIT 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 the REIT LP for its fiscal year ending in or on the partner's taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains certain provisions (the "SIFT Measures") which levy tax on certain trusts and partnerships that are specified investment flow-through entities ("SIFTs") in defined circumstances. Certain distributions attributable to a SIFT's "non-portfolio earnings" will not be deductible in computing a SIFT's income and the SIFT will be subject to Canadian income tax on such distributions at regular Canadian corporate rates. Management believes that the REIT LP is not a SIFT and therefore not subject to the SIFT Measures. Management further believes that the REIT LP would not have any non-portfolio earnings for the reporting period. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate the REIT LP in such a manner so as it remains exempt from the SIFT Measures on a continuous basis in the future. However, the REIT LP's continued exemption will depend upon meeting, through actual operating results, various conditions imposed by the SIFT Measures. If the REIT LP becomes a SIFT it will be subject to federal and provincial income taxes at regular Canadian corporate rates on its non-portfolio earnings, if any, distributed to unitholders.

The REIT LP intends to make an election to be treated as a partnership for U.S. federal income tax purposes. As such, it is generally not subject to U.S. federal income tax under the U.S. Internal Revenue Code (the "Code"). Furthermore, the US REIT intends to timely make and maintain an election as a real estate investment trust ("REIT") under the Code in the 2012 fiscal year and future fiscal years. In order for the US REIT to qualify, it must meet a number of organizational and operational requirements, including a requirement to make annual distributions to its unitholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The US REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to unitholders annually. Management intends to timely make REIT elections for the US REIT in the 2012 fiscal year and believes the US REIT's organization, ownership, method of operations, future assets and future income will enable the US REIT to qualify as a REIT under the Code. For the three month periods ended June 30, 2012, September 30, 2012, December 31, 2012 and March 31, 2013, and the twelve month period ended March 31, 2013, the US REIT does not have current US income tax liability, and accordingly no provision for US federal and state income taxes has been made.

Management intends to operate the US REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual operating results, the various conditions imposed by the Code. If the US REIT fails to qualify as a REIT in any taxable year, it will be subject to US federal and state income taxes at regular US corporate rates, including any applicable alternative minimum tax. In addition, the US REIT may not be able to requalify as a REIT for the four subsequent taxable years. Even if the US REIT qualifies for taxation as a

REIT, the US REIT may be subject to certain US state and local taxes on its income and property, and to US federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

#### 4. SIGNIFICANT ASSUMPTIONS

##### (a) *Initial transaction*

The financial forecast assumes that on closing (the “Closing”), the REIT LP will raise gross proceeds of \$21,000,000 (excluding any over-allotment option) pursuant to an initial public offering (the “Offering”) through the issuance of ♦ Class A Units at \$♦ per Unit and the issuance of 200,000 Class B Units at \$5.00 per Unit prior to the Closing of the Offering. Costs relating to the Offering, including agents’ fees, are forecasted to be \$1,800,000 and are charged directly to partners’ capital. For purposes of the financial forecast, it is assumed that the Closing of the transaction contemplated by the prospectus occurred on or about April 1, 2012.

On closing, it is assumed that subsidiaries of the REIT LP will indirectly acquire three properties (Stoneleigh at Valley Ranch, Windscape Apartment Homes and Oakchase Apartments) from certain third party vendors, (“Initial Portfolio”).

The investment properties will be acquired for a purchase price of approximately \$44,458,000. Costs relating to the Offering are estimated to be \$1,800,000.

The REIT LP will not assume any mortgages on the properties.

##### (i) *Acquisitions*

Upon completion of the Offering, the REIT LP will use the proceeds to acquire the Initial Portfolio. Net assets acquired based on preliminary allocation are as follows:

Investment properties, inclusive of acquisition costs of \$20,000	\$ 44,478,918
Mortgage reserve funds	600,000
Utility deposits	48,623
Rental deposit liabilities assumed	(51,682)
	\$ 45,075,859
Financing:	
Mortgages, net of deferred financing costs of \$338,250	\$ 27,371,675
Cash consideration	17,704,184
	\$ 45,075,859

## PURE MULTI-FAMILY REIT LP

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### 4. SIGNIFICANT ASSUMPTIONS (continued)

#### (a) Initial transaction (continued)

##### (ii) Debt

On Closing, the REIT LP is expected to obtain mortgages on the Initial Portfolio of \$27,710,000 and at a weighted average interest rate on such debt of 3.59%. The terms of the mortgages are as follows:

##### *Stoneleigh at Valley Ranch*

Mortgage principal in the amount of \$13,680,000 and over a term of seven years. This is an interest only mortgage with an interest rate of 3.63%.

##### *Windscape Apartment Homes*

Mortgage principal in the amount of \$5,090,000 and over a term of seven years. This is an interest only mortgage with an interest rate of 3.68%.

##### *Oakchase Apartments*

Mortgage principal in the amount of \$8,940,000 and over a term of five years. This is a first year interest only mortgage with a thirty year amortization period thereafter and with an interest rate of 3.48%.

##### (iii) Sources and uses of cash

The REIT LP's sources and uses of cash after the completion of the transactions contemplated in the Offering are as follows:

Proceeds from Offering and issuance of Class B Units	\$ 21,000,000
Cost of issue	(1,800,000)
Net proceeds	19,200,000
Cash cost of Initial Portfolio (note 4(a)(i))	(17,704,184)
Retained for working capital, acquisition adjustments and future acquisitions	\$ 1,495,816



## **PURE MULTI-FAMILY REIT LP**

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### **4. SIGNIFICANT ASSUMPTIONS (continued)**

#### ***(b) Rental revenue***

Forecast revenue from investment properties is based on rents from existing leases as well as expected income from the lease up of units that are vacant or due to become vacant due to lease expiries.

Existing tenants are assumed to fulfill their current contractual lease obligations and remain in occupancy and pay rent for the term of their leases. Upon expiry of their leases, approximately 50% of existing tenants are assumed to be retained based on a historical retention factor.

Rents for retained tenants are calculated by increasing in-place rents at market rates. Retained tenants are assumed to remain in place on a month-to-month basis. The weighted average occupancy rate during the forecast period is assumed to be 96.7% which is a nominal decrease over the average occupancy rate of 97.3% from January 1, 2011 to December 31, 2011.

#### ***(c) Rental expenses***

Rental expenses have been forecasted with reference to the operating plans and budgets for the Initial Portfolio. The financial forecast reflects historical data adjusted for revised fixed rate utility contracts and service contracts, anticipated changes in property tax rates, management's estimates, and other market trends. The major components of rental expenses consist of property taxes, insurance, management fees and property operating expenses.

Repairs and maintenance as well as costs relating to suite turns are forecasted to be approximately \$150,000, which is included on the consolidated statements of forecasted net income and comprehensive income within property operating expenses. These costs are to be paid by the REIT LP and will be financed through cash generated from operations, working capital and /or new mortgage financing.

#### ***(d) Management fees***

Management fees are to be paid monthly at a rate of 3% of total rental revenues. Management fees are based on a management agreement between Pure US Apartments REIT Inc. (the "US REIT") and Sunstone Multi-Family Management Inc. (the "Property Manager"). The REIT LP and US REIT are related to the Property Manager by virtue of having officers and directors in common.

## **PURE MULTI-FAMILY REIT LP**

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### **4. SIGNIFICANT ASSUMPTIONS (continued)**

#### *(e) Finance costs*

Finance costs comprise distributions to Class B unitholders, mortgage interest and costs incurred to enter into the mortgage agreements.

Class B Unit distributions have been estimated to reflect 5/95ths of the total distributions made to Class A unitholders. The distributions on Class B Units of \$75,000 assume distributions will be paid in an amount that will yield 7.5% on the Offering price. However, no assurance can be given that actual distributions will be at this level. As the Class B Units are classified as a financial liability, these distributions are recorded as a finance cost on the consolidated statements of forecasted net income and comprehensive income.

Mortgage interest consists of interest on the mortgages arranged by the REIT LP. On Closing, the REIT LP is expected to obtain mortgages on the Initial Portfolio of \$27,710,000 and at a weighted average interest rate on such debt of 3.59%. As part of obtaining the mortgages, the REIT LP is expected to incur costs of \$338,250.

#### *(f) General and administrative expenses*

General and administrative expenses are forecasted based on management's best estimates. The expenses will include general and administrative costs including legal and audit fees, directors' fees, Directors' and Officers' insurance, reporting costs and other REIT LP expenses.

#### *(g) Changes in value of investment properties*

Management has performed due diligence over the physical condition of the property and only expects to perform routine maintenance which has been included in the estimated repairs and maintenance expense. Management does not expect any capital investments to be incurred on any of the investment properties during the forecasted periods. Further, as the investment properties will be accounted for at fair value, there will be no provision for depreciation or amortization.

Management has obtained independent appraisals which support the purchase price of the respective properties. In arriving at their estimates of market values, management and the independent appraisers have used their market knowledge and professional judgment and did not rely solely on historical transactional comparisons.

The appraisals were performed by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management reviews each appraisal and ensures that the assumptions used below are reasonable and the final fair value amount reflects those assumptions used in the determination of the fair market values of the properties.

The estimations used by the appraiser in determining the appraised values are consistent with the income forecast by management for the twelve months ended March 31, 2013. Accordingly, management has assumed that the fair value of the investment properties will remain consistent with the original acquisition costs throughout the forecast period.

The estimation of the fair value of the properties at the time of acquisition has been based expected net operating income of the properties discounted using a weighted average capitalization rate of 6.9%. An aggregate increase or decrease in the net operating income of 10% or \$308,239 will result in a corresponding change in the estimated fair value of the property portfolio of \$4,854,159. A decrease in the weighted average capitalization rate by 50 basis points would result in an increase in the estimated fair value of the property portfolio of \$3,683,441. An increase in the weighted average capitalization rate by 50 basis points would result in a decrease in the estimated fair value of the property portfolio of \$2,284,986.

## **PURE MULTI-FAMILY REIT LP**

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### **4. SIGNIFICANT ASSUMPTIONS (continued)**

#### ***(h) Acquisitions and dispositions of investment properties***

This financial forecast does not reflect any potential sales of the Initial Portfolio or acquisitions of additional investment properties other than the acquisitions discussed in note 4(a) above. However, it is possible that the REIT LP will make purchases and sales of investment properties during the forecast period which will only be undertaken on a basis considered by management to be advantageous to the REIT LP and as approved by the Directors of the General Partner Pure Multi-Family REIT (GP) Inc.

#### ***(i) Income taxes***

The REIT LP assumes that on Closing and throughout its 2012 and 2013 taxation periods it will meet the conditions as described in note 3(c). Accordingly, no provision for current or future income taxes has been recorded in the financial forecast.

#### ***(j) Basic and diluted net income per unit***

Net income per unit information is calculated based on the weighted average number of units assumed to be outstanding for each of the periods included in this financial forecast. The weighted average number of units assumed to be outstanding for basic and diluted net income per unit is ♦.

#### ***(k) Other matters***

No significant changes in economic conditions and government legislation with respect to taxes, including realty taxes, other than announced changes, are anticipated during the forecast period.

#### ***(l) Restricted unit plan***

The Managing GP expects that the directors of Pure Multi-Family REIT (GP) Inc. (the “Governing GP”) will adopt a restricted unit plan (the “Restricted Unit Plan”) prior to the Closing. The Restricted Unit Plan will be used as an incentive plan to align the interests of directors, key employees, key management and consultants of the Governing GP and Managing GP and other eligible participants with the success of the REIT LP. Each restricted unit and distribution restricted unit will give the participant the right to receive the fair market value of such vested restricted unit on the redemption date. The REIT LP will reserve an aggregate of 10% of the outstanding number of Units from time to time for issuance under the Restricted Unit Plan.

Management of the REIT LP does not expect or anticipate issuing any units from the Restricted Unit Plan during the reporting period of this forecast.

## **PURE MULTI-FAMILY REIT LP**

Consolidated Statements of Forecasted Net Income and Comprehensive Income  
(Expressed in United States dollars)

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### **4. SIGNIFICANT ASSUMPTIONS (continued)**

#### *(m) Equity option plan*

The REIT LP expects that the directors of the Governing GP will adopt an equity incentive unit option plan (the “Equity Option Plan”) prior to the Closing. The purpose of the Equity Option Plan will be to provide directors, key employees, key management and consultants of the Governing GP and Managing GP and other eligible participants with compensation opportunities that will encourage ownership of Units, enhance the REIT LP’s ability to attract, retain and motivate key personnel, and reward directors, officers, employees and service providers for significant performance and growth in the REIT LP’s cash flow.

The maximum number of Units to be reserved for issuance and which may in the aggregate be issuable pursuant to options granted pursuant to the Equity Option Plan will not exceed 10% of the issued and outstanding Units on a rolling basis or such additional amount as may be approved from time to time by the Unitholders of the REIT LP.

Upon the expiration, termination or surrender of an option which has not been exercised in full, the number of Units reserved for issuance under that option which have not been issued will become available for issue for the purpose of additional options which may be granted under the Equity Option Plan. In addition, the number of Units reserved for issuance to any one person shall not, in the aggregate, exceed 5% of the total number of outstanding Units, on a fully-diluted basis. The number of Units covered by each outstanding option shall be proportionally adjusted for any increase or decrease in the number of issued Units resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of Fund Units or any other increase or decrease in the number of issued Units.

The directors of the Governing GP will administer the Equity Option Plan and will make decisions relating to the Equity Option Plan based on recommendations of the Compensation and Nominating and Governance. Subject to the terms of the Equity Option Plan, the directors of the Governing GP may grant to any eligible person one or more options as they deem appropriate. The directors of the Governing GP may also impose such limitations or conditions on the exercise or vesting of any option as they deem appropriate.

Management of the REIT LP does not expect or anticipate issuing any units from the Equity Option Plan during the reporting period of this forecast.

### **5. COMMITMENT AND CONTINGENCIES**

Under the terms of certain mortgage agreements the REIT LP is obligated to complete certain mandatory repairs before the lender releases the full amount of the advances. The advances are for \$◆. These repairs are required to be completed by ◆ and ◆, before funds are released by the lender.

## FORECAST NON-IFRS RECONCILIATION

The following table reconciles forecast net income to FFO and AFFO. See “Non-IFRS Measures” and “Financial Forecast”.

<b>(in \$ thousands)</b>	<b>Three month periods ending (Forecast)</b>				<b>Twelve month period ending March 31, 2013 (Forecast)</b>
	<b>June 30, 2012</b>	<b>September 30, 2012</b>	<b>December 31, 2012</b>	<b>March 31, 2013</b>	
<b>Revenues</b>					
Rental	\$ 1,519.8	\$ 1,551.7	\$ 1,581.1	\$ 1,618.8	\$ 6,271.5
<b>Rental expenses</b>					
Insurance	34.1	34.1	34.1	34.1	136.5
Management fees	45.6	46.6	47.4	48.6	188.1
Property taxes	170.3	170.3	238.9	238.9	818.5
Property operating expenses	498.9	524.1	498.9	524.1	2,046.0
	749.0	775.1	819.4	845.7	3,189.1
<b>Operating income</b>	770.9	776.6	761.8	773.1	3,082.4
<b>Net finance costs</b>					
Class B Unit distributions	(18.8)	(18.8)	(18.8)	(18.8)	(75.0)
Mortgage interest	(260.9)	(261.0)	(261.2)	(261.3)	(1,044.4)
	(279.7)	(279.8)	(279.9)	(280.0)	(1,119.4)
<b>Net other expenses</b>					
General and administration	(31.3)	(31.3)	(31.3)	(31.3)	(125.0)
<b>Net income and comprehensive income</b>	<b>459.9</b>	<b>465.6</b>	<b>450.6</b>	<b>461.9</b>	<b>1,838.0</b>
Add:					
Class B Unit distributions	18.8	18.8	18.8	18.8	75.0
Replacement reserves	37.5	37.5	37.5	37.5	150.0
Amortization of mortgage transaction costs	12.2	12.3	12.4	12.5	49.4
<b>FFO<sup>(1)</sup></b>	<b>528.4</b>	<b>534.1</b>	<b>519.3</b>	<b>530.6</b>	<b>2,112.4</b>
Deduct:					
Replacement reserves	(37.5)	(37.5)	(37.5)	(37.5)	(150.0)
<b>AFFO<sup>(1)</sup></b>	<b>490.9</b>	<b>496.6</b>	<b>481.8</b>	<b>493.1</b>	<b>1,962.4</b>
<b>Portfolio occupancy</b>	<b>96.7%</b>	<b>96.7%</b>	<b>96.7%</b>	<b>96.7%</b>	<b>96.7%</b>
<b>NOI<sup>(1)</sup> Calculation</b>					
Rental income on investment properties	1,519.8	1,551.7	1,581.1	1,618.8	6,271.5
Deduct:					
Rental expenses	749.0	775.1	819.4	845.7	3,189.1
<b>Forecast NOI<sup>(1)</sup></b>	<b>770.9</b>	<b>776.6</b>	<b>761.8</b>	<b>773.1</b>	<b>3,082.4</b>

- (1) FFO, AFFO and NOI are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO, AFFO and NOI as computed by the REIT LP may differ from similar computations as reported by other real estate investment companies and, accordingly, may not be comparable to FFO, AFFO and NOI as reported by such issuers. See “Non-IFRS Measures”.

## RECONCILIATION OF NET INCOME TO FORECASTED NET INCOME

Below is a reconciliation of NOI for the twelve months ended December 31, 2011 to the NOI for the forecast twelve months ended March 31, 2013. This reconciliation is illustrative in nature and has been prepared by management as a supplement for the reader to the financial forecast. The assumptions used in respect of rental rates, realty taxes, utility expenses, payroll expenses, repairs, maintenance and turnover expenses, and general and administrative expenses in order to arrive at the figures below constitute forward-looking information. While these assumptions are considered reasonable by the management of the REIT LP as of the date of this prospectus, they are inherently subject to significant uncertainties and contingencies that may affect the outcome of the forward-looking information. Investors should use caution when considering such forward-looking information, and the REIT LP cautions readers not to place undue reliance on these statements. See “Forward-Looking Information”.

	(in \$000s)
Add (Deduct):	
2011 actual revenue	5,813.9
2011 actual rental expenses <sup>(1)</sup>	(3,411.1)
<b><i>Actual NOI from properties for the 12 months ended December 31, 2011</i></b>	<b>\$ 2,402.8</b>
Rental rate increases to market rates	457.6
Revised payroll at properties through new property management company	131.5
Removal of one time upgrades expensed at properties during 2011 (non-recurring)	93.8
Elimination of previous consulting fee expense	65.7
Other general and administrative efficiencies at the properties	47.7
Revised repairs, maintenance and turnover expenses	34.4
Utility savings from fixed contracts and lower rates	13.4
Revised management fees with new property management company	4.9
Increase in realty tax expense to reflect expected rates	(135.1)
Increase in insurance expenses, from required policies	(34.3)
<b><i>Forecast NOI for the 12 months ended March 31, 2013</i></b>	<b>\$ 3,082.4</b>

- <sup>(1)</sup> Consists of insurance expense, management fees, property taxes and property operating expenses.

## THE SECURITIES OFFERED

### The REIT LP

The rights and obligations of the Unitholders are governed by the Limited Partnership Agreement dated as of May 4, 2012 among the Governing GP, the Managing GP and all persons who become holders of Units as provided therein (the “REIT LP Agreement”). The following is a summary of certain material provisions of the REIT LP Agreement. **This summary does not purport to be complete and reference should be to the REIT LP Agreement itself, a copy of which is available from the Governing GP and will be filed on SEDAR.**

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

### *Units*

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

Each Unit is transferable and, so long as there are any Class B Units issued and outstanding, each Unit represents an equal undivided beneficial interest in and to the Unit Percentage Interest of any distributions from the REIT LP, whether of Distributable Cash, Net Income, Net Loss, capital gains or other amounts, and in the Unit Percentage Interest of any net assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

Where there are no Class B Units issued and outstanding, each Unit represents an equal undivided beneficial interest in and to all distributions from the REIT LP, whether of Distributable Cash, Net Income, Net Loss, capital gains or other amounts, and in all assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

### *Class B Units*

The REIT LP is authorized to issue an unlimited number of Class B Units. Prior to the Closing of this Offering, the Managing GP will acquire 200,000 Class B Units in consideration of a cash payment of \$5.00 per Class B Unit for aggregate proceeds to the REIT LP of \$1,000,000 and as the Class B Unitholder will, upon the closing of the Offering, own a 5% interest in the REIT LP. Each Class B Unit entitles the Unitholder to the same rights and obligations as any other Class B Unitholder and no Class B Unitholder is entitled to any privilege, priority or preference in relation to any other Class B Unitholders.

During the Initial Period, being that period which ends on the earlier of the third anniversary of this Offering or a Determination Event, holders of the Class B Units are not entitled to receive a monthly cash distribution in a particular month unless the Unitholders have received payment of the Target Distribution. Once the Target Distribution has been paid to Unitholders, an amount equal to 5/95ths of the Target Distribution will be distributed to the Class B Unitholders and thereafter any additional distributions to be made in the month will be paid 95% to the Unitholders and 5% to the Class B Unitholders. Unpaid portions of the Target Distribution will accumulate and will be payable to the Unitholders in priority to distributions to the Class B Unitholder.

So long as there are any issued and outstanding Units, each Class B Unit represents an equal undivided beneficial interest in and to the Class B Unit Percentage Interest of any distributions from the REIT LP, whether of Distributable Cash, Net Income, Net Loss, capital gains or other amounts, and in the Class B Unit Percentage Interest of any net assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

Where there are no Units issued and outstanding, each Class B Unit is entitled to an equal undivided beneficial interest in and to all distributions from the REIT LP, whether of Distributable Cash, Net Income, Net Loss, capital gains or other amounts, and in all assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

Under the terms of the REIT LP Agreement, the Class B Unitholders as a class are entitled to convert some or all of their Class B Units into Units, by exercising Conversion Rights which upon exercise entitle the Class B Unitholders to require the REIT LP to redesignate all their Class B Units into Units at the Specified Ratio. See "Conversion Rights of Class B Units".

### *Interests of Unitholders*

Each Unit or Class B Unit when issued shall vest indefeasibly in the holder thereof. The interest of each Unitholder shall be determined by the number of Units or Class B Units, respectively, registered in the name of the Unitholder and the Managing GP. The issued and outstanding Units and Class B Units may be subdivided or consolidated from

time to time without the approval of Unitholders or the Managing GP, provided that a subdivision or consolidation of Units or of Class B Units will not affect the Unit Percentage Interest or Class B Unit Percentage Interest.

#### *Consideration for Units*

No Units shall be issued other than as fully paid and non-assessable. A Unit shall not be fully paid until the consideration therefore has been received in full by or on behalf of the REIT LP. The consideration for any Unit shall be paid in money or in property or in past services that are not less in value than the fair equivalent of the money that the REIT LP would have received if the Unit had been issued for money. In determining whether property or past services are the fair equivalent of consideration paid in money, the Managing GP may take into account reasonable charges and expenses of organization and reorganization and payments for property and past services reasonably expected to benefit the REIT LP.

#### *No Pre-Emptive Rights*

There are no pre-emptive rights attaching to the Units.

#### *Fractional Units*

If any person becomes entitled to a fraction of a Unit, such person shall not be entitled to receive a certificate therefore. Fractional Units shall not, except to the extent that they may represent in the aggregate one or more whole Units, entitle the holders thereof to notice of or to attend or to vote at, meetings of Unitholders. Subject to the foregoing, such fractional Units shall have attached thereto the rights, restrictions, conditions and limitations attaching to whole Units in the proportion that they bear to a whole Unit.

#### *Allotment and Issue*

The Governing GP may allot and issue Units at such time or times and in such manner (including, without limitation, pursuant to any plan from time to time in effect relating to reinvestment by Unitholders of distributions of the REIT LP in Units) and for such consideration and to such person or class of persons as the Governing GP in its sole discretion shall determine. In the event that Units are issued in whole or in part for a consideration other than money, the resolution of the Governing GP allotting and issuing such Units shall express the fair equivalent in money of the other consideration received. The price or value of the consideration for which Units may be issued will be determined by the Governing GP in its sole discretion, generally in consultation with investment dealers or brokers who may act as agents or underwriters in connection with offerings of Units.

#### *Rights, Warrants and Options*

The REIT LP may create and issue rights, warrants or options or other instruments or securities to subscribe for fully paid Units which rights, warrants, options, instruments or securities may be exercisable at such subscription price or prices and at such time or times as the Governing GP may determine. The rights, warrants, options, instruments or securities so created may be issued for such consideration or for no consideration, all as the Governing GP may determine. A right, warrant, option, instrument or security shall not be a Unit and a holder thereof shall not be a Unitholder.

Upon the approval by the Independent Directors of any unit option plan for the Governing GP, officers and/or employees of the REIT LP or any Subsidiary of the REIT LP and/or their personal holding companies or family trusts and/or persons who provide services to the REIT LP, the Nomination and Governance Committee may, upon receiving authority from the Governing GP, recommend to the Governing GP the granting of options upon the terms and subject to the conditions set forth in such plan.

Subject to the terms of the REIT LP Agreement, the Governing GP may create and issue indebtedness of the REIT LP in respect of which interest, premium or principal payable thereon may be paid, at the option of the REIT LP or the holder, in fully paid Units, or which indebtedness, by its terms, may be convertible into Units at such time and for such prices as the Governing GP may determine. Any indebtedness so created shall not be a Unit and a holder



thereof shall not be a Unitholder unless and until fully paid Units are issued in accordance with the terms of such indebtedness.

#### *Transferability*

The Units are freely transferable and, except in limited circumstances set forth in the REIT LP Agreement, the Governing GP shall not impose any restriction on the transfer of Units by any Unitholder except with the consent of such Unitholder. The Governing GP shall use all reasonable efforts to obtain and maintain a listing for the Units on one or more stock exchanges in Canada.

The Managing GP has agreed to not assign the Class B Units held by it other than to its Affiliates and Associates and has agreed that it will not dispose of more than one-third of the Units received by it upon the conversion of the Class B Units in each consecutive twelve month period ending after the first anniversary of the earlier of: (i) the date a Determination Event occurs; and (ii) the date upon which the conversion is completed. This limitation will not apply where the Conversion Rights have been exercised in connection with a takeover bid or a sale of substantially all of the REIT LP's assets.

In addition, pursuant to the Voting Agreement Darren Investments Inc. and Triple E Investments Inc., the holdings companies of Messrs Latoski and Evans, respectively, and the limited partners of the Managing GP, have agreed to not assign their limited partnership interests in the Managing GP other than to their respective Affiliates and Associates until the expiration of the period during which the Managing GP has agreed to hold the Class B Units held by it.

#### *Transfer of Units*

Subject to the provisions of the REIT LP Agreement, the Units shall be, for all purposes of the REIT LP and the REIT LP Agreement, personal and moveable property, and the Units shall be fully transferable without charge as between persons, but no transfer of Units shall be effective as against the Governing GP or shall be in any way binding upon the Governing GP until the transfer has been recorded on the register or one of the branch transfer registers maintained by the Governing GP, the REIT LP or the Transfer Agent of the REIT LP. No transfer of a Unit shall be recognized unless such transfer is of a whole Unit.

#### *Distributions of Distributable Cash*

To the extent cash flow permits, the REIT LP will pay and distribute all Distributable Cash. During the Initial Period, Distributable Cash will be distributed as follows:

- (a) first, to the Governing GP 0.01% of the Distributable Cash to a maximum of \$100 per annum;
- (b) second, to the Unitholders as a group until they have received an amount which, when aggregated with all previous distributions made pursuant to subsection 13.9(a)(ii) of the REIT LP Agreement is equal to (but not in excess of) the aggregate Target Distribution in respect of all Units for the period from the date of their issuance to the distribution date, and the amount so determined shall be allocated among the Unitholders in accordance with their respective Proportionate Shares;
- (c) third, to the Class B Unitholders as a group until they have received an amount which, when aggregated with all previous distributions made pursuant to subsection 13.9(a)(iii) of the REIT LP Agreement is equal to (but not in excess of) an amount which is 5/95ths of the aggregate distributions made to the Unitholders pursuant to subsection 13.9(a)(ii) of the REIT LP Agreement up to the distribution date, and the amount so determined shall be allocated among the Class B Unitholders in accordance with their respective Proportionate Shares; and
- (d) as to the balance:

- (1) the Unit Percentage of the balance shall be distributed to the Unitholders, *pro rata* in accordance with their respective Proportionate Shares; and
- (2) the Class B Unit Percentage of the balance shall be distributed to the Class B Unitholders, *pro rata* in accordance with their respective Proportionate Shares.

After the Initial Period, Distributable Cash will be distributed as follows:

- (a) first, to the Governing GP 0.01% of the Distributable Cash to a maximum of \$100 per annum;
- (b) as to the balance:
  - (1) the Unit Percentage of the balance shall be distributed to the Unitholders, *pro rata* in accordance with their respective Proportionate Shares; and
  - (2) the Class B Unit Percentage of the balance shall be distributed to the Class B Unitholders, *pro rata* in accordance with their respective Proportionate Shares.

All distributions shall be paid by the REIT LP only to Unitholders and Class B Unitholders as of the particular Record Date set for such distribution.

#### *Payment of Distributions*

Any distribution shall be made directly by the REIT LP or through the Transfer Agent or through any other person or agent, as approved by the Governing GP, to the Unitholders and Class B Unitholders as of the particular Record Date set for such distribution. Any taxes withheld or paid by the REIT LP or a subsidiary in respect of a Unitholder or Class B Unitholder shall be treated either as a distribution to such Unitholder or Class B Unitholder or as a general expenses of the REIT LP, as determined by the Managing GP in its sole discretion, and the Managing GP shall report to the Unitholders and Class B Unitholders on an annual basis the amount of such taxes withheld or paid. For greater certainty, distributions made shall constitute full payment and satisfaction of the REIT LP's liability in respect of such distribution, regardless of any claim of any Person who may have an interest in such distribution by reason of an assignment or otherwise. In the event of any overpayment to a Unitholder or Class B Unitholder, such overpayment will be refunded by such Unitholder or Class B Unitholder, as the case may be, to the REIT LP, and any underpayment will be paid by the REIT LP to the Unitholders or Class B Unitholders, as the case may be, within 30 days of the final determination of such underpayment or overpayment. Notwithstanding the foregoing, the Governing GP may in its sole and unfettered discretion elect to not distribute Distributable Cash in any period or to reduce the amount of any distribution of Distributable Cash in whole or in part.

#### *Distributions upon Dissolution*

Upon the dissolution of the REIT LP, the assets of the REIT LP will be liquidated and the proceeds thereof will be distributed as follows:

- (a) to pay any costs involved in the sale of the assets of the REIT LP 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 REIT LP;
- (c) to pay all of the liabilities of the REIT LP;
- (d) to establish such reserves as the Governing GP considers necessary;
- (e) to return to each Unitholder and Class B Unitholder the amount in their respective capital accounts;

- (f) to return to the Governing GP and the Managing GP the balance in their respective capital accounts;
- (g) if such dissolution occurs during the Initial Period:
  - (1) to pay to the Unitholders as a group to the Unitholders as a group, an amount equal to the Target Distribution until it has received an amount which, when aggregated with all previous distributions made pursuant to Subsection 13.9(a)(ii) of the REIT LP Agreement is equal to (but not in excess of) the aggregate Target Distribution in respect of all Units for the period from the date of their issuance to the date of dissolution, and the amount so determined shall be allocated among the Unitholders in accordance with their respective Proportionate Shares;
  - (2) to pay to the Class B Unitholders, as a group, until it has received an amount which, when aggregated with all previous distributions made pursuant to Subsection 13.9(a)(iii) of the REIT LP Agreement is equal to (but not in excess of) an amount which is 5/95ths of the aggregate distributions made to Unitholders pursuant to Subsection 13.9(a)(ii) of the REIT LP Agreement and the amount so determined shall be allocated among the Class B Unitholders in accordance with their respective Proportionate Shares; and
  - (3) to pay the balance as follows:
    - A. the Unit Percentage of the balance shall be distributed to the Unitholders, *pro rata* in accordance with their respective Proportionate Shares; and
    - B. the Class B Unit Percentage of the balance shall be distributed to the Class B Unitholders, *pro rata* in accordance with their respective Proportionate Shares.
- (h) if such dissolution occurs after the Initial Period:
  - (1) to pay to the Class B Unitholders, as a group, until it has received an amount which, when aggregated with all previous distributions made pursuant to Subsection 13.9(a)(iii) of the REIT LP Agreement is equal to (but not in excess of) an amount which is 5/95ths of the aggregate distributions made to Unitholders pursuant to Subsection 13.9(a)(ii) of the REIT LP Agreement and the amount so determined shall be allocated among the Class B Unitholders in accordance with their respective Proportionate Shares; and
  - (2) to pay the balance as follows:
    - A. the Unit Percentage of the balance shall be distributed to the Unitholders, *pro rata* in accordance with their respective Proportionate Shares; and
    - B. the Class B Unit Percentage of the balance shall be distributed to the Class B Unitholders, *pro rata* in accordance with their respective Proportionate Shares.

Such distribution may be made in cash or in kind or partly in each, all as the Governing GP in its sole discretion may determine.

#### *Allocation of Income and Losses*

Where Distributable Cash was paid in respect of a Fiscal Year, the Net Income and Taxable Income of the REIT LP in respect of that Fiscal Year shall be allocated among all Unitholders and Class B Unitholders that were Unitholders and Class B Unitholders, respectively, at any time in the Fiscal Year on the following basis:

- (a) first, to the Governing GP 0.01% of the Net Income and Taxable Income of the REIT LP to a maximum of \$100 per annum;
- (b) as to the balance:
  - (1) to the Unitholders, as a class, an amount equal to the balance multiplied by a fraction, the numerator of which is the sum of the distributions received by the Unitholders in respect of the Fiscal Year and the denominator of which is the total distributions made by the REIT LP in respect of the Fiscal Year and the amount so determined shall be allocated among the Unitholders *pro rata* based on the sum of distributions received by such Unitholder with respect to such Fiscal Year relative to the aggregate amount of distributions made by the REIT LP to the Unitholders, as a group with respect to such Fiscal Year; and
  - (2) to the Class B Unitholders, *pro rata*, an amount equal to the balance multiplied by a fraction, the numerator of which is the sum of the distributions received by the Class B Unitholders in respect of the Fiscal Year and the denominator of which is the total distributions made by the REIT LP in respect of the Fiscal Year.

Where no Distributable Cash was paid in respect of a Fiscal Year, Net Income and Taxable Income of the REIT LP in respect of that Fiscal Year shall be allocated among the Unitholders and Class B Unitholders on the following basis:

- (a) first, to the Governing GP 0.01% of the Net Income and Taxable Income of the REIT LP to a maximum of \$100 per annum;
- (b) as to the balance:
  - (1) to the Unitholders who were holders of Units at the end of each month ending in such Fiscal Year, *pro rata* in accordance with their respective Proportionate Shares, the Unit Percentage of the balance divided by 12; and
  - (2) to the Class B Unitholders who were holders of Class B Units at the end of each month ending in such Fiscal Year, *pro rata* in accordance with their respective Proportionate Shares, the Class B Unit Percentage of the balance divided by 12.

Net Loss and Taxable Loss of the REIT LP in respect of that Fiscal Year shall be allocated among Unitholders and Class B Unitholders that were Unitholders and Class B Unitholders, respectively, at any time in the Fiscal Year on the following basis:

- (a) to the Unitholders who were holders of Units at the end of each month ending in such Fiscal Year, *pro rata* in accordance with their respective Proportionate Shares and to the extent of their capital accounts, the Unit Percentage of the Net Loss or Taxable Loss divided by 12;
- (b) to the Class B Unitholders who were holders of Class B Units at the end of each month ending in such Fiscal Year, *pro rata* in accordance with their respective Proportionate Shares and to the extent of their capital accounts, the Class B Unit Percentage of the Net Loss or Taxable Loss divided by 12; and.
- (c) as to the balance, to the Governing GP.

The Governing GP shall have the discretion, but not the obligation, acting in good faith, to allocate revenue and expenses on a basis which ensures a fair distribution among Unitholders and Class B Unitholders after taking into consideration any matters that may be relevant. Adjustments may be made in respect of revenue earned or expenses incurred prior to the time each Unitholder and Class B Unitholder became a unitholder of the REIT LP and

adjustments may be made in respect of fees paid in years prior to the year in which the Partner became a Partner. The Governing GP shall also have the right, but not the obligation, to allocate revenues and expenses among Unitholders and Class B Unitholders to ensure they are treated equitably taking into account differences that may arise as a result of the acquisition of Units or Class B Units at different times in a year or in different calendar years.

Each Unitholder and Class B Unitholder at any time in each Fiscal Year will be allocated his, her or its share of such Net Income and Net Losses for such Fiscal Year in accordance with the REIT LP Agreement. Where a Unitholder or Class B Unitholder assigns a Unit or Class B Unit prior to the end of the Fiscal Year, the portion of Net Income or Net Losses which would have been attributed to such assigning Partner shall continue to be so allocable in accordance with the REIT LP Agreement, instead of being allocated to the assignee who holds the Unit or Class B Unit at the end of the Fiscal Year. For greater certainty, any Person who was a Unitholder or Class B Unitholder at any time during a Fiscal Year but who has transferred all of such Person's Units or Class B Units, as the case may be, before the last day of that fiscal year may be deemed to be a partner of the REIT LP on the last day of such Fiscal Year for the purposes of subsection 96(1) of the Tax Act. Where a Unit or a Class B Unit was initially subscribed for after the beginning of the Fiscal Year, income and losses for the entire Fiscal Year will be allocated to the holder thereof in accordance with the mechanics of the provisions of the REIT LP Agreement on account of the portion of the Fiscal Year that the person was a Unitholder or Class B Unitholder.

If any Unitholder has a negative balance in his, her or its capital account, the Governing GP shall have the right to allocate Net Income to that Unitholder in priority to other Unitholders to the extent of the negative balance. The Governing GP shall not allocate Net Losses to a Unitholder to the extent that such allocation results in a negative balance in his, her or its capital account.

The Governing GP has been designated as the tax matters partner for all Canadian and United States federal income tax purposes, and state or provincial equivalents. The Governing GP, acting as tax matters partner, in its reasonable discretion and from time to time may modify the manner in which Net Income, Taxable Income, Net Loss and Taxable Loss are allocated to or among the Unitholders and Class B Unitholders and their capital accounts for tax purposes in order that in the reasonable judgment of the Governing GP, and in its sole discretion, such allocations will reasonably reflect the purpose of the REIT LP Agreement and the intention of the parties; provided, however, that no such modification shall materially and adversely affect the amounts distributable to any Partner.

If applicable, for United States federal income tax purposes, allocations of Net Income, Taxable Income, Net Loss and Taxable Loss for each Fiscal Year or other relevant period of the REIT LP shall be allocated among the Unitholders and Class B Unitholders as set out in the REIT LP Agreement except to the extent: (i) that any such allocations would not have substantial economic effect or are not in accordance with the interests of the Unitholders and Class B Unitholders in the REIT LP (in each case, as determined pursuant to Section 704(b) of the Internal Revenue Code) or (ii) otherwise required by applicable law or by reason of tax elections made by the Governing GP on behalf of the REIT LP, and, in the case of either clause (i) or (ii), the Governing GP shall adjust allocations as necessary so as to comply with the requirements of Sections 704(b) and 704(c) of the Internal Revenue Code and the regulations promulgated thereunder, relevant provisions of law or elections made by the Governing GP on behalf of the REIT LP (as applicable).

#### *Additional Capital Contributions*

No Unitholder or Class B Unitholder is required to make additional capital contributions to the REIT LP over and above the purchase price paid for such Units or Class B Units.

#### *Voting*

Each Unit has attached to it the right to exercise one vote at meetings of the REIT LP. The Class B Unitholders as a group shall be entitled to exercise in aggregate that number of votes which is equal to the total number of votes attached to the Units, multiplied by the Class B Unit Percentage Interest and divided by the Unit Percentage Interest. Each Class B Unit shall entitle the holder of record thereof to exercise a voting interest determined by dividing the number of votes exercisable by the Class B Unitholders as a group by the total number of issued Class B Units.

Certain powers, relating generally to the existence and fundamental powers of the REIT LP may be exercisable only by way of a Special Resolution passed by the Unitholders and Class B Unitholders.

#### *Annual Meeting*

There shall be an annual meeting of the Unitholders and Class B Unitholders at such time and place in Canada as the Governing GP shall prescribe for the purpose of electing directors of the Governing GP, receiving audited financial statements, appointing or removing the auditors of the REIT LP and transacting such other business as the Governing GP may determine or as may properly be brought before the meeting. The annual meeting shall be held after delivery to the Unitholders and Class B Unitholders of the annual report and, in any event, within 180 days after the end of each fiscal year of the REIT LP.

#### *Other Meetings*

The Governing GP shall have power at any time to call special meetings of the Unitholders at such time and place in Canada as the Governing GP may determine. Unitholders and Class B Unitholders holding in the aggregate not less than 30% of the outstanding Units of the REIT LP may requisition the Governing GP in writing to call a special meeting of the Unitholders and Class B Unitholders for the purposes stated in the requisition.

#### *Notice of Meeting*

Notice of all meetings of the Unitholders and Class B Unitholders shall be mailed or delivered by the Transfer Agent of the REIT LP to the Unitholders and Class B Unitholders, respectively, each director of the Governing GP and to the auditors of the REIT LP not less than 21 nor more than 50 days (or within such other number of days as required by law or relevant stock exchange) before the meeting. Such notice shall specify the time when, and the place where, such meeting is to be held and shall state briefly the general nature of the business to be transacted at such meeting and shall otherwise include such information as would be provided to shareholders of a corporation governed by the *Canada Business Corporations Act* in connection with a meeting of shareholders. Any adjourned meeting, other than a meeting adjourned for lack of a quorum, may be held as adjourned without further notice. Notwithstanding the foregoing, a meeting of Unitholders and Class B Unitholders may be held at any time without notice if all the Unitholders and Class B Unitholders are present or represented thereat or those not so present or represented have waived notice. Any Unitholder and Class B Unitholders (or a duly appointed proxy thereof) may waive any notice required to be given under the REIT LP Agreement, and such waiver, whether given before or after the meeting, shall cure any default in the giving of such notice. At any meeting at which a quorum is not present within 30 minutes after the time fixed for the holding of such meeting, the meeting, if convened upon the request of the Unitholders and Class B Unitholders, shall be dissolved, but in any other case, the meeting will stand adjourned to a day not less than seven days later and to a place and time as chosen by the chair of the meeting, and if at such adjourned meeting a quorum is not present, the Unitholders and Class B Unitholders present either in person or by proxy shall be deemed to constitute a quorum. Attendance at a meeting of Unitholders and Class B Unitholders shall constitute a waiver of notice unless the Unitholder and Class B Unitholder or other person attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not properly called.

#### *Chairperson*

The chairperson of any annual or special meeting shall be the Chairman of the Governing GP or any other Director of the Governing GP specified by resolutions of the Governing GP or, in the absence of any Director, any person appointed as chairperson of the meeting by the Unitholders and Class B Unitholders present.

#### *Quorum*

A quorum for any meeting of Unitholders and Class B Unitholders shall be individuals present not being less than two in number and being Unitholders and Class B Unitholders or representing by proxy Unitholders and Class B Unitholders who hold in the aggregate not less in aggregate than 5% of the total number of outstanding Units and Class B Units provided that if the REIT LP has only one Unitholder, the Unitholder present in person or by proxy

constitutes a meeting and a quorum for such meeting. If a quorum is present at the opening of a meeting, the Unitholders and Class B Unitholders may proceed with the business of the meeting, notwithstanding that a quorum is not present throughout the meeting. The Chairman of any meeting at which a quorum of Unitholders and Class B Unitholders is present may, with the consent of the majority of the Unitholders and Class B Unitholders present in person or by proxy, adjourn at such meeting and no notice of any such adjournment need be given. In the event of such quorum not being present at the appointed place on the date for which the meeting is called within 30 minutes after the time fixed for the holding of such meeting, the meeting, if called by request of Unitholders and Class B Unitholders, shall be terminated and, if otherwise called, shall stand adjourned to such day being not less than seven days later and to such place and time as may be appointed by the chairperson of the meeting. If at such adjourned meeting a quorum as above defined is not present, the Unitholders and Class B Unitholders present either personally or by proxy shall form a quorum, and any business may be brought before or dealt with at such an adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same.

*Matters on which Unitholders and Class B Unitholders Shall Vote*

None of the following shall occur unless the same has been duly approved by the Unitholders and Class B Unitholders at a meeting duly called and held:

- (a) the appointment, election or removal of a director of the Governing GP;
- (b) except as provided in the REIT LP Agreement, the appointment, election or removal of Managing GP or the Governing GP;
- (c) except as provided in the REIT LP Agreement, the appointment or removal of Auditors;
- (d) any amendment to the REIT LP Agreement (except for amendments which may be made at the discretion of the Governing GP);
- (e) the sale of or transfer of the assets of the REIT LP as an entirety or substantially as an entirety (other than as a part of an internal reorganization of the assets of the REIT LP as approved by the Governing GP);
- (f) any decision to amend the investment guidelines or operating policies of the REIT LP, or certain matters which require the approval of Unitholders and Class B Unitholders under the REIT LP Agreement; or
- (g) the termination of the REIT LP.

Nothing in the REIT LP Agreement shall prevent the Governing GP from submitting to a vote of Unitholders and Class B Unitholders any matter which it deems appropriate.

*Matters which must be approved by Special Resolution*

- (a) any amendment to the provisions of the REIT LP Agreement dealing with amendments to the REIT LP Agreement;
- (b) any exchange, reclassification or cancellation of all or part of the Units;
- (c) the addition, change or removal of the rights, privileges, restrictions or conditions attached to the Units, including:
  - (1) the removal or change of rights to distributions;

- (2) the addition or removal of or change to conversion privileges, options, voting, transfer or pre-emptive rights; or
- (3) the reduction or removal of a distribution preference or liquidation preference;
- (d) any constraint of the issue, transfer or ownership of Units or the change or removal of such constraint, except as provided herein;
- (e) any amendment to increase the maximum number of Directors (to more than 9) or to decrease the minimum number of Directors (to less than 5);
- (f) any distribution of the REIT LP's property upon its termination;
- (g) any amendment relating to the powers, duties, obligations, liabilities or indemnification of the Governing GP;
- (h) any sale or transfer of the assets of the REIT LP as an entirety or substantially as an entirety (other than as part of an internal reorganization of assets of the REIT LP as approved by the Governing GP);
- (i) the termination of the REIT LP;
- (j) any amendment to the investment guidelines or and operating policies of the REIT LP, except for any amendments aimed at ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Governing GP or over the REIT LP;
- (k) the issuance of any further Class B Units; or
- (l) any matter required to be passed by a Special Resolution under the REIT LP Agreement, as may be amended and restated from time to time.

*Limitation on Authority of Unitholders and Class B Unitholders*

A Unitholder and Class B Unitholder may from time to time inquire as to the state and progress of the business of the REIT LP and may provide comment as to its management; however, no Unitholder or Class B Unitholder shall take part in the control or management of the business of the REIT LP, execute any document which binds or purports to bind the REIT LP, the Governing GP, the Managing GP or any other Unitholder or Class B Unitholder as such or have any authority to undertake any obligation or responsibility on behalf of the REIT LP (except that the Governing GP and Managing GP may act on behalf of the REIT LP notwithstanding that they may also be a Unitholder).

*Liability of the Partners*

Each of the Governing GP and the Managing GP has unlimited liability for the debts, liabilities, losses and obligations of the REIT LP. Subject to the applicable law and any specific assumption of liability, the liability of each Unitholder for the debts, liabilities, losses and obligations of the REIT LP is limited to the amount of the capital contributed or agreed to be contributed to the REIT LP by him, her or it in respect of his, her or its Unit(s) or Class B Unit(s) plus his, her or its share of any undistributed income of the REIT LP.

*Powers of the Governing GP and the Managing GP*

The Governing GP will have the full power and authority to administer, manage, control and operate the business of the REIT LP. The Managing GP shall have the full power and authority to administer, manage and control the matters enumerated in the Asset Management Agreement until the termination thereof. Each of the Governing GP



and the Managing GP will exercise its powers and discharge its duties honestly, in good faith, and in the best interests of the Unitholders and Class B Unitholders.

## **The US REIT**

The US REIT is authorized to issue an unlimited number of Common Shares (defined below), an unlimited number of ROC Shares and an unlimited number of Class B Shares.

### **Common Shares**

The rights accorded to the holders of the Common Shares are set out in the Charter of the US REIT and include the following:

#### *Voting*

The holders of the Common Shares shall be entitled to one vote in respect of each Common Share held, at any annual or extraordinary general meeting of the shareholders of the US REIT.

#### *Dividends*

The holders of the Common Shares shall be entitled, in the absolute discretion of the directors of the US REIT, to receive dividends, as and when declared by the directors, out of assets of the US REIT properly available for the payment of dividends.

#### *Participation on Winding-Up*

After the payment of any declared but unpaid dividends on and repayment of the paid-up capital on the ROC Share, the holders of the Common Shares shall be entitled to the remaining property and assets of the US REIT upon the liquidation, dissolution or winding-up of the US REIT.

## **The ROC Share**

The US REIT intends to authorize and issue one single ROC Share to the REIT LP. The rights accorded to the holder of the ROC Share are set out in the Charter of the US REIT and include the following:

#### *Redemptions*

The ROC Share or any fraction thereof is redeemable at the option of the US REIT pursuant to the US REIT's Charter. The redemption amount of the ROC Share shall be fixed at a stated dollar value (the "ROC Share Redemption Amount"), payable in cash on the redemption date (or if earlier, the date of the US REIT's liquidation, dissolution or winding-up or the date that the ROC Share has been redeemed in full). Each redemption of any fraction of the whole of the ROC Share shall result in a pro tanto reduction in the ROC Share Redemption Amount in respect of the remaining portion of the ROC Share (such reduced redemption amount is referred to as the "Residual Redemption Amount"). The ROC Share Redemption Amount will be equal to the amount of the capital contribution by the REIT LP to acquire the ROC Share. The redemption of any fraction of the whole of the ROC Share will constitute a reduction of stated capital under Maryland law.

#### *Dividends*

The ROC Share shall be entitled to a fixed, cumulative, and compounding dividend on the ROC Share Redemption Amount or Residual Redemption Amount, as applicable, which dividend shall be based on an arm's length rate. Unpaid dividends shall accumulate and compound at such prescribed rate. Any partial redemptions of the ROC Share shall not trigger the payment of unpaid accumulated dividends. Rather, dividends shall continue to accumulate, with compounding, on the Residual Redemption Amount until the ROC Share has been redeemed in full. Accumulated dividends are payable at the discretion of the directors of the US REIT but all unpaid accumulated

dividends must be paid no later than the earlier of the redemption date or the time of full and final redemption of the ROC Share. Dividends on the Common Shares may be paid in priority to a full or partial redemption of the ROC Share or the payment of accumulated dividends on the ROC Share, provided that the directors of the US REIT have determined that the payment of such dividends on the Common Share would not impair the US REIT's ability to pay the ROC Share Redemption Amount or Residual Redemption Amount, as the case may be, plus any accumulated and unpaid dividends with respect to the ROC Share.

#### *Liquidation*

Upon the liquidation, dissolution or winding-up of the US REIT, the holder of the ROC Share shall be entitled to the sum of all accumulated and unpaid dividends and the ROC Share Redemption Amount or Residual Redemption Amount, as the case may be, in priority to any payment to the holders of the Common Shares.

#### *Voting*

The holder of the ROC Share shall be entitled to a vote at any annual or extraordinary general meeting of the shareholders of the US REIT. Such vote shall represent 10 percent of the total voting power of all classes of stock of the US REIT that are entitled to vote. Any partial redemptions of the ROC Share shall not affect the voting power of such share.

#### *Transfers*

The ROC Share may not be transferred unless such transfer is of the whole ROC Share. The transfer of a fractional share is not permitted.

#### *Convertibility*

The ROC Share may not be converted into share(s) of any other class or series of stock of the US REIT.

#### *Book-entry system*

No certificate shall be issued to the holder of the ROC Share to evidence the holder's ownership of such share. The ROC Share shall be maintained through a book-based system in which the US REIT's share register and book entries would show the number of shares outstanding (1 ROC Share), and, in respect of the share, the distributions on account of full or partial redemptions of the share, other distributions of capital, and distributions on account of cumulative dividends.

### **Class B Shares**

Pursuant to the Code, in order to qualify as a REIT, the US REIT must be beneficially owned by at least 100 persons. In order to meet this test, the US REIT, on or before January 31, 2013, will issue its Class B Shares to between 100 and 125 persons, for a subscription price of \$1,000 per Class B Share. Shareholders holding Class B Shares will contribute \$1,000 in capital per Class B Share purchased. Shareholders holding Class B Shares will earn an annual percentage return, cumulative but not compounded, calculated on their net equity in the US REIT (the "**Class B Minimum Return**"), which annual rate will be established by the US REIT upon the issuance of the Class B Shares, 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 Shares in priority to the payment of dividends on either the Common Share or the ROC Share or the redemption or retraction of either the Common Share or the ROC Share.

#### *Description of Class B Shares*

*Priority.* Each Class B Share is entitled to a liquidation preference (the "Liquidation Preference") of \$1,000 per Class B Share, subject to adjustment as described under "Liquidation" below (the "Liquidation Value"). With respect to distributions, including the distribution of the US REIT's assets upon dissolution, liquidation, or winding-up, the Class B Shares will be senior to all other classes and series of shares of the US REIT, 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 Shares. Holders of the Class B Shares will not, however, participate in any appreciation in the value of the US REIT.

*Distributions.* Distributions on each Class B Share will accrue on a daily basis at an annual rate to be determined by the US REIT, 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 US REIT 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 US REIT Shares. If at any time the US REIT pays less than the total amount of distributions then accrued with respect to the Class B Shares, such payment will be distributed ratably among the holders of the Class B Shares on the basis of the number of Class B Shares owned by each such holder. Distributions on the Class B Shares will be payable semi-annually on June 30 and December 31 of each year. The US REIT intends to issue Class B Shares in the fourth quarter of 2011. The first dividend on the Class B Shares is expected to be paid on June 30, 2013.

*Voting.* Except to the extent required by the *Maryland General Corporation Law* or other applicable law, Shareholders holding Class B Shares will not be entitled to vote at meetings of the shareholders of the US REIT.

*Redemption.* Each outstanding Class B Share is subject to redemption at any time by notice of such redemption on a date selected by the US REIT for such redemption (the "Redemption Date"). If the US REIT elects to cause the redemption of any Class B Shares, each Class B Share will be redeemed for a price, payable in cash on the Redemption Date, equal to 100% of such Class B Share'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, 2013, \$200; (2) from January 1, 2014 to December 31, 2014, \$150; (3) from January 1, 2015 to December 31, 2015, \$100; (4) from January 1, 2016 to December 31, 2016, \$50 and thereafter, no Redemption Premium. From and after the close of business on the Redemption Date, all dividends on the outstanding Class B Shares will cease to accrue, such Shares will no longer be deemed to be outstanding, and all rights of the holders of such Shares (except the right to receive the redemption price for such Shares from the US REIT) will cease.

*Liquidation.* In the event of any dissolution, liquidation, or winding-up of the US REIT (a "Liquidation Event"), Shareholders holding Class B Shares will be entitled to receive *pro rata* in cash out of the assets of the US REIT available therefor, before any distribution of the assets may be made to the holders of the Common Shares and the ROC Share, 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 Shares will have no other rights or claims to any of the remaining assets of the US REIT either upon distribution of such assets or upon dissolution, liquidation, or winding-up.

If upon any Liquidation Event the available assets of the US REIT are insufficient to pay the full amount of the Liquidation Preference on all outstanding Class B Shares, the Shareholders holding Common Shares and the ROC Share shall contribute back to the US REIT any distributions or other payments received from the US REIT in connection with a Liquidation Event to the extent necessary to enable the US REIT to pay all sums payable to the Shareholders holding Class B Shares. If, notwithstanding the funds received from the Shareholders holding US REIT Shares, the available assets of the US REIT are still insufficient to pay the full amount payable with respect to all outstanding Class B Shares, then the Shareholders holding Class B Shares shall share ratably in any distribution of assets in proportion to the full Liquidation Preference to which they would otherwise be respectively entitled.

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

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

*Conversion.* No Class B Share is convertible into shares of any other class or series.

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

## GOVERNANCE OF THE REIT LP

As required by law, the REIT LP Agreement provides for the management and control of the REIT LP by a general partner rather than a board of directors and officers. The Managing GP will provide day-to-day management of the REIT LP pursuant to the Asset Management Agreement. However, major decisions relating to the operation and business of the REIT LP will be governed exclusively by the Governing GP, which will have sole responsibility and authority for the governance of the REIT LP. The Governing GP has a board initially consisting of five directors, the majority of whom are independent.

The board of directors and management of the Governing GP consist of the following individuals:

Name and Municipality of Residence	Position with the Governing GP	Principal Occupation
DARREN T. LATOSKI <sup>(1)</sup> Vancouver, British Columbia	Director <sup>(3)</sup> and Executive Chairman	President, Sunstone Realty Advisors Inc. CEO, WesternOne Equity Income Fund Co-CEO, PIRET
STEPHEN J. EVANS North Vancouver, British Columbia	Director <sup>(3)</sup> and Chief Executive Officer	Chief Operating Officer, Sunstone Realty Advisors Inc. Co-CEO, PIRET
ROBERT W. KING <sup>(1)(2)</sup> Vancouver, British Columbia	Lead Independent Director	President, King Pacific Capital Corporation
JAMES L. REDEKOP <sup>(2)</sup> White Rock, British Columbia	Independent Director	President, Redekop Holdings Inc.
DOUGLAS R. SCOTT, C.A. <sup>(1)(2)</sup> Surrey, British Columbia	Independent Director	Corporate Director and Consultant
SCOTT SHILLINGTON Richmond, British Columbia	Chief Financial Officer	Controller of Sunstone Realty

(1) Member of Audit Committee

(2) Member of Compensation Committee and Nominating and Governance Committee

(3) Not an independent director because the individual is an executive officer of the Governing GP

On Closing, the Governing GP, through the interest of Messrs. Latoski and Evans in the Managing GP, will hold indirectly approximately 5% of the Units on a fully diluted basis, by way of the outstanding Class B Units.

### Profile of the Management of Governing GP

**Darren Latoski** – Mr. Latoski is the President of and indirectly owns 50% of the shares in Sunstone. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in U.S. multi-family real estate properties

acquired since 2008. As well, Messrs. Latoski and Evans founded PIRET in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-V) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada's best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). Mr. Latoski is also the Chief Executive Officer and a trustee of WesternOne Equity Income Fund, whose shares are listed for trading on the Toronto Stock Exchange.

**Steve Evans** – Mr. Evans is the Chief Operating Officer of and indirectly owns 50% of the shares in Sunstone. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately \$1.2 billion in income-producing real estate in Canada and the United States, including over \$200 million in U.S. multi-family real estate properties acquired since 2008. As well, Messrs. Latoski and Evans founded PIRET in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-V) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately CDN\$260 million in equity financing and acquired a portfolio of 70 industrial properties in Canada having a total value of approximately CDN \$445 million. Since its initial public offering in August, 2007, PIRET has been one of Canada's best performing real estate investment trusts, providing investors with a total return of 72.1% to May 17, 2012, as compared to a -4.0% total return by the S&P/TSX and a total return of 47.3% by the S&P/TSX REIT Index over the same period (all figures based on the reinvestment of distributions and dividends at the date of receipt). From September 15, 2008 to December 31, 2009, Mr. Evans was a Trustee of IAT Air Cargo Income Facilities Fund and Director of International Aviation Terminals Inc. Mr. Evans commenced as Trustee of Huntingdon Capital Corp. (formerly Huntingdon Real Estate Investment Trust) on January 1, 2010 and is currently a director of WesternOne Equity GP.

**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 is a trustee of PIRET, is a trustee and Chair of WesternOne Equity Income Fund, whose shares are listed for trading on the Toronto Stock Exchange, and a director of Wall Financial Corporation, a real estate investment and development company whose shares are listed for trading on the Toronto Stock Exchange. Mr. King is also a director of the general partner and/or corporate trustee of each of the limited partnerships and real estate investment trusts comprising the Sunstone Funds. From December 2002, to July 2007, Mr. King served on the Board of Directors of Prescient NeuroPharma Inc., a company whose shares are listed for trading on the TSX Venture Exchange. Mr. King earned his MBA 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 real estate development in British Columbia, primarily through special-purpose private companies held through Redekop Development Corp., Mr. Redekop's development company. His primary focus has been with residential wood-frame condominium and townhouse projects. Over the past 25 years, he has acted as general contractor or project manager on numerous multi-family developments. More recently, Mr. Redekop has become involved in commercial greenhouse vegetable production as a principal of Sunselect Produce Delta LLP and its sister company, Proselect Gas Treating Inc. Mr. Redekop is also a director of the general partner and/or corporate trustee of each of the limited partnerships and real estate investment trusts comprising the Sunstone Funds

**Douglas R. Scott** – Mr. Scott is currently a financial consultant. Previously, he was the Chief Financial Officer of First Majestic Silver Corp. and First Silver Reserve Inc. Mr. Scott has a Bachelor of Commerce Degree with Distinction from the University of Alberta and is a Chartered Accountant (Alberta) with more than 30 years of professional experience. Mr. Scott is a trustee of PIRET and a trustee of WesternOne Equity Income Fund whose shares are listed for trading on the Toronto Stock Exchange. Mr. Scott was Vice President and Chief Financial Officer of Coast Wholesale Appliances Income Fund and its predecessor from 2003 to 2005 and was instrumental in its 2005 initial public offering. In addition, Mr. Scott was a partner with FinancExec Associates, working primarily

in the roles of director and chief financial officer for a number of large to medium-sized public and private companies.

**Scott Shillington** – Mr. Shillington is a Chartered Accountant (British Columbia) and has a Bachelor of Commerce Degree from the University of British Columbia. From December 2010 to the present, Mr. Shillington has worked as one of two controllers with Sunstone. During his time with Sunstone, Mr. Shillington has gained extensive experience in the real estate industry. He has assisted with property acquisitions, the preparation of financial statements and other operations. From December 2006 to March 2010, Mr. Shillington worked with Petro-Canada (Suncor Energy Inc. since August 2009) in the areas of Sarbanes-Oxley compliance, IFRS conversion work and related matters.

The REIT LP Agreement contains covenants of the Governing GP with respect to its board of directors, which include the following.

- (a) there shall be a minimum of five (5) and a maximum of nine (9) Directors. The number of Directors within such minimum and maximum numbers shall be determined at a meeting of the Unitholders and, between meetings, by the Directors of the Governing GP;
- (b) directors will be elected for a term expiring at the next annual meeting of the Unitholders and will be eligible for re-election;
- (c) directors appointed by the Governing GP between meetings of Unitholders shall be appointed for a term expiring at the conclusion of the next annual meeting of the REIT LP and will be eligible for election or re-election, as the case may be;
- (d) directors are not required to hold Units;
- (e) a Director may be removed at any time with or without cause by a majority of the votes cast at a meeting of Unitholders called for that purpose or with cause by the resolution passed by an affirmative vote of not less than two-thirds of the remaining Directors;
- (f) no Director shall be liable in carrying out his or her duties as such except in cases where the Director fails to act honestly and in good faith with a view to the best interests of the Governing GP, the REIT LP and the Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Subject to such standard of care, none of the Directors nor any officers, employees or agents of the Governing GP shall be liable to any Unitholder or any other person in tort, contract or otherwise for any action taken or not taken in good faith in reliance on any documents that are, *prima facie*, properly executed; for any depreciation of, or loss to, the REIT LP incurred by reason of the sale of any security; for the loss or disposition of monies or securities; for any action or failure to act by any person to whom the Governing GP are permitted to delegate and have delegated any of their duties hereunder; or for any other action or failure to act including the failure to compel in any way any former Director to redress any breach of trust or any failure by any person to perform obligations or pay monies owed to the REIT LP unless, in each case, such liabilities arise out of a breach of the standard of care, diligence and skill;
- (g) there shall be a majority of Independent Directors on the board of Directors and of any committee of the Directors provide;
- (h) acquisitions, dispositions, investments and loans to and from a Director who is not an Independent Director, an officer of the Governing GP, the Managing GP or any of their respective related parties, Affiliates or Associates require the prior approval of a majority of the Independent Directors.

## MANAGEMENT OF THE GOVERNING GP

### Governance

The board of directors of the Governing GP consists of five members: Darren Latoski, Steve Evans, Robert King, James Redekop and Douglas Scott. Messrs. Latoski and Evans are not independent as they act as executive officers of the Governing GP. The board of directors of the Governing GP facilitates its independent supervision over management through the conflict of interest provisions contained in the REIT LP Agreement and by requiring the approval of a majority of the Independent Directors in various transactions with any Related Party. See “Management of the Governing GP – Independent Director Matters” and “Management of the Governing GP – Conflict of Interest Restrictions and Provisions”.

The Governing GP has appointed an audit committee, a compensation committee and a nominating and governance committee.

### Audit Committee

The audit committee will be comprised of Darren Latoski, Robert King and Douglas Scott. Messrs. King and Scott are independent directors. The audit committee will assist the Governing GP in fulfilling their responsibilities of oversight and supervision of the REIT 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 REIT LP’s independent auditors and for the approval of all non-audit services for which its auditors may be engaged. All members of the audit committee will be financially literate within the meaning of applicable securities laws.

Each of the Audit Committee members has an understanding of the accounting principles used to prepare the REIT LP’s financial statements, experience preparing, auditing, analyzing or evaluating comparable financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For the education and experience of each member of the Audit Committee relevant to the performance of his or her duties as a member of the Audit Committee, see “Governance the REIT LP – Profile of the Management of the Governing GP”.

The Governing GP has adopted a written charter for the Audit Committee, which sets out the Audit Committee’s responsibility in reviewing the financial statements of the REIT LP and public disclosure documents containing financial information and reporting on such review to the Governing GP, ensuring that adequate procedures are in place for the review of the REIT LP’s public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. A copy of the Audit Committee charter is attached to this prospectus as Appendix A.

The audit committee will be responsible for monitoring compliance with a Code of Conduct and Ethical Behaviour to be adopted by the Governing GP and for establishing a procedure for the anonymous and confidential receipt and treatment of concerns or complaints received regarding accounting and related financial reporting matters (a “whistle blowing procedure”). The code sets out the Governing GP’s expectations for the conduct of such persons in their dealings on behalf of the REIT LP. The Governing GP will establish confidential reporting procedures in order to encourage individuals to raise concerns regarding matters addressed by the code on a confidential basis free from discrimination, retaliation or harassment. Those who violate the code may face disciplinary actions, including dismissal. The code of business conduct and ethics will be filed with the Canadian securities regulatory authorities.

The Governing GP is relying on the exemption in section 6.1 of National Instrument 52-110 *Audit Committees* in respect of the composition of its audit committee.

## **Compensation Committee**

The Governing GP's compensation committee will be comprised of Robert King, James Redekop and Douglas Scott. Among other things, the compensation committee will:

- (a) review and make recommendations to the Governing GP regarding the appointment of officers of the REIT LP;
- (b) review and make recommendations to the Governing GP regarding the REIT LP's compensation policies;
- (c) annually review the goals and objectives of any senior officers appointed by the REIT LP for the upcoming year, provide a performance appraisal and review their compensation;
- (d) make recommendations concerning the remuneration of the directors of the Governing GP; and
- (e) administer and make recommendations regarding the operation of any option plan, restricted unit plan and any other employee incentive plans.

## **Nominating and Governance Committee**

The Governing GP's nominating and governance committee will be comprised of Robert King, James Redekop and Douglas Scott. The nominating and governance committee will be responsible for developing the REIT LP's approach to governance issues, filling vacancies among the directors of the Governing GP and periodically reviewing the effectiveness of the directors of the Governing GP and the contribution of individual directors. Further, the nominating and governance committee will also be responsible for adopting and periodically reviewing and updating its written disclosure policy. This policy will, among other things:

- (a) articulate the REIT LP's legal obligations and those of its Governing GP, officers and employees with respect to the disclosure of material information;
- (b) identify the REIT LP's spokespersons who will be the only persons authorized to communicate with third parties such as analysts, media and investors;
- (c) provide guidelines on the disclosure of forward looking information;
- (d) require advance review by the REIT LP's senior executives of any selective disclosure of financial information to ensure the information is not material, to prevent the selective disclosure of material information and to ensure that, if a non-permitted selective disclosure does occur, a news release is issued immediately; and
- (e) establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes, during which periods the Governing GP, directors, officers, employees and consultants, of the REIT LP and its subsidiaries, may not purchase or sell Units.

The Nominating and Governance Committee is also responsible for overseeing the recruitment and selection of such candidates as directors of Governing GP. The recruitment and selection of such candidates will involve an identification of the qualifications for directors that are required to fulfill Governing GP responsibilities and an evaluation of the qualifications that existing directors possess. The Nominating and Governance Committee is then expected to recommend candidates to the Governing GP for nomination as directors to be elected by the Unitholders.

The Nominating and Governance Committee is also responsible for assessing the effectiveness of the Directors Governing GP, each of its committees and individual directors. Directors will be regularly surveyed to form the



basis of such assessment and such assessment will be reviewed by the Chairman, with the exception of the assessment of the Chairman and the non-Independent Directors, which will be reviewed by the Lead Independent Director.

### **Orientation and Continuing Education**

Following the Closing Date, it is expected that the nominating and governance committee will put in place an orientation program for new directors under which a new director will meet with the Chairman, the Lead Independent Director and members of the executive management team of the REIT LP. A new director will be provided with comprehensive orientation and education as to the nature and operation of the REIT LP and its business, as to the role of the Governing GP and its committees and the Lead Independent Director, and as to the contribution that an individual director is expected to make. The nominating and governance committee will be responsible for coordinating continuing director development programs to enable the directors to maintain or enhance their skills and abilities as directors as well as ensuring their knowledge and understanding of the REIT LP and its business remains current.

### **Liability of Governing GP**

The REIT LP Agreement contains customary provisions limiting the liability of the Governing GP. The Governing GP will not be liable to any Unitholder or any other person, in tort, contract or otherwise, for: any action taken or not taken in good faith in reliance on any documents that are, prima facie, properly executed; for any depreciation of, or loss to, the REIT LP incurred by reason of the sale of any asset; for the loss or disposition of money or securities; or any action or failure to act of any other person to whom the Governing GP has delegated any of their duties under the REIT LP Agreement; or for any other action or failure to act (including failure to compel in any way any former director to redress any breach of trust or any failure by any person to perform its duties under or delegated to it, under the REIT LP Agreement), unless, in each case, such liabilities arise out of a breach of the Governing GP's standard of care, diligence and skill or breach of the restrictions on the Governing GP's powers as set out in the REIT LP Agreement. If the Governing GP has retained an appropriate expert, advisor or legal counsel with respect to any matter connected with their duties under the REIT LP Agreement, the Governing GP may act or refuse to act based on the advice of such expert, advisor or legal counsel, and the Governing GP will not be liable for and will be fully protected from any loss or liability occasioned by any action or refusal to act based on the advice of such expert, advisor or legal counsel. In the exercise of the powers, authorities or discretion conferred on the Governing GP under the REIT LP Agreement, the Governing GP are and will be conclusively deemed to be acting as Governing GP of the REIT LP's assets and will not be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgements, costs, charges or expenses against or with respect to the REIT LP or the REIT LP's assets.

### **Insurance Coverage for Governing GP and Indemnification**

The REIT LP will obtain or cause to be obtained a policy of insurance for the Governing GP and its directors and officers and for the REIT LP's senior executive officers. The initial aggregate limit of liability applicable under such insurance will be \$10 million. Under the policy, the REIT LP will have reimbursement coverage to the extent that it has indemnified the Governing GP and officers. The policy will include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the REIT LP and the Governing GP and officers.

### **Independent Director Matters**

In addition to requiring the approval of a majority of the Governing GP, the following matters will require the approval of at least a majority of the Independent Directors who have no interest in the matter to become effective:

- (a) an acquisition or disposition of a Security, a Property or an investment in a Property, whether by co-investment or otherwise, in which a Director who is not an Independent Director, an officer of the REIT LP, the Managing GP, or any of their respective related parties, Affiliates or Associates has any direct or indirect interest;

- (b) an acquisition of a Security, a Property or an investment in a Property from any person for which a Director who is not an Independent Director, an officer of the REIT LP, the Managing GP or any of their respective related parties, Affiliates or Associates provides services as manager;
- (c) a material change to the Asset Management Agreement or any renewal, extension or termination thereof or any increase in the fees payable thereunder;
- (d) the entering into, waiver of or exercise of any rights or remedies under any agreement entered into by the REIT LP with a Director who is not an independent Director, an officer of the REIT LP, the Managing GP or any of their respective related parties, Affiliates or Associates,
- (e) the refinancing or renewal of any indebtedness owing by or to any Director who is not an Independent Director, an officer of the REIT LP, the Managing GP or any of their respective related parties, Affiliates or Associates,
- (f) the making, directly or indirectly, of any co-investment with a Director who is not an Independent Director, an officer of the REIT LP, the Managing GP or any of their respective related parties, Affiliates or Associates,
- (g) the grant of options or issuing of Units under any option or purchase plan;
- (h) any change in the number of Directors of the Governing GP and the appointment of Directors to fill any vacancies created by any increase in the number of Directors;
- (i) decisions relating to compensation of Directors; and
- (j) decisions relating to any claim by or against a Director who is not an Independent Director, an officer of the REIT LP, the Managing GP or any of their respective related parties, Affiliates or Associates.

### **Voting Agreement**

The Managing GP and the REIT LP have determined that it is advisable for the REIT LP to have control over the Governing GP. Accordingly, the REIT LP and Sunstone Multi-Family Investments Inc., which owns 100% of the outstanding shares of the Governing GP have entered into a voting agreement (the “**Voting Agreement**”) that provides the REIT LP with a number of rights. Pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has agreed that any voting rights with respect to the Governing GP will be voted in favour of the election of directors approved by the REIT LP. For these purposes, the REIT LP may maintain, from time-to-time, an approved slate of nominees or provide direction with respect to the approval or rejection of any matter in the form of general guidelines, policies or procedures in which case no further approval or direction will be required. Any such general guidelines, policies or procedures may be modified by the REIT LP in its discretion.

In addition, pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has also agreed that any voting rights with respect to the Governing GP will be voted in accordance with the direction of the Unitholders of the REIT LP with respect to the approval or rejection of the following matters relating to the Governing GP:

- (a) any sale of all or substantially all of its assets,
- (b) any merger, amalgamation, consolidation, business combination or other material corporate transaction, except in connection with any internal reorganization that does not result in a change of control,
- (c) any plan or proposal for a complete or partial liquidation or dissolution, or any reorganization or any case, proceeding or action seeking relief under any existing laws or future laws relating to bankruptcy or insolvency,

- (d) any amendment to the REIT LP Agreement; or
- (e) any commitment or agreement to do any of the foregoing.

In addition, pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has agreed that it will not cause the Governing GP to resign as the Governing GP except with the prior consent of the Unitholders of the REIT LP.

The Voting Agreement also contains restrictions on transfers of the shares of the Governing GP, except that Sunstone Multi-Family Investments Inc. may transfer shares of the Governing GP to any of its Affiliates.

### **Conflict of Interest Restrictions and Provisions**

The REIT LP Agreement contains “conflict of interest” provisions similar to those applicable to corporations under Section 120 of the CBCA which serve to protect Unitholders without creating undue limitations on the REIT LP. Given that the Governing GP and its directors and officers will be engaged in a wide range of real estate and other business activities, the REIT LP Agreement requires each of the Governing GP and its directors and officers to disclose to the REIT LP if he or she is a party to a material contract or transaction or proposed material contract or transaction with the REIT LP or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the REIT LP. Disclosure is required to be made by each of the REIT LP’s directors or officers as soon as the director or officer becomes aware that a contract or transaction or proposed contract or transaction is to be, or has been, considered by the Governing GP, as soon as the director or officer becomes aware of his or her interest in a contract or transaction or, if not currently a director or officer, as soon as such person becomes a director or officer. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by Governing GP or Unitholders, that director or officer is required to disclose in writing to the Governing GP or request to have entered into the minutes of the meeting of the Governing GP the nature and extent of his or her interest forthwith after the director or officer becomes aware of the contract or transaction or proposed contract or transaction. In any case, a director who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his or her remuneration for serving as the Governing GP’s director, officer, employee or agent or one for indemnity under the indemnity provisions of the REIT LP Agreement or the purchase of liability insurance. Certain of the Governing GP may have conflicts of interest as a result of their current full-time positions and these conflicts will be expressly acknowledged. See “Risk Factors”.

### **Competition with the REIT LP**

The Managing GP and the Governing GP (and their respective Affiliates and Associates) and the directors and officers thereof may, from time to time, be engaged, directly or indirectly, for their own account or on behalf of others (including without limitation as trustee, administrator, asset manager or property manager of other trusts or portfolios) in real estate investments and other activities similar to the activities of the REIT LP and the US REIT. Neither the Managing GP nor the Governing GP, nor any of their respective Affiliates or Associates (or their respective directors and officers) shall incur or be under any liability to the REIT LP, any Unitholder or any annuitant by reason of, or as a result of any such engagement or competition or the manner in which such person may resolve any conflict of interest or duty arising therefrom. Pursuant to the Asset Management Agreement, the Managing GP has agreed with the REIT LP that it will not be engaged, either directly or indirectly, for its own account or on behalf of parties other than the REIT LP, in real estate investments relating to U.S. multi-family real estate, except: (i) in the case of a “sidecar” fund, to which the REIT LP would advance funds for the development of a multi-family real estate property, with rights to acquire such property on terms to be determined, provided that such advances and acquisition are approved by the Directors or Independent Directors, as appropriate, of the Governing GP, and that such investment is otherwise compliant with the REIT LP’s investment guidelines; (ii) in a case where the Directors or Independent Directors, as appropriate, of the Governing GP have elected to not acquire or invest in such multi-family real estate property; and (iii) in a case where the property is owned or being acquired or disposed by an affiliate of Sunstone U.S. Opportunity Realty Trust, Sunstone U.S. Opportunity (No. 2) Realty Trust, Sunstone U.S. Opportunity (No. 3) Realty Trust or Sunstone U.S. Opportunity (No. 4) Realty Trust.

## **Individual Bankruptcies**

None of the directors or officers of the Managing GP or the Governing GP, and to the best of the knowledge of the Managing GP or the Governing GP, no Unitholder holding a sufficient number of the REIT LP's securities to affect materially the control of the REIT LP, has, within the 10 years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

## **Corporate Cease Trade Orders and Bankruptcies**

None of the directors or officers of the Managing GP or the Governing GP, and to the best of the knowledge of the Managing GP or the Governing GP, no Unitholder holding a sufficient number of the REIT LP's securities to affect materially the control of the REIT LP, is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, (a) a director, chief executive officer or chief financial officer of any company that was subject to an order that was issued while the existing or proposed director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the existing or proposed director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, or (c) a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, "order" means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

## **EXECUTIVE COMPENSATION**

### **General**

The REIT LP has no directors or executive officers. Rather, the REIT LP Agreement provides for the management of the REIT LP by the Managing GP and the governance and control of the REIT LP by the Governing GP.

As set out above under "Alignment of Interests", pursuant to the Asset Management Agreement, the Managing GP will only be entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs but excluding personnel costs) that it incurs providing asset management services to the REIT LP as its managing general partner, and the Managing GP will not be entitled to any other remuneration or compensation for its services.

Initially, the directors of the Governing GP who are not affiliated with or employees of the Managing GP will receive annual compensation in the amount of \$12,500, plus \$500 for attendance at meetings of the directors or any committee. As well, the Governing GP will indirectly reimburse such directors for any out of pocket expenses, including out of pocket expenses for attending meetings. The REIT LP will reimburse the Governing GP for such amounts. In addition, the REIT LP will obtain insurance coverage for such directors as described under "Insurance Coverage for Governing GP and Indemnification". Compensation will be reviewed on an annual basis, giving consideration to the REIT LP's growth and the extent of its portfolio.

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

#### *Restricted Unit Plan*

The Managing GP expects that the directors of the Governing GP will adopt a restricted unit plan (the "Restricted Unit Plan") prior to the Closing. The Restricted Unit Plan will be used as an incentive plan to align the interests of directors, key employees, key management and consultants of the Governing GP and Managing GP and other eligible

participants with the success of the REIT LP. Each restricted unit and distribution restricted unit will give the participant the right to receive the fair market value of such vested restricted unit on the redemption date.

The purposes of the Restricted Unit Plan will be to:

- (a) support the achievement of the REIT LP's performance objectives;
- (b) ensure that the interests of directors, key management and key employees are aligned with the success of the REIT LP;
- (c) provide incentive bonus compensation which is calculated based on the grant of restricted units and the appreciation in value of such units (including distributions payable in respect thereof) from the grant date until the redemption date, thereby rewarding the efforts of participants in the year of grant and providing additional incentive for their continued efforts in promoting the growth and success of the business of the REIT LP; and
- (d) attract, retain and motivate directors, key management and key employees critical to the long-term success of the REIT LP and the participating entities.

The REIT LP will reserve an aggregate of up to 10% of the outstanding number of Units from time to time for issuance under the Restricted Unit Plan.

#### *Equity Option Plan*

The REIT LP expects that the directors of the Governing GP will adopt an equity incentive unit option plan (the "Equity Option Plan") prior to the Closing. The purpose of the Equity Option Plan will be to provide directors, key employees, key management and consultants of the Governing GP and Managing GP and other eligible participants with compensation opportunities that will encourage ownership of Units, enhance the REIT LP's ability to attract, retain and motivate key personnel, and reward directors, officers, employees and service providers for significant performance and growth in the REIT LP's cash flow.

The maximum number of Units to be reserved for issuance and which may in the aggregate be issuable pursuant to options granted pursuant to the Equity Option Plan will not exceed 10% of the issued and outstanding Units on a rolling basis or such additional amount as may be approved from time to time by the Unitholders of the REIT LP.

Upon the expiration, termination or surrender of an option which has not been exercised in full, the number of Units reserved for issuance under that option which have not been issued will become available for issue for the purpose of additional options which may be granted under the Equity Option Plan. In addition, the number of Units reserved for issuance to any one person shall not, in the aggregate, exceed 5% of the total number of outstanding Units, on a fully-diluted basis. The number of Units covered by each outstanding option shall be proportionally adjusted for any increase or decrease in the number of issued Units resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of Fund Units or any other increase or decrease in the number of issued Units.

The directors of the Governing GP will administer the Equity Option Plan and will make decisions relating to the Equity Option Plan based on recommendations of the Compensation and Nominating and Governance. Subject to the terms of the Equity Option Plan, the directors of the Governing GP may grant to any eligible person one or more options as they deem appropriate. The directors of the Governing GP may also impose such limitations or conditions on the exercise or vesting of any option as they deem appropriate.

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

Since the Managing GP and Governing GP were incorporated, neither has entered into any employment contracts or arrangements with its Named Executive Officers.

Upon the termination of the Asset Management Agreement and the internalization of asset management, the REIT LP expects that it will enter into employment agreements with the Executive Chair and Chief Executive Officer of the Managing GP pursuant to which each will be paid equal compensation, in amounts as determined by the Compensation Committee of the Governing GP.

## **INVESTMENT GUIDELINES AND OPERATING POLICIES**

### **Investment Guidelines**

The REIT LP Agreement provides that the assets of the REIT LP may only be invested, and the REIT LP shall not permit the assets of any subsidiary entity to be invested otherwise than with the approval of the Governing GP and in accordance with the following investment guidelines:

- (a) The REIT LP shall not make any investment, take any action or omit to take any action that would result in Units not being a “qualified investment”, for investment by Plans;
- (b) Notwithstanding any other provisions of the REIT LP Agreement, the REIT LP shall not make any investment or take any action or omit to take any action which would cause the REIT LP to be a “SIFT partnership” within the meaning of the Tax Act (or proposed amendments thereto) at any time during a Taxation Year;
- (c) The REIT LP shall cause US REIT to only make investments and adopt operating policies and undertake activities that will allow US REIT to meet all requisite organizational, operational, income, asset and distribution requirements for US REIT to qualify as a REIT under the Code;
- (d) Except as otherwise permitted in the REIT LP Agreement, the REIT LP may only invest in direct and indirect interests (including ownership and leasehold interests) in multi-family real estate properties in the United States;
- (e) The REIT LP may, with the prior approval of the Governing GP, directly or indirectly, invest in a joint venture arrangement for the purposes of owning interests or investments otherwise permitted to be held by the REIT LP; provided that such joint venture arrangement contains terms and conditions which, in the opinion of management, are commercially reasonable, including such terms and conditions relating to restrictions on the transfer, acquisition and sale of the REIT LP’s and any joint venturer’s interest in the joint venture arrangement, provisions to provide liquidity to the REIT LP, provisions to limit the liability of the REIT LP and its Unitholders to third parties, and provisions to provide for the participation of the REIT LP in the management of the joint venture arrangement. For purposes hereof, a joint venture arrangement is an arrangement between the REIT LP and one or more other persons pursuant to which the REIT LP, directly or indirectly, conducts an undertaking for one or more of the purposes set out in the investment guidelines of the REIT LP and in respect of which the REIT LP may hold its interest jointly or in common or in another manner with others (subject to paragraphs (a) and (b) above) either directly or through the ownership of securities of a corporation or other entity, including a limited partnership or a limited liability company;
- (f) The REIT LP may, with the prior approval of the Governing GP, invest by way of loan advances to a sidecar fund, in which the REIT LP would advance funds for the development of new multi-family properties, with rights to acquire such properties on pre-agreed terms;
- (g) Except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities and except as otherwise permitted pursuant to the investment guidelines and operating policies of the REIT LP, the REIT LP may not hold securities other than to the extent such securities would constitute an investment in real property (as determined by the Governing GP);

- (h) The REIT LP will not invest, directly or indirectly in other trust, partnership, corporation or other entity unless the person derives all or substantially all of its revenues from maintaining, improving, leasing or managing real property, including real property that the person, or an entity of which the person holds a share or an interest, holds together with one or more other persons;
- (i) The REIT LP may invest in immovable hypothecs, mortgages, hypothecary bonds or mortgage bonds (including a participating or convertible immovable hypothec or mortgage) and similar instruments where:
  - (1) the hypothec, mortgage, hypothecary bond or mortgage bond is issued by a Subsidiary;
  - (2) the immovable property, which is security therefor, is income-producing real property which otherwise complies with the other investment guidelines of the REIT LP adopted from time to time in accordance with the REIT LP Agreement and the guidelines set out herein;
  - (3) the immovable hypothec or mortgage is an immovable hypothec or mortgage registered on title to the real property which is security therefor; and
  - (4) the aggregate value of the investments of the REIT LP in these instruments, after giving effect to the proposed investment, will not exceed 20% of the adjusted Unitholders' equity (calculated in accordance with the REIT LP Agreement).
- (j) The REIT LP may invest in immovable hypothecs or mortgages which are not first ranking for the purposes of providing, directly or indirectly, financing in connection with a transaction in which the REIT LP is the vendor or with the intention of using such hypothec or mortgage as part of a method for subsequently acquiring an interest in or control of a real property or a portfolio of properties.

For the purpose of the foregoing guidelines, any references in the foregoing to investment in real property will be deemed to include an investment in a joint venture arrangement or a limited partnership.

### **Operating Policies**

The operations and affairs of the REIT LP shall be conducted in accordance with the following policies, the whole subject to the investment guidelines above. For the purpose of these policies, the assets, liabilities and transactions of a corporation, trust or other entity wholly or partially owned by the REIT LP (an "investee") will be deemed to be those of the REIT LP on a proportionate consolidated basis. In applying these guidelines, REIT LP will cause each investee to adhere to operating policies, and REIT LP will otherwise manage its investments in its investees, such that it shall remain in compliance with the operating policies. In addition, any references in the below guidelines to investment in real property will be deemed to include an investment in a joint venture:

- (a) The REIT LP shall not purchase, sell, market or trade in currency or interest rate futures contracts otherwise than for hedging purposes where, for the purposes hereof: the term "hedging" shall have the meaning ascribed thereto by National Instrument 81-102 adopted by the Canadian Securities Administrators, as amended from time to time.
- (b) The REIT LP shall not incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total consolidated indebtedness of the REIT LP would be more than 70% of the Gross Book Value. For the purposes of this paragraph, the term "indebtedness" means any obligation of the REIT LP for borrowed money, including the face amount outstanding under any convertible debentures but excluding any premium in respect of indebtedness assumed by the REIT LP for which the REIT LP has the benefit of an interest rate subsidy, but only to the extent an amount receivable has been excluded in the calculation of Gross Book Value with respect to such interest rate subsidy, provided that:

- (1) an obligation will constitute indebtedness only to the extent that it would appear as a liability on the consolidated statement of financial position of the REIT LP in accordance with IFRS;
  - (2) indebtedness excludes trade accounts payable, distributions payable to Unitholders, accrued liabilities arising in the ordinary course of business and short term acquisition credit facilities; and
  - (3) indebtedness excludes any amount shown on the consolidated statement of financial position of the REIT LP in accordance with IFRS in respect of the Class B Units or the Class A Units, if either shall be characterized as a liability under IFRS;
- (c) The REIT LP will not directly or indirectly guarantee any indebtedness or liabilities of any kind of any person, except indebtedness or liabilities assumed or incurred by a person in which the REIT LP holds an interest, directly or indirectly, or by an entity jointly-owned by the REIT LP with joint venturers and operated solely for the purpose of holding a particular property or properties where such indebtedness, if granted by the REIT LP directly, would not cause the REIT LP to otherwise contravene the guidelines set out under Section 10.1. The REIT LP is not required but shall use its reasonable best efforts to comply with this requirement if doing so is necessary or desirable in order to further the initiatives of the REIT LP permitted under the REIT LP Agreement.
- (d) The REIT LP shall obtain and maintain at all times insurance coverage in respect of potential liabilities of the REIT LP and the accidental loss of value of trust property of the REIT LP from risks, in amounts, with such insurers, and on such terms as the Governing GP consider appropriate, taking into account all relevant factors including the practices of Owners of comparable properties.
- (e) The REIT LP the REIT LP will not invest, directly or indirectly in the Securities of any person unless the person has policies which require:
- (1) that the person will obtain or have received an independent appraisal of each property or an independent valuation of a portfolio of properties that it intends to acquire; and
  - (2) that the person will obtain or review a preliminary site investigation report (or reliance letter from an environmental consultant in respect of a preliminary site investigation report) of each real property to be acquired by it, dated within eighteen months of the date of acquisition, and, if the preliminary site investigation report recommends or recommended a Phase II environmental audit be obtained, the REIT LP shall obtain or review a Phase II environmental audit, in each case by an independent and experienced environmental consultant; as a condition to any acquisition, such audit must be satisfactory to the Governing GP.

### **Amendments to Investment Guidelines and Operating Policies**

The investment guidelines set out in the REIT LP Agreement and the operating policies set out under the heading “Operating Policies” may be amended only by Special Resolution of Unitholders. The remaining operating policies may be amended with the approval of a majority of the votes cast by Unitholders at a meeting called for such purpose.

### **Application of Investment Guidelines and Operating Policies**

With respect to the investment guidelines and operating policies contained in the REIT LP Agreement, where any maximum or minimum percentage limitation is specified in any of the guidelines and policies therein contained,



such guidelines and policies shall be applied on the basis of the relevant amounts calculated immediately after the making of such investment or the taking of such action. Any subsequent change relative to any percentage limitation which results from a subsequent change in the Gross Book Value or adjusted Unitholders' equity (calculated in accordance with the REIT LP Agreement) will not require divestiture of any investment.

### **Regulatory Matters**

If at any time a government or regulatory authority having jurisdiction over the REIT LP or any property of the REIT LP shall enact any law, regulation or requirement which is in conflict with any investment guideline of the REIT LP then in force (other than the restriction on making any investments, taking action or omitting to take any action that would result in Units not being a "qualified investment, for investment by Plans), such guideline in conflict shall, if the Directors on the advice of legal counsel to the Governing GP so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary herein contained, any such resolution of the Governing GP shall not require the prior approval of Unitholders.

## **DISTRIBUTION POLICY**

The following outlines the REIT LP's expected distribution policy to be contained in the REIT LP Agreement, but is not intended to be a complete description. You should refer to the REIT LP Agreement for the full text of the REIT LP's distribution policy. The REIT LP's distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of the REIT LP's Unitholders.

### **General**

The following is a summary of the distribution policy of the REIT LP as contained in the REIT LP Agreement. The distribution policy (specifically, the requirements of the REIT LP Agreement relating to distributions) may be amended by the Managing GP from time to time.

The REIT LP currently intends to make a cash distribution to Unitholders of \$◆ per Unit per month. Monthly Distributions will be paid on the Distribution Date to Unitholders of record on the last business day of the relevant month

### **Payment of Distributions**

Distributions shall be made by cheque payable to or to the order of the Unitholder or by electronic fund transfer or by such other manner of payment approved by the Managing GP from time to time. The payment, if made by cheque, shall be conclusively deemed to have been made upon hand-delivery of a cheque to the Unitholder or to his agent duly authorized in writing or upon the mailing of a cheque by prepaid first-class mail addressed to the Unitholder at his address as it appears on the register of Unitholders unless the cheque is not paid on presentation. The Managing GP may issue a replacement cheque if they are satisfied that the original cheque has not been received or has been lost or destroyed upon being furnished with such evidence of loss, indemnity or other document in connection therewith that they may in their discretion consider necessary.

The Managing GP shall deduct or withhold from distributions payable to any Unitholder all amounts required or permitted by law to be withheld from such distribution and the REIT LP shall remit such taxes to the appropriate governmental authority within the times prescribed by law. Unitholders who are Non-Residents will be required to pay all withholding taxes payable in respect of any distributions of income by the REIT LP, whether such distributions are in the form of cash or additional Units. In the event of a distribution in the form of additional Units, the Managing GP may sell the Units of such Unitholder to pay the withholding taxes and to pay all of the Managing GP's reasonable expenses with regard thereto and the Managing GP shall have the power of attorney of such Unitholder or Class B Unitholder to do so. Any such sale shall be made on any stock exchange on which the REIT LP Units are then listed and upon such sale, the affected Unitholder shall cease to be the holder of such Units.

If the Managing GP determines that the REIT LP does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Units or Class B Units,

respectively, having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Managing GP to be available for the payment of such distribution.

## **CONVERSION RIGHTS OF CLASS B UNITS**

Pursuant to the REIT LP Agreement, the Managing GP or any Affiliate or Associate of the Managing GP which is then a Class B Unitholder, will as a class be entitled to convert all but not less than all of their Class B Units into Units, by exercising certain Conversion Rights which upon exercise by the Class B Unitholders require the REIT LP to redesignate all the interests of the Class B Unitholders as Units, at the Specified Ratio.

Upon the Class B Unitholders exercising the Conversion Rights, they will own that number of Units which is equal to the Class B Unit Percentage Interest (initially 5%) of all Units outstanding after such conversion. The Class B Unit Percentage Interest will remain fixed notwithstanding the issue of further Units, until the occurrence of a Determination Event. Following the occurrence of a Determination Event, the number of Units to which the Class B Unitholder is entitled upon exercising Conversion Rights becomes fixed, and future issuances of Units will result in a decline in the Class B Unit Percentage Interest. A Determination Event is the earliest to occur of the following: (a) the REIT LP's Market Capitalization exceeding \$300,000,000 for a period of 10 consecutive trading days; (b) an arm's length take-over bid being made for the Units, provided that not less than 51% of the Units not held by the offeror are taken-up in such bid; and (c) substantially all of the assets of the REIT LP being sold or the REIT LP being liquidated.

The Conversion Rights may be exercised by the Managing GP at any time provided that:

- (a) the REIT LP is legally entitled to comply with its obligations in connection with the exercise of the Conversion Rights; and
- (b) the Class B Unitholder who exercises the Conversion Rights complies with all applicable securities laws.

In addition, the Managing GP will be required to exercise its Conversion Rights upon the REIT LP completing the sale of all or substantially all of its assets.

Upon the exercise of the Conversion Rights, the Class B Unitholders will receive that number of Units which is equal to the Specified Ratio multiplied by the number of outstanding Class B Units. As such, pursuant the terms of the REIT LP Agreement, the Class B Unitholders will receive such number of Units representing the same Class B Unit Percentage Interest in the net assets of the REIT LP as was previously designated in the form of Class B Units. Subject to applicable laws, the REIT LP will redesignate all the interests of Class B Unitholders into Units at the Specified Ratio effective as of the date that the REIT LP receives a notice of exercise of the Conversion Rights. Upon such occurrence, the interests of Class B Unitholders will be redesignated as Units and a certificate for such number of Units as determined based on the Specified Ratio will be delivered to holders, or to CDS on their behalf. The Class B Units (which will not be certificated) will not be required to be redeemed or cancelled.

Pursuant to the REIT LP Agreement, the Managing GP or any Affiliate or Associate of the Managing GP which is then the Class B Unitholder, has agreed that it will not dispose of more than one-third of the Units received by it upon the conversion of the Class B Units in each consecutive twelve month period ending after the first anniversary of the earlier of: (i) the date a Determination Event occurs; and (ii) the date upon which the conversion is completed. This limitation will not apply where the Conversion Rights have been exercised in connection with a takeover bid or a sale of substantially all of the REIT LP's assets.

## **CAPITALIZATION**

The following table sets forth the REIT LP's pro forma consolidated capitalization as at May 18, 2012, both before and after giving effect to the Offering and the acquisition of the Initial Portfolio, but without giving effect to the exercise of the Over-Allotment Option. The table should be read in conjunction with the REIT LP's pro forma consolidated financial statements and notes thereto contained in this prospectus.

	As at May 8, 2012 <sup>(1)</sup>	As at May 18, 2012 after giving effect to the Offering and the Acquisition of the Initial Portfolio
Partner's Capital	\$20	\$◆
Indebtedness	\$0	\$◆
Total Capitalization	\$20	\$◆

Notes:

(1) The REIT LP was established on May 8, 2012. The Governing GP contributed \$20 in capital.

## USE OF PROCEEDS

The net proceeds of the Offering are estimated to be approximately \$◆ after deduction of the Agents' Commission and the estimated expenses of the Offering. The REIT LP will use the net proceeds of the Offering to indirectly acquire its interest in the Initial Portfolio. In particular, the REIT LP will acquire (i) Common Shares at a price of \$1.00 per Common Share and (ii) one ROC Share of the US REIT. The subscription price of the ROC Share will be mutually determined by the US REIT and the Managing GP upon the completion of the Offering. The US REIT will use approximately \$◆ raised from the issuance of its Common Shares and the ROC Share to the REIT LP to acquire the Initial Portfolio, for working capital and for 12-month administration expenses.

The net proceeds of the Over-Allotment Option, if exercised in full, will be approximately \$◆, after deduction of the Agents' Commission and the estimated expenses of completing the Over-Allotment Option. The REIT LP intends to use the net proceeds received by it on the exercise of the Over-Allotment Option to make further investments in the US REIT to fund the acquisitions of further Properties, for general working capital purposes and for 12-month administration expenses.

For more details on the Acquisition, and the debt financing to be assumed or incurred by the REIT LP in connection with the Acquisition, see "The REIT LP's Structure and Formation".

## PLAN OF DISTRIBUTION

### General

Pursuant to the Agency Agreement between the REIT LP and the Agents, the Agents have agreed to conditionally offer a maximum of ◆ Units at a price of \$◆ per Unit on a commercially reasonable efforts basis, if, as and when issued by the REIT LP in accordance with the terms and conditions of the Agency Agreement.

The Agency Agreement may be terminated in certain stated circumstances, including the Agents' assessment of market conditions, and upon the occurrence of certain stated events. While the Agents have agreed to use their commercially reasonable best efforts to sell the Units, they are not obligated to purchase any Units. The REIT LP has agreed to indemnify the Agents and their respective directors, officers, employees and agents against certain liabilities, including civil liabilities under Canadian provincial securities legislation, or to contribute to any payments the Agents may be required to make in respect thereof.

The price of the Units was determined by negotiation between the REIT LP and the Dundee Securities Ltd., as lead agent. The REIT LP has agreed to pay the Agents Commission equal to 6% of the gross proceeds of the Offering, being an aggregate amount of \$◆ (subject to increases in an amount of up to \$◆ in the event that Over-Allotment Option is exercised in full by the Agents).

Pursuant to the Agency Agreement, the Agents will use their commercial reasonable efforts to distribute the Units to not less than 2,500 Unitholders.

The REIT LP has granted the Agents the Over-Allotment Option, which is an option to sell up to ♦ additional Units at any time up until the date that is 30 days from the date of closing of this Offering. If the Over-Allotment Option is exercised in full, the net proceeds to the REIT LP after deducting the Agents' Commission of \$♦ but prior to deduction of expenses of this Offering will be \$♦.

The Offering is being made in all provinces and territories of Canada except Quebec. The Units have not been and will not be registered under the 1933 Act, or any state securities laws, and accordingly may not be offered or sold to, or for the account or benefit of, persons in the United States or U.S. persons, except pursuant to transactions which are exempt from the registration requirements of the 1933 Act and applicable state securities laws. Each Agent has agreed that, except as permitted by the Agency Agreement and except as expressly permitted by applicable United States federal and state securities laws, it will not offer or sell the Units at any time within the United States or to, or for the account or benefit of any U.S. person. Terms used in this paragraph have the meanings given to them by Regulation S under the 1933 Act.

Pursuant to the rules and regulations of certain securities regulators, the Agents may not, throughout the period of distribution under this Prospectus, bid for or purchase Units. The foregoing restriction is subject to certain exceptions including: (i) a bid or purchase permitted under the rules of the Exchange relating to market stabilization and passive market activities; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distributions, provided that the bid or purchase was not engaged in for the purpose of creating an actual or apparent active trading in, or raising the price of such securities. In connection with this Offering, the Agents may over-allot or effect transactions that stabilize or maintain the market price of the Units at a level other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The REIT LP has applied to list the Units distributed under this Offering on the Exchange under the symbol "RUF.UN.U". Listing will be subject to the REIT LP fulfilling all of the listing requirements of the Exchange.

Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved by the Agents to close the subscription books at any time without notice.

#### **Book-Based System for Units; No Certificates for Class B Units**

Units may be represented in the form of one or more fully registered unit certificates held by, or on behalf of, CDS, as custodian of such certificates for the participants of CDS, registered in the name of CDS or its nominee, and registration of ownership and transfers of Units may be effected through the book-based system administered by CDS. A purchaser of Units will receive only a customer confirmation from a registered dealer who is a CDS Participant through which the Units were purchased.

### **PRINCIPAL 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"), tax advisor to the REIT LP, and Miller Thomson LLP ("Miller Thomson"), counsel to the Agents, 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 Unitholder who acquires 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 REIT LP and holds the Units as capital property. Generally, the Units will be considered to be capital property to a Unitholder provided such Units are not held in the course of carrying on a business and have not been acquired in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Unitholder (i) that is a "financial institution" as defined in the Tax Act, (ii) that is a "specified financial institution" as defined in the Tax Act, (iii) who makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act (iv) an interest in which would be a "tax shelter investment" as defined in the Tax Act, (v) that has, directly or indirectly, a "significant interest" as defined in

subsection 34.2(1) of the Tax Act in the REIT LP, (vi) to whom any affiliate of the REIT LP is a “foreign affiliate” for purposes of the Tax Act, or (vii) who borrows money to acquire the Units. Any such Unitholders should consult their own tax advisors with respect to an investment in Units.

This summary assumes that: (i) the REIT LP is not a “tax shelter” or “tax shelter investment”, each as defined in the Tax Act, (ii) (ii) Units that represent more than 50% of the fair market value of all interests in the REIT LP are held by Unitholders that are not “financial institutions” as defined in the Tax Act, and (iii) no interest in any Unitholder is a “tax shelter investment” as defined in the Tax Act. However, no assurances can be given in this regard.

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 and Miller Thomson by the Issuer and Sunstone Multi-Family Management Inc. 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 and Miller Thomson’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 ( “**Proposed Amendments**”). 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 Units. The income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the particular circumstances applicable to each 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 Units. The REIT LP 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 Units based on their particular circumstances.**

### **The SIFT Measures**

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”). A “SIFT partnership” (as defined in the Tax Act) will be subject to SIFT tax on its “taxable non-portfolio earnings” (as defined in the Tax Act) at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. The “taxable non-portfolio earnings” less SIFT tax payable of a SIFT partnership will also be included in computing income of the Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any “non-portfolio property” throughout the taxation year of the partnership. The REIT LP has represented in the Certificate that it does not expect to hold any “non-portfolio property”. Consequently the REIT LP expects, and this summary assumes, that the REIT LP would not be liable to SIFT tax under the SIFT Measures.

There can be no assurances that the treatment of SIFTs 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 REIT LP or its Unitholders.

## **Taxation of the REIT LP**

### *Computation of Income or Loss*

The REIT LP is not subject to tax under the Tax Act. Each Unitholder of the REIT LP is required to include in computing its income for a particular taxation year its share of the income or loss of the REIT LP for the REIT LP's fiscal years ending in or on the Unitholder's taxation year-end, whether or not distributed to the Unitholder in the taxation year, subject to certain loss limitation rules (see "Reasonable Expectation of Cumulative Profit" and "Limitation on Deductibility of Losses" below). For this purpose, the income or loss of the REIT LP must be computed for each fiscal year as if the REIT LP was a separate person resident in Canada, and allocated to the Unitholders on the basis of their respective shares of that income or loss as provided for in the REIT LP Agreement, subject to certain provisions of the Tax Act in that regard.

The income of the REIT LP for purposes of the Tax Act will include dividends, if any, received at any time in the fiscal year on Common Shares and the ROC Share of the US REIT as well as taxable capital gains, if any, realized by the REIT LP during the fiscal year on disposition of such shares. Where capital losses are realized by the REIT LP on a disposition of such shares, such losses may, under certain circumstances, be denied and be added to the adjusted cost base to the REIT LP of the remaining Common Shares and the ROC Share of the US REIT based on the relative fair market value of such shares. The income of the REIT LP should be considered as income from a source in the U.S. (see "Foreign Tax Credits and Deductions" below). For purposes of the Tax Act, all income (or losses) of the REIT LP must be calculated in Canadian currency. Where the REIT LP holds investments denominated in U.S. dollars or other foreign currencies, gains and losses may be realized by the REIT LP as a consequence of fluctuations in the relative values of the Canadian and foreign currencies.

In computing its income or loss, the REIT 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 REIT LP may also deduct any expenses incurred by it in the course of the issuance of Units on a five-year straight line basis (subject to pro-ration for short taxation years).

Dividends paid to the REIT LP by a "controlled foreign affiliate", of the REIT LP, as that term is defined in the Tax Act ("CFA"), including the US REIT and Pure Apartments TRS Inc., defined in the Tax Act ("CFA") will be included in computing the income of the REIT LP. To the extent that any CFA of the REIT LP or any direct or indirect subsidiary thereof earns income that is characterized as "foreign accrual property income" as defined in the Tax Act ("FAPI") in a particular taxation year of the CFA, the FAPI allocable to the REIT LP must be included in computing the income of the REIT LP for Canadian federal income tax purposes for the fiscal period of the REIT LP in which the taxation year of the CFA ends, whether or not the REIT LP actually receives a distribution of that FAPI. FAPI does not include income from a business carried on by a CFA where, generally, throughout the period in the taxation year during which the business was carried on the business is the leasing of property and the CFA employs more than five employees full time in the active conduct of the business (the "Employee Exception"). The REIT LP has represented in the Certificate that it intends that any CFA held by the REIT LP will meet the Employee Exception at all relevant times, in which case the REIT LP should not be required to include any amount of FAPI in computing its income for Canadian federal tax purposes. If, notwithstanding such representation, any CFA of the REIT LP fails to meet the Employee Exception throughout a particular taxation year, an amount of FAPI may be required to be included in computing the income of the REIT LP for Canadian federal income tax purposes, and an amount may be deductible in respect of the "foreign accrual tax" as defined in the Tax Act ("FAT") applicable to the FAPI.

As the US REIT intends to qualify as a real estate investment trust for US federal income tax purposes the amount of U.S. federal income tax payable by the US REIT may limit the amount of FAT that may be available to apply against any FAPI in respect of the US REIT if the US REIT fails to meet the Employee Exception in a particular year. Any amount of FAPI included in income (net of the amount of any FAT deduction) will increase the adjusted cost base to the REIT LP of its shares of the CFA in respect of which the FAPI was included. At such time as the REIT LP receives a dividend of this type of income that was previously treated as FAPI, that dividend will effectively not be included in computing the income of the REIT LP and there will be a corresponding reduction in the adjusted cost base to the REIT LP of the CFA shares.

### *Reasonable Expectation of Cumulative Profit*

On October 31, 2003, the Department of Finance released for public comment Proposed Amendments under which a taxpayer would be considered to have a loss from a source that is a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit (excluding capital gains or losses) from the business or property during the period that the business is carried on or that the property is held (the “**REOP Proposals**”). Profit under the REOP Proposals is determined without reference to capital gains or losses. In general, these proposals may deny the realization of losses by a Unitholder from its investment in the REIT LP in a particular taxation year, if, in the year the loss is claimed, it is not reasonable to expect that an overall cumulative profit would be earned from the investment in the REIT LP for the period in which the Unitholder has held and can reasonably be expected to hold the investment. A Unitholder may incur expenses in connection with an acquisition of the Units that could result in a loss that could be affected by the REOP Proposals. As part of the 2005 federal budget, the Minister announced that an alternative proposal to reflect the REOP Proposals would be released for comment at an early opportunity. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not adversely affect the Unitholders, or that any revised proposal may not differ significantly from the REOP Proposals described herein.

### **Taxation of the Unitholders**

#### *Allocation of Income or Loss*

Subject to the restrictions described above under “Reasonable Expectation of Cumulative Profit” and below under “Limitation on Deductibility of Losses”, each Unitholder will be required to include (or be entitled to deduct) in computing the Unitholder’s income, the Unitholder’s proportionate share of the income (or loss) of the REIT LP allocated to the Unitholder pursuant to the REIT LP Agreement for the fiscal period of the REIT LP ending in the Unitholder’s taxation year. A Unitholder’s share of the REIT LP’s income must (or loss may) be included in determining the Unitholder’s income (or loss) for the year, whether or not any distribution of income has been made by the REIT LP. See “The Securities Offered - Allocation of Net Income and Net Loss”.

In general, a Unitholder’s share of any income (or loss) of the REIT LP from a particular source or from sources in a particular place will be treated as if it were income (or loss) of the Unitholder from that source or from sources in that particular place, and any provisions of the Tax Act applicable to that type of income (or loss) or income (or loss) from that place will apply to the Unitholder. A Unitholder which is a “Canadian-controlled private corporation” (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6 2/3% on the Unitholder’s share of certain investment income, including taxable capital gains and dividends on Common Shares and the ROC Share of the US REIT.

### *Limitation on Deductibility of Losses*

If the REIT LP incurs losses for tax purposes, each Unitholder will, subject to the REOP Proposals (defined above), be entitled to deduct in the computation of income for tax purposes the Unitholder's pro rata share of any net losses for tax purposes of the REIT LP for its fiscal year to the extent of the Unitholder's "at-risk amount" within the meaning of the Tax Act. In general, the "at-risk amount" of a Unitholder in respect of the REIT LP for any taxation year will generally be the adjusted cost base of the Unitholder's Units at the end of the year (subject to certain provisions of the Tax Act), plus any undistributed income allocated to the Unitholder for the year, less any amount owing by the Unitholder (or a person with whom the Unitholder does not deal at arm's length) to the REIT LP (or a person with whom the REIT LP does not deal at arm's length), and less the amount of any benefit that the Unitholder (or a person with whom the Unitholder 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 Unitholder from the investment. A Unitholder's loss that is limited by the at-risk rules under the Tax Act becomes a "limited partnership loss", which is available for indefinite carry-forward to be claimed against limited partnership income from the REIT LP.

### *Adjusted Cost Base of Units*

In general, the adjusted cost base of a Unitholder's Units will be equal to: (i) the actual cost of the Units (excluding any portion thereof financed with limited recourse indebtedness); plus (ii) the pro rata share of the income of the REIT LP allocated to the Unitholder for fiscal years of the REIT LP ending before the relevant time; less (iii) the aggregate of the pro rata share of losses of the REIT LP allocated to the Unitholder (other than limited partnership losses) for the fiscal years of the REIT LP ending before the relevant time; and less (iv) the Unitholder's distributions from the REIT LP made before the relevant time, including returns of capital. The adjusted cost base of each of the Units will be subject to the averaging provisions contained in the Tax Act.

The REIT LP intends to distribute cash to the Unitholders in an amount equal to the Target Distribution during the Initial Period. Such amount may be comprised in whole or in part of a return of capital on which no tax is payable by the Unitholders. As noted above, the return of capital amount will reduce a Unitholder's adjusted cost base of the Units. It will also reduce the Unitholder's at-risk amount and could result in a negative adjusted cost base to the Unitholder in respect of the Units. (See "Securities Offered – The REIT LP – Cash Flow Distributions".)

A Unitholder will realize a deemed capital gain if, and to the extent that, the adjusted cost base of the Unitholder's Units is negative at the end of any fiscal year of the REIT LP. In such a case, the adjusted cost base of the Unitholder's Units will be adjusted to nil at the beginning of the next fiscal year of the REIT LP.

### *Disposition of Units*

The disposition by a Unitholder of a Unit will result in the realization of a capital gain (or capital loss) by such Unitholder in the amount, if any, by which the proceeds of disposition of the Unit, less any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base of such Unit.

Where a Unitholder disposes of all of its Units, it will no longer be a partner of the REIT LP. If, however, a Unitholder is entitled to receive a distribution from the REIT LP after the disposition of all such Units, then the Unitholder will be deemed to dispose of the Units at the later of: (i) the end of the fiscal year of the REIT LP during which the disposition occurred; and (ii) the date of the last distribution made by the REIT LP to which the Unitholder was entitled. Pursuant to the Proposed Amendments, the pro rata share of income (or loss) of the REIT LP for tax purposes for a particular fiscal year which is allocated to a Unitholder who has ceased to be a partner will generally be added (or deducted) in the computation of the adjusted cost base of the Unitholder's Units immediately prior to the time of the disposition. These rules are complex and Unitholders should consult their own tax advisors for advice with respect to the specific tax consequences to them of disposing of Units.

In general, one-half of a capital gain realized by a Unitholder must be included in computing such Unitholder's income as a taxable capital gain. One-half of a capital loss is deducted as an allowable capital loss against taxable capital gains realized in the year and any remainder may be deducted against taxable capital gains in any of the three



years preceding the year or any year following the year to the extent and under the circumstances described in the Tax Act.

#### *Alternative Minimum Tax*

The Tax Act provides for a special “alternative minimum tax” (“AMT”) applicable to individuals (including most trusts), depending on the amount of their “adjusted taxable income”. In calculating taxable income for the purpose of computing the AMT, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise included, such as 80% of net capital gains, are included. In computing adjusted taxable income for AMT purposes, an exemption of \$40,000 is allowed to a taxpayer who is an individual, other than most inter vivos trusts. The current federal rate of minimum tax is 15%. Whether and to what extent the tax liability of a particular Unitholder will be increased as a result of the application of the AMT rules will depend on the amount of the Unitholder’s income, the sources from which it is derived, and the nature and amounts of any deductions the Unitholder claims.

Any additional tax payable by a Unitholder for the year resulting from the application of the AMT will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the AMT, be the Unitholder’s tax otherwise payable for any such year. Prospective purchasers who are individuals (including trusts) should consult their tax advisors as to the potential application of the AMT.

#### *Foreign Tax Credits and Deductions*

Foreign taxes paid by the REIT LP and taxes withheld at source (other than for the account of a particular Unitholder) will be allocated pursuant to the governing partnership agreement. As set out below under the heading “Principal United States Income Tax Considerations”, the REIT LP intends to be treated as a partnership for U.S. federal income tax purposes and for such purposes, a Unitholder should be considered the relevant taxpayer with respect to U.S. tax withheld on distributions in respect of Common Shares and the ROC Share of the US REIT. To the extent the US REIT withholds U.S. tax on distributions to the REIT LP, the amount of U.S. tax attributable to a particular Unitholder may be deductible from such Unitholder’s Canadian federal income tax otherwise payable for that year (a “foreign tax credit”), or may be deductible in computing the 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 event any U.S. tax is withheld that does not represent the final U.S. income tax liability for the year, the Unitholder also files a U.S. federal income tax return to establish the Unitholder’s final U.S. income tax liability for the year.

The U.S. tax paid for a taxation year that is attributable to a particular Unitholder will generally be characterized as “non-business income tax”, as defined in the Tax Act, and may be deductible as a foreign tax credit from the Unitholder’s Canadian federal income tax otherwise payable for that year as relates to the Unitholder’s share of the non-business income from U.S. sources to the extent that non-business income tax paid does not exceed 15% of such share of non-business income and has not been deducted in computing the Unitholder’s income. To the extent that such non-business income tax paid by the Unitholder exceeds 15% of the Unitholder’s share of non-business income from U.S. sources, such excess may generally be deducted by the Unitholder in computing the Unitholder’s net income for the purposes of the Tax Act.

A Unitholder’s ability to apply U.S. taxes in the foregoing manner may be affected where the 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 where required for the relevant taxation year. Although the foreign tax credit provisions are designed to avoid double taxation, the maximum credit is limited. Because of this, and because of timing differences in recognition of expenses and income and other factors, there is a risk of double taxation. Prospective purchasers 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 Unitholders that are Plans. In reference to the matters set out under the heading “Principal United States Income Tax Considerations”, to the extent that an annuitant, a beneficiary or a holder of a Plan that is a 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 US REIT, 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 penalty 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 Unitholders that are Plans should consult their own tax advisors in this regard.

Reference should be made below to “Taxation of the REIT LP and of the REIT LP Unitholders” under “Principal United States Income Tax Considerations” for further information on the taxation of the REIT LP and the Unitholders for U.S. federal income tax purposes, as such taxation directly affects the Unitholder’s entitlement to the foreign tax credits and deductions outlined above.

### **Eligibility for Investment**

In the view of KPMG and Miller Thomson, provided that the Units are listed on a “designated stock exchange” as defined in the Tax Act (which includes the Exchange (Tiers 1 and 2)), the Units, if issued on the date hereof, would be qualified investments under the Tax Act and the Regulations for trusts governed by Plans.

Notwithstanding the foregoing, a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a “prohibited investment” as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will generally not be a “prohibited investment” for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, does not deal at arm’s length with the REIT LP for the purposes of the Tax Act or has a “significant interest” as defined in the Tax Act in the REIT LP or in a corporation, partnership or trust with which the REIT LP does not deal at arm’s length for the purposes of the Tax Act. Prospective purchasers should consult their own tax advisors to ensure that the Units would not be a “prohibited investment” for a trust governed by a TFSA, RRSP, or RRIF in their particular circumstances.

## **PRINCIPAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

### **Introduction**

In this summary, references to “REIT” are general references to entities that are treated as real estate investment trusts under the Internal Revenue Code of 1986, as amended (the “Code”).

In the view of KPMG LLP, in its capacity as tax advisor to the REIT LP, the following is a general summary of the principal U.S. federal income tax considerations applicable to Unitholders (defined below) of the purchase, ownership and disposition of the Units offered by the Prospectus.

### **Assumptions**

This summary assumes that the REIT LP is treated as a partnership for U.S. federal income tax purposes and that Units in the REIT LP are “regularly traded” on an “established securities market” at all relevant times for U.S. federal income tax purposes.

The U.S. federal income tax consequences of an investment in Units may be materially adversely affected relative to the description in this summary if the REIT LP is not treated as a partnership or if its Units are not considered to be regularly traded on an established securities market for U.S. federal income tax purposes. If Units in the REIT LP are regularly traded on an established securities market, whether the REIT LP is treated as a partnership in a particular year for U.S. federal income tax purposes depends on the composition of the REIT LP’s gross income for that year. Whether Units in the REIT LP are regularly traded on an established securities market for U.S. federal income tax purposes depends, in part, on the extent to which Units actually trade in a particular quarter.

Management has represented to KPMG that it expects that although the Units in the REIT LP will be regularly traded on an established securities market, the type and amount of the REIT LP’s gross income will allow the REIT LP to be treated as a partnership for each year for U.S. federal income tax purposes. However, no assurances can be

given that the REIT LP will be treated as a partnership for U.S. federal income tax purposes, whether in its first or in any subsequent year.

Management has also represented to KPMG that it anticipates the volume of trading in the Units and the number and the distribution of Unitholders will exceed the “regularly traded” standards (discussed generally later) set out by the U.S. Internal Revenue Service (the “IRS”) for each calendar quarter commencing with the first closing of this Offering. Additionally, management has represented to KPMG that REIT LP intends to comply with the annual filings and disclosures that are pre-requisites for units that are traded on an established securities market situated outside the United States to be considered to be “regularly traded” for U.S. federal income tax purposes. However, given the possibility that actual circumstances may be materially different than those expected at the outset, no assurances can be given that Units in the REIT LP will be treated as regularly traded in any particular calendar quarter.

This commentary also summarizes, in a general way, the principal U.S. federal income tax considerations to the US REIT regarding its qualification and taxation as a REIT for U.S. federal income tax purposes.

Whether the US REIT qualifies as a REIT for U.S. federal income tax purposes is dependent on whether it satisfies the various REIT requirements for each taxable year, including, but not limited to, certain organizational, operational, gross income, asset and distribution requirements (see below “**Requirements for REIT Qualification**”).

Management has represented to KPMG that it intends for the US REIT to qualify as a REIT for each relevant taxable year and that it will establish procedures to regularly monitor REIT classification and compliance. However, given the highly complex nature of the rules governing REITs and the possibility of future changes in circumstances, no assurances can be given that the US REIT will qualify as a REIT for U.S. federal income tax purposes, whether in its first taxable year or in any subsequent year. The failure of the US REIT to qualify as a REIT, in its first or in any subsequent taxable year, may result in materially reduced distributions to Unitholders and U.S. federal income tax consequences that are not described in this summary.

### **Limitations**

This summary is directed only to prospective purchasers who purchase the Units offered by this Prospectus, who are not United States persons under the Code and who do not own (and who are not considered to own) for U.S. federal income tax purposes more than 5 percent of the Units in the REIT LP that are listed for trading on an established securities market at any time.

This summary also assumes that there are no sales of real estate within one year of the respective property acquisitions by the US REIT.

The summary does not deal with all aspects of U.S. federal income taxation that may be relevant to the specific circumstances of a particular Unitholder. For example, this summary does not cover all aspects of U.S. estate and gift taxation that may be relevant to the specific circumstances of a particular Unitholder. Likewise, except to the extent specifically provided, the summary does not address the U.S. federal income tax consequences to Unitholders that are subject to special treatment, including but not limited to, financial institutions, broker-dealers, mutual funds, insurance companies, tax-exempt organizations and trusts.

Finally, this summary does not address state or local income tax or state or local tax filing matters.

### **“Unitholder” Defined**

For purposes of this summary, a “Unitholder” means any REIT LP Unitholder that is not: (i) a U.S. citizen, U.S. permanent resident (green card holder) or individual resident in the United States; (ii) a corporation or other entity taxable as a corporation that is either created or organized under the laws of the United States or a political subdivision thereof or that is for other reasons treated as if were taxable as a corporation created or organized under the laws of the United States; (iii) an estate, the income of which is subject to United States federal income tax

regardless of the source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of its substantial decisions.

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

### **Special Considerations Applicable to RRSPs and to TFSAs**

For purposes of this summary, except as otherwise specifically noted, references to "nonresident alien individuals" include certain registered retirement savings plans ("RRSPs"), specifically those with Canadian resident annuitants which are organized as contractual arrangements or as trusts and which are neither exempt from seizure by creditors of the annuitant nor spousal RRSPs. In addition, references to "nonresident alien individuals" also include 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 U.S. federal income tax treatment and classification of RRSPs and TFSAs is complex, is not free from doubt and is dependent upon the terms of the specific RRSP or TFSA. This summary assumes RRSPs and TFSAs are treated as either grantor trusts, or as investments of the individual annuitants which are not separate entities from the individuals for U.S. federal income tax purposes. As such, this summary assumes the individual annuitants or holders are treated as the owners of the RRSPs or the TFSAs assets for U.S. federal income tax purposes. There is, however, a risk that the U.S. tax authorities might take a different position from that taken in the summary. In such event, the U.S. federal income tax consequences with respect to such RRSPs and TFSAs may be different from those described below.

Investors that are RRSPs or TFSAs should consult their own tax advisors as to the U.S. federal, state, and local income and non-U.S. 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 Units. This summary also does not consider state, local or non-U.S. tax consequences. This summary does not constitute an opinion to prospective Unitholders and is not intended to be legal or tax advice to prospective purchasers of Units.**

**No ruling has been sought from the IRS on any aspect of this Offering.**

**This summary is based on the facts set out in this Prospectus and the facts, assumptions and representations set out in a representation letter provided to KPMG by the Issuers. This summary is also based upon the relevant provisions of the Code, the regulations under the Code (the "Regulations"), the 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 U.S. tax consequences described in the summary below.**

**Each investor should consult his, her or its own tax advisor as to the U.S. federal, state, and local income and other tax consequences to it of the purchase, ownership and disposition of the Units taking into consideration his, her or 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).**

## Summary

The discussion which follows is a general overview of the principal U.S. federal income tax consequences of dispositions by Unitholders of interests in the REIT LP, of REIT LP distributions received by Unitholders and of dispositions by the REIT LP of interests in the US REIT. The discussion assumes that the REIT LP is treated as a partnership and the US REIT qualifies as a REIT for U.S. federal income tax purposes for each year.

## Taxation of the REIT LP and of Unitholders

### *Taxation of the REIT LP*

#### Entity Classification Rules

The Code prescribes the classification of various organizations for U.S. federal income tax purposes. A business entity that is not automatically classified as a corporation and that has at least two members may generally elect to be treated as either a partnership or as a corporation for U.S. federal income tax purposes. In general, a business entity such as the REIT LP that is organized in Canada is automatically classified as a corporation only if it is a corporation as a matter of corporate law, or if all of its members have limited liability with respect to the entity's debts. In the case of a business entity that is a partnership, such partnership is automatically classified as a corporation only if its units are publicly traded and certain exemptions are not met.

A business entity is an organization that is formed to carry on business, to divide its profits amongst its participants and which engages in activities beyond the mere co-ownership of investment property.

An organization that merely protects and conserves properties for the benefit of its unitholders is generally classified as a trust rather than as a business entity for U.S. federal income tax purposes.

#### Certain Publicly Traded Partnerships Treated as Corporations

A business entity that is otherwise classified as a partnership for U.S. federal income tax purposes may be treated as a corporation if interests in the entity are traded on an established securities market. However, partnership classification is retained for publicly traded partnerships if 90 percent or more of the partnership's income is "qualifying income" for each year. Qualifying income includes interest, dividends and gain from the disposition of shares of corporations that are treated as REITs for U.S. federal income tax purposes. A partnership is deemed to meet the qualifying income test if it inadvertently fails to meet the test, takes steps to meet the test no later than a reasonable time after the discovery of the failure, and the partnership agrees to certain terms and conditions that may be imposed on it by the Internal Revenue Service.

A business entity that is classified as a partnership may elect to be treated as a corporation for U.S. federal income tax purposes.

Management has represented to KPMG that it expects that 90 percent or more of the REIT LP's gross income will consist of qualifying income each year and that the REIT LP will not elect to be treated as a corporation for U.S. federal income tax purposes. Therefore, the REIT LP should be treated as a partnership for U.S. federal income tax purposes. If this is not the case, the U.S. federal income tax consequences will differ significantly from those described below and distributions to Unitholders may be materially lower than if the REIT LP were treated as a flow-through entity for U.S. federal income tax purposes.

#### The REIT LP is Expected to be a Flow-Through Entity

A business entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax. Rather, the distributive share of the partnership's income, gains, losses, deductions and credits is generally taken into account separately by each interest holder in the partnership. In that regard, the character of distributions received by the REIT LP from the US REIT and gains recognized by the REIT LP on the sale or

exchange (or on the deemed sale or exchange) of its US REIT shares is generally determined as if such distributions and gains were recognized directly by the Unitholders.

#### *Taxation of Unitholders as Partners*

The following describes, in general terms, the U.S. federal income taxation to Unitholders of gains and losses from the disposition of Units, of income and gains derived by the REIT LP from the US REIT and from dispositions by the REIT LP of interests in the US REIT. This description assumes the REIT LP is classified as a partnership and the US REIT qualifies as a REIT for U.S. federal income tax purposes.

#### *Disposition of Units*

##### In General

A non-U.S. person's gain from the disposition of a United States Real Property Interest ("USRPI") is generally subject to U.S. tax, withholding and filing requirements and is not exempt under the Treaty. A USRPI generally includes shares in corporations organized in the United States, such as the US REIT, the fair market value of whose interests in real property located in the United States, at any time in a five year testing period, equals or exceeds 50 percent of the fair market value of the sum of its interests in real property located in the United States, its interests in real property located outside the United States and its other assets used or held for use in a trade or business.

Under a "look-through" rule, a non-U.S. person's gain from disposition of an interest in an entity treated as a partnership for U.S. federal income tax purposes, wherever organized, is treated as gain from disposition of an interest in a USRPI to the extent gain on the disposition of the partnership interest is attributable to USRPIs owned by the partnership.

##### Exception from USRPI Classification – 5 Percent Shareholders

The Code exempts from the general USRPI rule shares of a U.S. corporation that are regularly traded on an established securities market for a non-U.S. person who owns 5 percent or less of such class at the time of disposition and who also owned 5 percent or less of such class at all times in the immediately preceding five year period. An established securities market includes national securities exchanges outside the United States that are officially recognized, sanctioned or supervised by governmental authority and should include the TSX Venture Exchange. Constructive ownership and attribution rules apply for purposes of determining whether a person qualifies for the 5 percent exception.

Regulations extend the exemption from USRPI classification, above, for certain shares of a corporation that are regularly traded on an established securities market, to partnership units that are regularly traded on an established securities market. As in the case of the exception applicable to shares of a U.S. corporation, the USRPI exception for partnership units applies only to non-U.S. persons who own 5 percent or less of the class of regularly traded partnership units at the time of disposition and who also owned 5 percent or less of such class at all times in the immediately preceding five year period. As for shares in a corporation, complex constructive ownership and attribution rules apply for purposes of determining whether a person qualifies for the 5 percent exception.

The U.S. withholding, reporting and filings that would otherwise apply to a non-U.S. person's disposition of a USRPI (discussed generally below under the heading "FIRPTA Tax, Withholding and Filing Requirements on Sale of Units if Units Are Not Regularly Traded") do not apply to dispositions of a class of publicly traded partnership interests by non-U.S. persons who satisfy the 5 percent or lower ownership requirement. As such, Unitholders who do not otherwise have a U.S. tax reporting or filing requirement would not have one as a result of a sale or other disposition of their Units in the REIT LP provided they owned (and were considered to own) 5 percent or less of the Units that were listed for trading at the time of disposition and at all times in the immediately preceding five year period and the REIT LP met the regularly traded requirements for the quarter in which the disposition is made. Likewise, the transferee would not be required to withhold and remit 10 percent of the sales proceeds (including any consideration such as assumption of debt) to the Internal Revenue Service.

In general terms, the Regulations consider units in a partnership to be regularly traded in a particular quarter if each of four tests is met.

First, trades are effected, other than in de minimis quantities, on at least 15 days during the calendar quarter.

Second, the aggregate number of units traded in the calendar quarter as a percentage of the average number of units in such class outstanding during the calendar quarter equals or exceeds a minimum threshold. The minimum quarterly threshold is 2.5 percent if the average number of partners of record is 2,500 or more and 7.5 percent otherwise. Although not entirely free from doubt, a partner of record for this purpose is likely to include the beneficial Unitholder rather than a nominee or custodian.

Third, 100 or fewer persons do not own or constructively own 50 percent or more of the outstanding class of partnership units at any time in the calendar quarter.

Fourth, the partnership maintains records of the beneficial owner of the units at all times and also meets certain reporting requirements, which include identifying each person who, at any time in the year, was the beneficial owner of more than 5 percent of any class of units in the partnership that are traded.

Management has represented to KPMG that it expects Units in the REIT LP to satisfy the regularly traded standards of the Regulations in each quarter commencing with the first closing of this Offering. Management has also represented to KPMG that it has procedures in place to limit the likelihood that the standards of the Regulations will not be met. However, since certain of the requirements are based on factual matters and future events that are beyond Management's control, Management cannot provide assurances that each of the requirements in the Regulations will be met for each quarter in a particular Unitholder's holding period. Accordingly, the comments which follow summarize, in a general way, the taxation, withholding and reporting requirements applicable to the disposition of Units in the event Units in the REIT LP are not considered to be regularly traded on an established securities market in the quarter in which the disposition occurs and are, therefore, treated as gains from the sale or exchange of a USRPI, in whole or in part. These same taxation, withholding and reporting requirements would generally also apply to the disposition of Units by a Unitholder who owns (or is considered to own) more than 5 percent of the listed class of Units at the time of disposition or at any time in the immediately preceding five year period.

#### FIRPTA Tax, Withholding and Filing Requirements on Sale of Units if Units Are Not Regularly Traded

Gain on the disposition of a USRPI recognized by a nonresident alien or foreign corporation is treated as "effectively connected with the conduct of a trade or business within the United States" ("ECI") and the taxable amount (gain reduced in most cases by allocable deductions) is subject to U.S. federal income tax at graduated rates ("FIRPTA Tax"). All or a portion of the gain recognized by a Unitholder from the sale of Units in the REIT LP is expected to be treated as gain from the disposition of a USRPI if the Units are not considered to be regularly traded on an established securities market in the calendar quarter in which the disposition occurs. The maximum applicable FIRPTA Tax for long-term capital gains recognized by nonresident individual Unitholders (including RRSPs and TFSAs) is generally 15 percent for gains recognized in 2012 and either 18 or 20 percent, depending on the circumstances, for gains recognized after 2012, generally with no reductions of rates under the Treaty. The gain on disposition of Units in the REIT LP will be treated as long-term capital gains if the sold Units had been held by the Unitholder for more than one year. The corresponding rate for foreign corporate Unitholders (or for business entities that are treated as foreign corporations for U.S. federal income tax purposes) is 35 percent and is also not generally eligible for a reduced rate under the Treaty.

A transferee is generally required to deduct, withhold and remit to the IRS a tax equal to 10 percent of the purchase price of a USRPI ("Section 1445 Withholding"). This withholding may be reduced or eliminated with the appropriate facts if an application for a withholding certificate is timely filed with the IRS requesting a reduction in withholdings and a withholding certificate is received from the IRS. A withholding certificate might be issued by the IRS if a Unitholder establishes that the actual tax on the sale is expected to be less than 10 percent of the sales price because, for example, the Unitholder suffers a loss on the sale. However, no assurance can be given that the IRS will approve a withholding certificate application.

A Unitholder that sells or otherwise disposes of Units in the REIT LP to which the FIRPTA Tax applies is required to file a U.S. federal income tax return for the year of disposition (Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations) and may claim the Section 1445 Withholding tax withheld by the transferee as a credit against the Unitholder's final U.S. federal income tax liability for the year by showing proof of withholding (Form 8288-A). However, the U.S. federal income tax return must generally be filed no later than two years after the tax is withheld for excess withholdings to be recovered. A Unitholder that sells or otherwise disposes of Units in the REIT LP to which the FIRPTA Tax applies is required to file a U.S. federal income tax return without regard to the amount of tax withheld. A U.S. taxpayer identification number is required to file a U.S. federal income tax return.

The U.S. tax consequences described above would also generally apply to the disposition of Units by a Unitholder who owns (or who is considered to own) more than 5 percent of the listed class of Units at the time of disposition or at any time in the immediately preceding five year period.

#### FIRPTA Tax, Withholding and Filing Requirements on a Unitholder's Distributive Share of REIT LP's USRPI Gains

The exception from USRPI treatment for 5 percent or less ownership interests in a class of partnership units that are considered to be regularly traded on an established securities market only applies to gain from the disposition by the non-U.S. person of such partnership interests. It does not extend to other gains recognized (or considered to be recognized) by a Unitholder attributable to the actual or deemed disposition of USRPIS that may result from an investment in the REIT LP ("Non-Exempt Gains") unless the gain is attributable to shares of the US REIT that are themselves regularly traded on an established securities market.

A Unitholder may recognize Non-Exempt Gains from one of three main sources, even if the REIT LP meets the regularly traded on an established securities market requirements of the Regulations and the Unitholder has owned 5 percent or less of the REIT LP's listed Units throughout a five year holding period. These three main categories of Non-Exempt Gains are: a Unitholder's distributive share of distributions made by the US REIT attributable to the sale or exchange of USRPIS by the US REIT; distributions made by the US REIT in excess of both its earnings and profits and the REIT LP's adjusted basis in the shares of the US REIT; and gain from the sale or exchange by the REIT LP of its shares of the US REIT.

The REIT LP's adjusted basis for purposes of calculating its Non-Exempt Gains is generally calculated with reference to the original cost of its REIT shares, less certain adjustments (mostly notably a reduction for distributions in excess of the REIT's earnings and profits). The adjusted basis of a partnership's assets is not generally adjusted to reflect gains and losses recognized by its partners unless the partnership files a special election ("Section 754 election"). The REIT LP does not expect to file a Section 754 election. Accordingly, the REIT LP does not expect gains and losses recognized by its Unitholders to affect the amount of its Non-Exempt Gains from the disposition (or the deemed disposition) of its US REIT shares.

Generally, the taxable amount (gain reduced by deductions in most cases) of such Non-Exempt Gain is subject to the FIRPTA Tax to the Unitholders at the graduated rates referred to earlier (15 percent currently and either 18 or 20 percent for gains recognized through the REIT LP by nonresident alien individuals after 2012 and 35 percent for gains recognized through the REIT LP by foreign corporations), is not eligible for a reduced rate under the Treaty and is subject to withholding at source, as described generally below.

To the extent the gain is the result of a sale of a USRPI by the US REIT, the gain from such sale attributable to a distribution to the Unitholder who is a nonresident alien individual will be treated as long-term capital gain only if the underlying USRPI was held by the US REIT for more than one year. In addition, even if the USRPI was held by the US REIT for more than one year, the portion of the gain attributable to depreciation previously taken with respect to such USRPI will be taxed at a rate of 25 percent. Gains which are attributable to distributions to a nonresident alien individual of short-term capital gains are taxed at graduated income tax rates up to 35 percent (39.6 percent after 2012).

Additionally, a corporate Unitholder may be subject to U.S. branch profits tax (paid with its U.S. tax return) on its distributive share of distributions made by the US REIT to the REIT LP attributable to the sale or exchange of



USRPIs by the US REIT. U.S. branch profits tax is imposed in addition to regular federal income tax at the rate of 30 percent on a calculated amount, but is reduced to 5 percent of earnings attributable to a permanent establishment in excess of a Cdn\$500,000 cumulative exemption amount for certain residents of Canada. A corporate Unitholder would be required to file Form 8833 with its U.S. tax return to disclose its claim of entitlement to the reduced 5 percent rate of U.S. branch profits tax. Corporate Unitholders should consult with their own advisors to determine whether they are potentially liable for U.S. branch profits taxes on their distributive shares of distributions by the US REIT attributable to dispositions by the US REIT of USRPIs.

A publicly traded partnership that has ECI must withhold and remit U.S. withholding tax (“Section 1446 Withholdings”) on any distributions made to foreign partners (using procedures generally applicable to U.S. withholding on U.S. source fixed or determinable, annual or periodic income), and must file annually with IRS Form 1042 and a Form 1042-S for each Unitholder. Withholdings must be made at the highest rate of tax, without regard to the preferential rates of tax, including those applicable to an individual’s capital gains. The highest rates of tax and the required rates of 1446 Withholdings are currently 35 percent (39.6 percent after 2012) for nonresident alien individuals and 35 percent for corporations. The REIT LP will be required to withhold Section 1446 Withholdings at 35 percent currently (and 39.6 percent after 2012) for any Non-Exempt Gains included in the distributive shares of nonresident alien individual Unitholders and 35 percent for any Non-Exempt Gains included in the distributive shares of foreign corporate Unitholders.

Distributions made by the US REIT to the REIT LP that are attributable to the sale or exchange of USRPIs by the US REIT, distributions made by the US REIT in excess of both its earnings and profits and the REIT LP’s adjusted basis in the US REIT shares and the sale or exchange by the REIT LP of shares of the US REIT may also be subject to withholding on the part of the US REIT or the purchaser, as the case may be (“Section 1445 Withholdings”). Section 1445 Withholdings are required at a rate of 35 percent of distributions made by the US REIT attributable to the sale or exchange of USRPIs by the US REIT and at a rate of 10 percent of the portion of a distribution in excess of both the US REIT’s earnings and profits and the REIT LP’s adjusted basis in the US REIT shares. Section 1445 Withholdings are also required at a rate of 10 percent of the amount realized on the sale or exchange by the REIT LP of the shares of the US REIT. Under Regulations, the REIT LP may credit its Section 1446 Withholdings with its Section 1445 Withholdings.

Management has represented to KPMG that it intends to take all reasonable steps necessary to limit the REIT LP from recognizing Non-Exempt Gains that may cause a Unitholder to have ECI and, therefore, a U.S. tax return filing requirement. For example, management has represented to KPMG that any dispositions of properties by the US REIT will, to the extent practicable, be made by way of a non-recognition transaction. Likewise, management has represented to KPMG that the REIT LP has no plans to sell its US REIT shares or to cause it to make distributions in excess of the sum of the US REIT’s earnings and profits and the REIT LP’s adjusted basis in its shares of the US REIT. However, no assurances can be given that Non-Exempt Gains will not be included in a particular Unitholder’s distributive share of REIT LP income in a particular year. As such, no assurances can be given that a Unitholder will not have U.S. tax return filing obligations in one or more years arising as a result of an investment in the REIT LP.

Distributions made by the US REIT to the REIT LP that are in excess of the US REIT’s earnings and profits but that are not in excess of the REIT LP’s adjusted basis in its US REIT shares are treated as a non-taxable return of capital for U.S. federal income tax purposes. However, such distributions may be subject to Section 1445 Withholdings at a 10 percent rate unless the REIT LP obtains a withholding certificate from the Internal Revenue Service and the withholding certificate waives the Section 1445 Withholdings. The REIT LP has represented to KPMG that it intends to file for a withholding certificate for each US REIT distribution that includes a non-taxable return of capital. However, no assurances can be given that the Internal Revenue Service will approve such a withholding certificate application.

A nonresident alien individual or a foreign corporation that derives ECI (including amounts received as a partner through a partnership) is generally required to make quarterly payments of estimated U.S. tax and is required to file a U.S. federal income tax return. A partner in a partnership may generally take its distributive shares of Section 1446 Withholdings and Section 1445 Withholdings into account in determining whether estimated tax payments are required.

Unitholders may claim Section 1446 Withholdings and Section 1445 Withholdings as credits against their final U.S. federal income tax liabilities. However, claims for refunds of overpayments of such withholdings must generally be made by filing a U.S. federal income tax return (Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations) within two years of the date the tax was paid and by showing proof of withholdings by attaching Form 8805 (Form 1042-S in the case of a publicly traded partnership) for Section 1446 Withholdings and Form 8288-A for Section 1445 Withholdings. Unitholders are required to file a U.S. federal income tax return to report their distributive shares of Non-Exempt Gains without regard to the amount of tax withheld. Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

#### *Unitholders' Distributive Share of REIT LP's Non-ECI Income*

##### In General

A nonresident alien individual and a foreign corporation are generally subject to U.S. federal income tax on fixed or determinable, annual or periodic income ("FDAP") received from U.S. sources, including U.S. source dividends to the extent not effectively connected with the conduct of a U.S. trade or business. U.S. source FDAP is generally subject to 30 percent U.S. tax applied to the gross amount (with no allowance for deductions) of FDAP ("FDAP Tax") unless a lower rate applies to the gross amount of FDAP under an applicable U.S. treaty. FDAP that is effectively connected with the conduct of a U.S. trade or business is generally subject to the U.S. tax rules and filings requirements applicable to Non-Exempt Gains, discussed earlier.

##### FDAP Tax is Withheld at Source

The 30 percent tax on the gross amount of U.S. source FDAP payments to a nonresident alien individual or foreign corporation is generally collected through withholdings at source ("Section 1441 FDAP withholding"). Withholding at source is also required when U.S. source FDAP payments are made to a partnership, such as the REIT LP, which is organized outside the United States and which has foreign partners. Withholding is generally required at a 30 percent rate, unless a lower rate applies under an applicable U.S. treaty and certain documentation requirements are met. The documentation requirements are generally designed to provide withholding agents with sufficient information to enable them to allocate income amongst partners, to identify the beneficial owners of the income and to establish such beneficial owners' residence and entitlement to a treaty-reduced rate of withholding for U.S. federal income tax purposes. A withholding agent which has deducted and withheld U.S. federal income tax on FDAP on behalf of the REIT LP is required to file information Form 1042-S on behalf of the REIT LP with respect to each partner to whom a payment was made (or deemed made).

##### Treaty Reduced Rates of U.S. Tax on FDAP

U.S. source FDAP payments that would otherwise be subject to 30 percent withholding at source when paid to a foreign partnership (such as the REIT LP) are treated as being made directly to the partners of the foreign partnership in certain circumstances. For example, a payment made to a foreign partnership is treated as made directly to a foreign partner if the foreign partnership satisfies certain documentation requirements and a foreign clearing organization or the financial institution through which the partner beneficially owns its partnership interest is a "qualified intermediary" that can reliably associate the payment with documentation that establishes the beneficial owner as a foreign person entitled to a reduced rate of withholding under an applicable U.S. treaty. Withholding is made at the reduced treaty rate of withholding where the required documentation is in place and the requirements for a reduced rate of withholding are satisfied.

Reduced rates of withholding tax on FDAP payments are not available under the Treaty unless the beneficial owner is a qualified resident of Canada under the Treaty.

A resident of Canada (within the meaning of the Treaty) who is a natural person generally is entitled to all of the benefits of the Treaty.

Similarly, an RRSP generally is entitled to all of the benefits of the Treaty if its sole beneficiary is an individual resident in Canada.

A TFSA, on the other hand, is not entitled to benefits, as an entity or arrangement, under the Treaty. Instead, income received by a TFSA is treated as received by the beneficiary of the TFSA and the TFSA should be disregarded for U.S. federal income tax purposes. The beneficiary or annuitant of the TFSA may, however, be eligible for Treaty-reduced withholding tax rates.

Whether a corporation resident in Canada is entitled to all of the benefits of the Treaty depends on a number of factors. Corporations resident in Canada that intend to invest in the REIT LP should consult their own tax advisors to determine whether they are eligible for Treaty-reduced rates of tax.

### Anti-Hybrid Rules

The source and character of a partner's distributive share of income received through a partnership is normally determined as if such item were realized directly by the partner. However, Treaty-reduced rates of withholding tax on FPAP payments are not available under either the Code or the Treaty if amounts are paid by or through certain entities ("hybrid entities") that are treated as fiscally transparent by one jurisdiction and not by the other (the "Anti-Hybrid Rules"). Neither the US REIT nor the REIT LP should be treated as hybrid entities either under the Code or under the Treaty. Accordingly, Unitholders should be eligible for Treaty-reduced rates on their distributive shares of FDAP received through the REIT LP to the same extent as if they had received such FDAP directly.

### Ordinary REIT Dividends

Distributions out of a REIT's current or accumulated earnings and profits that are not attributable to gain from the sale or exchange of USRPI ("ordinary REIT dividends") are generally treated as U.S. source FDAP and are subject to 30 percent withholding tax at source with no allowance for deductions.

As discussed above, a Canadian resident Unitholder's distributive share of FDAP from the REIT LP may be subject to a Treaty-reduced rate of tax if the Unitholder is also a "qualifying person" under the Treaty. The extent to which the 30 percent tax U.S. tax on FDAP is reduced under the Treaty depends on the nature of the FDAP, certain characteristics of the recipient and the level of the recipient's ownership in the REIT LP.

All or substantially all of the FDAP received by the REIT LP is expected to be dividends from the US REIT. Further, this summary is directed to Unitholders who do not own (and who are not considered to own) more than 5 percent of the Units that are eligible for trading on an exchange. Accordingly, the commentary which follows is mainly limited to FDAP income that is ordinary REIT dividends from the US REIT received by Unitholders who own (and who are considered to own) 5 percent or less of the REIT LP's listed Units.

The applicable Treaty rates of U.S. withholding tax on a Unitholder's distributive share of ordinary REIT dividends that are not ECI should be zero for RRSPs and 15 percent for individuals, including TFSAs. Corporate Unitholders should consult with their own tax advisors to determine whether they are eligible for the 15 percent Treaty-reduced rate.

Certain residents of Canada may not be eligible for Treaty-reduced rates of withholding on their distributive shares of the US REIT's ordinary dividends. In general, Treaty-reduced rates are not available on a Unitholder's distributive share of the US REIT's ordinary REIT dividends if the Unitholder beneficially owns, through the REIT LP, a greater than 10 percent interest in the US REIT.

A Unitholder that has sufficient proof of withholding may generally recover any excess withholding by filing a U.S. federal income tax return for the year in which the distribution is received (Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations), provided the return is filed no later than two years after the tax is withheld. A Unitholder must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

## **Gift and Estate Tax**

### *Gift Tax*

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

A gratuitous transfer of a partnership interest by a non-domiciliary individual will not be subject to U.S. gift tax (regardless of where the partnership interest is situated) if the partnership interest is considered intangible personal property. The Internal Revenue Service and the courts have accepted, in other contexts, that an interest in a partnership should be treated as intangible personal property. However, there is no clear guidance on whether a partnership interest is intangible property for gift tax purposes. Moreover, the Internal Revenue Service has placed this issue on its “no-rule” list.

The U.S. gift tax rules relating to partnership interests are complex and are unsettled. As such, Unitholders should consult with their own tax advisors for more specific information and advice regarding their U.S. gift tax exposure before making a gift of a Unit.

### *Estate Tax*

A non-domiciliary individual is taxed at death on the fair market value of the individual’s 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 United States. For example, stocks and bonds of corporations organized in the United States and real property located in the United States are included in a non-domiciliary individual’s U.S. estate.

The transfer of a partnership interest by a non-domiciliary at death will not be subject to U.S. estate tax if the partnership is not considered to be situated in the United States. The place where a partnership interest is situated is not addressed in the Code and the issue has not been judicially resolved. However, the Internal Revenue Service has ruled that a partnership interest is situated “where the partnership business is carried on.”

Substantially all of the REIT LP’s assets will be comprised of shares of the US REIT, which will be considered property situated in the United States for U.S. estate tax purposes. As such, the Internal Revenue Service may take the view that the REIT LP’s business is carried on in the United States and that Units owned by a non-domiciliary individual Unitholder will constitute property having an estate tax situs in the United States, subject to the payment of U.S. estate tax by such Unitholder’s estate (with possible full or partial Treaty relief) based upon the fair market value of such Units at the time of death.

The U.S. estate tax rules relating to partnership interests are complex and remain unsettled. As such, Unitholders should consult with their own tax advisors for more specific information and advice regarding their specific U.S. estate tax exposures (and any potential relief under the Treaty) should such Unitholders hold Units at the time of their deaths.

## **Federal Income Taxation of the US REIT**

The US REIT intends to elect to be a REIT commencing with its first taxable year. However, qualifying as a REIT depends on an entity meeting various REIT requirements each taxable year. As such, there is no assurance that the US REIT will qualify as a REIT. The failure of the US REIT to qualify as a REIT in its first or in any subsequent taxable year may result in materially reduced distributions to Unitholders and U.S. federal income tax consequences that are not described in this summary.

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

The sections of the Code and Regulations 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 and Regulations that govern the U.S. federal income tax treatment of the US REIT and its non-U.S. interest holders.

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

For example:

- Undistributed taxable income (including undistributed net capital gains) will be taxed at the regular rates for corporations.
- The US REIT may be subject to “alternative minimum tax” on items of tax preference, if any.
- The US 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.
- The US 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.
- The US REIT is subject to a 100 percent tax on certain transactions with its taxable REIT subsidiaries (defined generally below) if such transactions are not at “arm’s-length”, as defined.
- If the US 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 US 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 US REIT’s profitability.
- If the US 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.
- The US 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 U.S. 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 Code 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 Requirement, on the other hand, is generally measured at the actual shareholder level. Both the 100 Shareholder Requirement and the Not-Closely Held Requirement are waived for the first taxable year for which a REIT election is made.

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 a non-REIT taxable year. As discussed more fully below under the heading “Annual Distribution Requirements”, the US 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 and by 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 REIT status.

#### REIT Subsidiaries

The separate existence of a qualified REIT subsidiary is disregarded for U.S. federal income tax purposes. All the assets, liabilities, income, deductions, and credits of a qualified REIT subsidiary are treated as though they are owned or earned directly by the REIT. A qualified REIT subsidiary is a corporation other than a taxable REIT subsidiary if 100 percent of the stock of the entity is owned by the REIT.

A taxable REIT subsidiary (“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 corporation of which a TRS directly or indirectly owns more than 35 percent of the voting power or value of the securities will itself be automatically treated as a TRS.

#### REIT Partnerships

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

A partnership is not subject to U.S. federal income tax; instead, its partners are required to recognize for U.S. federal income tax purposes their respective shares of the partnership income and other allocated items.

### *Annual Income Requirements*

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

1. At least 75 percent of the US 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 US 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 not held primarily for sale.

### 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.

"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 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 TRS; and
3. Impermissible tenant service income (“ITSI”).

Generally, ITSI means, with respect to a property, any amount received or accrued directly or indirectly by a 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 a 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, the US REIT must meet certain asset requirements, generally as follows:



- At least 75 percent of the value of the US 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 the 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 TRSs (see earlier discussion).
- Not more than 5 percent of its total assets may consist of securities of one issuer (other than interests in TRSs, U.S. Government securities and securities that qualify as real estate assets).
- The US 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, and for the 10 percent value limitation purposes, certain exempted securities).

If the US REIT meets the asset tests at the close of any quarter, it 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, the US 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, the US 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 US REIT first identifies the violation and by taking certain other steps.

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

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

#### *Annual Distribution Requirements*

The US 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 the dividends paid deduction only to the extent it is paid from current or accumulated earnings and profits of the US 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 dividends 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 for the prior year if it is declared before the US 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 US REIT timely files an election. To the extent the US 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, the US 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 if consents to such treatment are timely filed.

The US REIT may choose to treat certain dividends to be treated as designated capital gain dividends. The US 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.

#### *Records Maintenance*

The US 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 the US REIT's outstanding equity interests is generally the person who is required to include the dividends received from the US REIT in gross income for U.S. federal income tax purposes.

#### *Other Applicable Rules*

The US 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, the US REIT generally computes its taxable income in the same way as a U.S. corporation. As such, the US 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.

#### **New IRS Reporting Rules**

New U.S. tax rules generally impose a reporting and 30 percent withholding tax with respect to (a) certain U.S.-source income (including interest and dividends and gross proceeds from the sale or other disposition of property that can produce U.S.-source interest or dividends) ("withholdable payments") and (b) "passthrough payments" (generally, withholdable payments and payments that are attributable to withholdable payments) made by non-U.S. financial institutions. The definition of "financial institution" for this purpose is broad and should include the REIT LP.

Under the new rules, unless the REIT LP enters into an agreement with the IRS pursuant to which it agrees to report to the IRS information regarding the U.S. holders of, and certain U.S. persons that indirectly hold, interests in the REIT LP (other than equity and debt interests that are regularly traded on an established securities market), and to comply with other reporting, verification, due diligence and other procedures established by the IRS, the REIT LP will be subject to a 30 percent withholding tax on withholdable payments made to it after December 31, 2013, and on foreign passthrough payments (generally, passthrough payments that are not withholdable payments) made to it after December 31, 2016 by non-U.S. financial institutions that have an agreement with the IRS in effect. In addition, the REIT LP may be required to withhold the 30 percent tax on a portion of the distributions that it makes to Unitholders that fail to provide information requested by the REIT LP to comply with the new rules. Non-U.S. financial institutions that have entered into an agreement with the IRS and that hold Units on behalf of a Unitholder may also be required to withhold the 30 percent tax on foreign passthrough payments that they make with respect to the Units after December 31, 2016, to a non-U.S. financial institution that has not entered into an agreement with the IRS or to a Unitholder that fails to provide information requested by such non-U.S. financial institution to comply with the new rules.

This description is based on guidance issued by the IRS. Future guidance from the IRS may affect the application of these rules to the Units.

## RISK FACTORS

Investing in the REIT LP's securities involves a high degree of risk. In addition to the other information contained in this prospectus, you should carefully consider the following risk factors before purchasing Units. The occurrence of any of the following risks could materially and adversely affect the REIT LP's investments, prospects, cash flows, results of operations or financial condition and the REIT LP's ability to make cash distributions to Unitholders. In that event, the value of the Units could decline and investors may lose all or part of their investment. Although the REIT LP believes that the risk factors described below are the most material risks that the REIT LP face, they are not the only ones. Additional risk factors not presently known to the REIT LP or that the REIT LP currently believe are immaterial could also materially and adversely affect the REIT LP's investments, prospects, cash flows, results of operations or financial condition and the REIT LP's ability to make cash distributions to Unitholders and negatively affect the value of the Units.

### **Risks Relating to the REIT LP, its business and the Initial Portfolio**

*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 Managing GP and the Property Manager and their principals, Darren Latoski and Steve Evans. In particular, prospective purchasers will have to rely on the discretion and ability of the Managing GP its principals in determining the composition of the portfolio of Properties, and in negotiating the pricing and other terms of the agreements leading to the acquisition of Properties. Prospective purchasers will also have to rely on the ability of the Property Manager to manage the operation of the Properties and to implement the property management strategy established by the REIT LP. The ability of the Managing GP and Property Manager to successfully implement these strategies will depend in large part on their continued employment of Messrs. Latoski and Evans. None of, the Managing GP, the Property Manager, the REIT LP nor the US REIT maintains key person life insurance for either of Messrs. Latoski or Evans. If any of such entities lose the services of one or both of these individuals, the business, financial condition and results of operations of the REIT LP may be materially adversely affected.

*Risks of Real Estate Ownership* – An investment in Units is an indirect investment in U.S. real estate through the REIT LP's indirect interest in the US REIT and the Properties acquired by the US REIT. 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 residential units, competition from other available premises, leasing risk, exposure to defaulting tenants and various other factors.
- (c) *Financing Risks* – There is no assurance that the US REIT 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 US REIT will be able to purchase will decrease and the return from the ownership of Properties (and ultimately the return on an investment in 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 Risk* – Interest rate risk is the combined risk that the REIT LP would experience a loss as a result of its exposure to a higher interest rate environment (interest rate risk) and the

possibility that at the end of a mortgage term the REIT LP would be unable to renew the maturing debt either with the existing or a new lender (renewal risk). With the current world economic and financial crisis, there is a heightened risk that not only will existing maturing mortgages be subject to increased interest rates, but the distinct possibility also exists that maturing mortgages will not be renewed or, if they are renewed, they will be renewed at significantly lower loan-to-value ratios. The REIT LP will seek to manage its interest rate risk by negotiating, where possible, fixed interest rates on all of its mortgage debt.

- (e) *Environmental Matters* – The REIT LP is subject to various requirements (including federal, provincial, state and municipal laws, as applicable, in the United States) relating to environmental matters. Such requirements provide that the REIT LP could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, mercury, volatile organic compounds, underground storage tanks, pesticides and other miscellaneous materials. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials. Additional liability may be incurred by the REIT LP with respect to the release of such substances from the REIT LP's properties to properties owned by third parties, including properties adjacent to the REIT LP's properties or with respect to the exposure of persons to regulated substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT LP's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT LP. It is the REIT LP's operating policy to obtain or be entitled to rely on an environmental site assessment prior to acquiring a property. Where an environmental site assessment warrants further investigation, it is the REIT LP's operating policy to conduct further environmental assessments. Although such environmental assessments provide the REIT LP with some level of assurance about the condition of the properties, the REIT LP may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT LP may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Environmental laws and other requirements can change and the REIT LP may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.
- (f) *Uninsured Losses* – The US REIT will arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned by it or its 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 US REIT will rely upon the Property Manager and, initially by way of subcontract, the Tipton Group, a third-party management company, to perform property management functions in respect of each of the Properties. The employees of the Property Manager and the Tipton Group will devote so much of their time to the management of the Properties as in their judgement is reasonably required and may have conflicts of interest in allocating management time, services and functions among the Properties and their other development, investment and/or management activities.
- (h) *Competition* – The multi-family real estate sector is highly competitive. The REIT LP faces competition from many sources, including from other multi-family buildings in the immediate

vicinity of the various Properties comprising the Initial Portfolio and the broader geographic areas where the REIT LP's residential properties are and will be located. In addition, overbuilding in the multi-family sector, particularly in the United States, may increase the supply of multi-family properties, further increasing the level of competition in certain markets. Such competition may reduce occupancy rates and rental revenues of the REIT LP and could have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Furthermore, the multi-family properties that the REIT LP owns or may acquire compete with numerous housing alternatives in attracting tenants, including owner occupied single- and multi-family homes available to rent or purchase. The relative demand for such alternatives may be increased by declining mortgage interest rates, government programs which promote home ownership, or other events or initiatives which increase the affordability of such alternatives to multi-unit residential rental properties, and could materially adversely affect the REIT LP's ability to retain tenants, lease suites and increase or maintain rental rates. Such competition may reduce occupancy rates and rental revenues of the REIT LP, and could have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. The competition for multi-family properties available for sale may significantly increase the cost of acquiring such assets, and may result in such assets being acquired by the REIT LP at prices, or on terms, which are comparatively less favourable to the REIT LP or may result in such assets being acquired by competitors of the REIT LP. In addition, the number of entities seeking to acquire multi-family properties and/or the amount of funds competing for such acquisitions may increase. In addition, single-property acquisitions from tax motivated individual sellers may only be available for sale at a higher cost to the REIT LP relative to portfolio acquisitions. Increases in the cost to the REIT LP of acquiring multi-unit residential properties may materially adversely affect the ability of the REIT LP to acquire such properties on favourable terms, and may otherwise have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

- (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 any variable rates of interest charged in respect of such loans.
- (j) *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.
- (k) *Joint Ventures* – The US REIT 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 US REIT's control over the Properties and their ability to sell their interests in a Property within a reasonable time frame.
- (l) *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 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. Although a recovery in the real estate market is in its early stages, the REIT LP cannot predict when the real estate markets will return to their pre-downturn levels. The value of Properties acquired may decline if current market conditions persist or worsen.

- (m) *Acquisition of Initial Portfolio* – The REIT LP may not acquire all or any of the properties comprising the Initial Portfolio. As a result, the properties acquired by the REIT LP may not provide the returns estimated to be available from an investment in the Initial Portfolio.
- (n) *Liquidity Risk* – Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of the REIT LP to respond to changing economic or investment conditions. If the REIT LP were to be required to liquidate assets quickly, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in a particular type of real estate, the REIT LP is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.
- (o) *Tenancy Risk* – The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of the properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent unleased suites in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors. Cash available for distribution will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms. If properties do not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, this could have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the Initial Portfolio or revenues to be derived therefrom. Reported estimates of market rent can be seasonal and the significance of any variations from quarter to quarter would materially affect the REIT LP's annualized estimated gain-to-lease amount. There can be no assurance that upon the expiry or termination of existing leases, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues and it may take a significant amount of time for market rents to be recognized by the REIT LP due to internal and external limitations on its ability to charge these new market-based rents in the short term. The short-term nature of residential tenant leases exposes the REIT LP to the effects of declining market rent, which could materially adversely affect the REIT LP's results from operations and ability to make distributions to holders of Units. Most of the REIT LP's residential tenant leases will be for a term of one year or less. Because the REIT LP's residential tenant leases generally permit residents to leave at the end of their lease term without any penalty, the REIT LP's rental revenue may be materially adversely affected by declines in market rents more quickly than if such leases were for longer terms.
- (p) *Substitutions for Residential Rental Units* – Demand for the REIT LP's residential rental properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. With the recent global economic crisis and its impact on the Canadian and U.S. credit markets, interest rates offered by financial institutions for financing home ownership have been at historically low levels. If the interest rates offered by financial institutions for home ownership financing remain low, demand for rental properties may be adversely affected. Additionally, the southeastern and southwestern United States continues to experience historically high levels of foreclosures on single family homes, which has increased the supply of single family homes available for purchase, and may adversely affect demand for rental

properties. A reduction in the demand for rental properties may have a material adverse effect on the REIT LP's ability to lease suites in its properties and on the rents charged. This, in turn, may have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

- (q) *Residential Tenancy Legislation* – Certain jurisdictions in the United States have enacted residential tenancy legislation which, among other things, imposes rent control guidelines that limit the REIT LP's ability to raise rental rates at its properties. Limits on the REIT LP's ability to raise rental rates at its properties may materially adversely affect the REIT LP's ability to increase income from its properties. In addition to limiting the REIT LP's ability to raise rental rates, tenancy legislation provides certain rights to tenants, while imposing obligations upon the landlord. Residential tenancy legislation prescribes certain procedures which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective administrative body governing residential tenancies as appointed under a province's residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears.
- (r) *Changes in Applicable Laws* - The REIT LP's operations must comply with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Non-compliance with laws could expose the REIT LP to liability. Lower revenue growth or significant unanticipated expenditures may result from the REIT LP's need to comply with changes in applicable laws, including (i) laws imposing environmental remedial requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord/tenant laws, or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of the REIT LP's properties, including changes to building codes and fire and life-safety codes.
- (s) *Fixed Costs and Increased Expenses* – The failure to maintain stable or increasing average monthly rental rates combined with acceptable occupancy levels would likely have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT LP is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale. The REIT LP is also subject to utility and property tax risk relating to increased costs that the REIT LP may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of re-valuations of properties and their adherent tax rates. In some instances, enhancements to properties may result in significant increases in property assessments following a re-valuation. Additionally, utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that the REIT LP cannot charge back to the tenant may have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Unlike commercial leases, which generally are "net" leases and allow a landlord to recover expenditures from tenants, residential leases are generally "gross" leases and the landlord is not able to pass on costs to its tenants. The timing and amount of capital expenditures by the REIT LP will affect the amount of cash available for distributions to holders of Units. Distributions may be reduced, or even eliminated, at times when the REIT LP deems it necessary to make significant capital or other expenditures.
- (t) *Geographic Concentration* – The Initial Portfolio are located in the Dallas-Forth Worth area, making the REIT LP's performance particularly sensitive to economic changes in Texas and, in

particular, the Dallas-Fort Worth area. The market value of REIT's properties, the income generated by the REIT LP and the REIT LP's performance are particularly sensitive to changes in the economic condition and regulatory environment of the Dallas-Fort Worth area and Texas. Adverse changes in the economic condition or regulatory environment of the Dallas-Fort Worth area or Texas may have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

- (u) *Risk Related to Insurance Renewals* - Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for catastrophic risks. When the REIT LP's current insurance policies expire, the REIT LP may encounter difficulty in obtaining or renewing property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the REIT LP is able to renew its policies at levels and with limitations consistent with its current policies, the REIT LP cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If the REIT LP is unable to obtain adequate insurance on its properties for certain risks, it could cause the REIT LP to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require the REIT LP to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur, or if the REIT LP were unable to obtain adequate insurance, and its properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.
  
- (v) *Access to Capital* - The real estate industry is highly capital intensive. The REIT LP will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that the REIT LP will have access to sufficient capital or access to capital on terms favourable to the REIT LP for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, the REIT LP may not be able to borrow funds due to the limitations set forth in the REIT LP Agreement. In addition, global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the re-valuation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as governments continue attempts to restore liquidity to the global economy, no assurance can be given that the combined impact of the significant re-valuations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world in the near to medium term. These market conditions and unexpected volatility or illiquidity in financial markets may inhibit the REIT LP's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which the REIT LP may require in order to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular property owned by the REIT LP or otherwise, may not be available or, if it is available, may not be available on favourable terms to the REIT LP. Failure by the REIT LP to access required capital could have a material adverse effect on the REIT LP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.
  
- (w) *Degree of Leverage* - The REIT LP's degree of leverage could have important consequences to Unitholders. For example, the degree of leverage could affect the REIT LP's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general trust purposes, making the REIT LP more vulnerable to a downturn in business or the economy in general. Under the REIT LP Agreement, the maximum the REIT LP can leverage is 70% of its Gross Book Value.



- (x) *Litigation Risks* – In the normal course of the REIT LP’s operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the REIT LP and as a result, could have a material adverse effect on the REIT LP’s assets, liabilities, business, financial condition and results of operations. Even if the REIT LP prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the REIT LP’s business operations, which could have a material adverse effect on the REIT LP’s business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.
  
- (y) *Laws Benefitting Disabled Persons* – Laws benefiting disabled persons may result in unanticipated expenses being incurred by the REIT LP. Under the *Americans with Disabilities Act of 1990* (the “ADA”), all places intended to be used by the public are required to meet certain federal requirements related to access and use by disabled persons. The *Fair Housing Amendments Act of 1988* (the “FHAA”) requires apartment properties first occupied after March 13, 1991 to comply with design and construction requirements for disabled access. For those projects receiving federal funds, the *Rehabilitation Act of 1973* also has requirements regarding disabled access. These and other federal, state and local laws may require modifications to the REIT LP’s properties, or affect renovations of the properties. Non-compliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although the REIT LP believes that the Initial U.S. Properties are substantially in compliance with present requirements, the REIT LP may incur unanticipated expenses to comply with the ADA, the FHAA and the *Rehabilitation Act of 1973* in connection with the ongoing operation or redevelopment of the REIT LP’s properties.

*United States Financing Renewal Risk — Condition of Fannie Mae or Freddie Mac* - In the future, the REIT LP will seek to manage its financing risk in respect of its U.S. properties by maintaining a balanced maturity profile with no significant amounts coming due in any particular period. Management believes that the use of Fannie Mae or Freddie Mac insured mortgages will assist the REIT LP in managing its renewal risk. Given the increased credit quality of such debt, the probability of the REIT LP being unable to renew the maturing debt or transfer this debt to another accredited lending institution is significantly reduced. However, there can be no assurance that the renewal of debt will be on as favourable terms as the REIT LP’s existing debt. The ongoing financial and real estate market disruptions that began in 2007 could adversely affect the multi-unit residential property sector’s ability to obtain financing from Freddie Mac and Fannie Mae, which could materially adversely affect the REIT LP’s U.S. operations. Fannie Mae and Freddie Mac are major sources of financing for the U.S. multi-family sector, and both Freddie Mac and Fannie Mae have experienced significant losses during the last three years due to credit-related expenses, securities impairments and fair value losses. If new U.S. government regulations (i) heighten the underwriting standards of Freddie Mac or Fannie Mae, (ii) adversely affect interest rates, or (iii) reduce the amount of capital that either Freddie Mac or Fannie Mae can make available to the multi-unit residential sector, such regulations could reduce or remove entirely a vital resource of multi-unit residential financing. Any potential reduction in loans, guarantees and credit enhancement arrangements from Freddie Mac or Fannie Mae could limit the availability of financing, increase the cost of financing or otherwise decrease the amount of liquidity and credit available to the multi-family sector generally and the REIT LP specifically. On September 7, 2008, the Federal Housing Finance Agency, or the FHFA, placed Fannie Mae and Freddie Mac into conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in Fannie Mae’s and Freddie Mac’s debt and mortgage-related securities. Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac, there can be no assurance that these actions will be adequate for their needs. If these actions are inadequate, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honour their guarantees and other obligations. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes a U.S. government agency

mortgage-backed security and could have broad adverse market implications. Such market implications could negatively affect the performance and market value of the Initial Portfolio.

*Dependence on the Managing GP, the Governing GP and the Sunstone Group* – The REIT LP is dependent upon the Managing GP, the Governing GP and the Sunstone Group for operational and administrative services relating to the REIT LP's business. The REIT LP Agreement does not have a specified term or expiry date, and accordingly, may at times in the future not reflect current market terms for duties and responsibilities of the Managing GP, as a general partner of the REIT LP or the external structure may become uneconomical for the REIT LP. There is a risk that, because of the terms of the REIT LP Agreement, the Asset Management Agreement and the Property Management Agreement, termination of the REIT LP Agreement, the Asset Management Agreement and the Property Management Agreement Management Agreements, removal of Governing GP as a general partner of the REIT LP or termination of the Asset Management Agreement may be uneconomical for the REIT LP and accordingly not in the best interest of the REIT LP. Should the Managing GP resign or be removed as a general partner of the REIT LP or the Managing GP terminate the Asset Management Agreement, the REIT LP may be required to engage the services of an external asset manager and/or property manager. The REIT LP may be unable to engage an asset manager and/or property manager on acceptable terms, in which case the REIT LP's operations and cash available for distribution may be materially adversely affected. Alternatively, it may be able to engage an asset manager and/or property manager on acceptable terms or it may elect to internalize its external structure, but the process undertaken to engage such manager(s) or to internalize could be costly and time-consuming and may divert the attention of management and key personnel away from the REIT LP's business operations, which could materially adversely affect its financial condition.

#### **Risks Relating to the Offering and the Units**

*No Prior Public Market for Units* – Prior to the Offering, no public market existed for the Units. An active and liquid market for the Units may not develop following the completion of the Offering or, if developed, may not be maintained. If an active public market does not develop or is not maintained, investors may have difficulty selling their Units. The initial public offering price of Units was determined by negotiation among the REIT LP and the Agents and may not be indicative of the price at which the Units will trade following the completion of the Offering. The REIT LP cannot assure investors that the market price of Units will not materially decline below the initial public offering price.

*Volatile Market Price for Units* – The market price for Units may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT LP's control, including the following: (i) actual or anticipated fluctuations in the REIT LP's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT LP; (iv) addition or departure of the REIT LP's executive officers and other key personnel; (v) release or expiration of lock-up or other transfer restrictions on outstanding Units; (vi) sales or perceived sales of additional Units; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT LP or its competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT LP's industry or target markets. Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of the Units may decline even if the REIT LP's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT LP's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Units by those institutions, which could materially adversely affect the trading price of the Units. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, the REIT LP's operations could be materially adversely impacted and the trading price of the Units may be materially adversely affected.

*Historical Financial Information and Pro Forma Financial Information* – The historical financial information relating to the Initial Portfolio included in this prospectus has been derived from historical accounting records. The REIT LP believes that the assumptions underlying the combined financial statements are reasonable. However, the combined financial statements may not reflect what the REIT LP’s financial position, results of operations or cash flows would have been had the REIT LP been a standalone entity during the historical periods presented or what the REIT LP’s financial position, results of operations or cash flows will be in the future. The REIT LP has not made adjustments to its historical financial information to reflect changes that may occur in its cost structure, financing and operations as a result of its acquisition of the Initial Portfolio. In preparing the *pro forma* financial information in this prospectus, the REIT LP has given effect to, among other items, the Offering and the Closing. The estimates used in the *pro forma* financial information may not be similar to the REIT LP’s actual experience as a stand-alone public entity.

*Return on Investment Not Guaranteed* – The Units are equity securities of the REIT LP and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the REIT LP does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The REIT LP has the ability to reduce or suspend distributions if circumstances so warrant. The ability of the REIT LP to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT LP and its subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the REIT LP’s properties. The market value of the Units will deteriorate if the REIT LP is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the REIT LP’s cash distributions are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a “return on capital” over the same period. AFFO may exceed actual cash available to the REIT LP from time to time because of items such as principal repayments and capital expenditures in excess of stipulated reserves identified by the REIT LP in its calculation of AFFO and redemptions of Units, if any. The REIT LP may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

*Return on Investment Not Comparable to Fixed-Income Security* – The return on an investment in the Units is not comparable to the return on an investment in a fixed-income security. Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the REIT LP intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future. The REIT LP’s ability to make cash distributions and the actual amount distributed will depend on a number of factors, including the financial performance of the Initial Portfolio acquired by the REIT LP, debt covenants and obligations, interest rates, the occupancy rates of the REIT LP’s properties, working capital requirements, future capital requirements and the REIT LP’s ability to complete future acquisitions. The REIT LP may be required to supplement its cash distributions from working capital. In addition, the market value of the Units may decline if the REIT LP reduces its cash distributions or is unable to meet its cash distribution targets in the future.

*Currency Exchange Rate Risk* – The Offering Price for 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 Units is required to be made in U.S. dollars and the US REIT and its affiliates will conduct business in the U.S. Consequently, income and expense or any ultimate gain on sale will be earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the value of an investment in 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.

*Non-IFRS Measures* – The financial forecast and pro forma financial information set out in this Prospectus includes certain measures which do not have standardized meanings prescribed by IFRS 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.

*The REIT LP's financial forecast may not be accurate* – In preparing the pro forma financial information included in this prospectus, the REIT LP has given effect to, among other items, the Offering and the closing of the Acquisition. The estimates used in the pro forma financial information may not be similar to the REIT LP's actual experience. The forecast results contained in this Prospectus were prepared using assumptions that reflect management's intended course for the periods covered, given the judgment of management as to the most probable set of economic conditions. There can be no assurance that the assumptions reflected in the forecast will prove to be accurate. Actual results for the forecast period may vary from the forecast results and those variations may be material. The REIT LP gives no representation that actual results achieved in the forecast period will be the same, in whole or in part, as those forecast herein. See "Forward-Looking Information" and "Financial Forecast".

*Unitholders do not have legal rights normally associated with ownership of shares of a corporation* – Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against the REIT LP. The Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that Act or any other legislation. Furthermore, the REIT LP is not a trust company and, accordingly, is not registered under any trust and loan company legislation as the REIT LP does not carry on or intend to carry on the business of a trust company.

*The issuance of additional Units will result in dilution* – The number of Units the REIT LP is authorized to issue is unlimited. The REIT LP may, in the REIT LP's sole discretion, issue additional Units from time to time. Any issuance of Units, including Units issued in consideration for Properties acquired by the REIT LP, will have a dilutive effect on existing Unitholders.

## **Canadian and United States Tax Related Risk Factors**

### *Canadian Tax-Related Risk Factors*

In general, a Unitholder must include in computing the Unitholder's income, gain, loss and deduction the Unitholder's proportionate share of income of the REIT LP allocated to the Unitholder pursuant to the REIT LP Agreement for the fiscal period of the REIT LP ending with or within the Unitholder's taxation year. See "Principal Canadian Federal Income Tax Considerations". However, the cash distributed to a Unitholder may not be sufficient to pay the full amount of such Unitholder's tax liability in respect of its investment in the REIT LP because each Unitholder's tax liability depends on such Unitholder's particular tax situation. In addition, the actual amount and timing of distributions will be subject to the discretion of the Governing GP, and the REIT LP cannot assure Unitholders that the REIT LP will in fact make cash distributions as intended. Even if the REIT LP is unable to distribute cash in amounts that are sufficient to fund the Unitholders' tax liabilities, each of the Unitholders will still be required to pay income taxes on its proportionate share of REIT LP's taxable income.

The after-tax return from an investment in Units to a Unitholder will depend in part on the Unitholder's ability to recognize for purposes of the Tax Act U.S. taxes paid by the REIT LP or by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act (refer to "Canadian Federal Income Tax Considerations"). A Unitholder's ability to recognize U.S. taxes through foreign tax credits or foreign tax deductions may be affected where the 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. Unitholders are therefore advised to consult their own tax advisors in regards to foreign tax credits and foreign tax deductions.

Provided that the Units are listed on a "designated stock exchange" (which currently includes the Exchange (Tiers 1 and 2)), the Units will be qualified investments under the Tax Act for a trust governed by a Plan. However, there can be no assurance that tax laws relating to qualified investments will not be changed. If the Units cease to be

qualified investments for Plans, 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.

A holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are or become a “prohibited investment” as defined in the Tax Act for the TFSA, RRSP or RRIF.

The REIT LP intends to redeem fractions of the ROC Share over time to fund its cash distribution obligations. Provided: (i) the CRA accepts the distribution on redemption as a return of paid-up capital; or (ii) the August 19, 2011 draft legislation, which proposes to exclude distributions from foreign share redemptions from the deemed dividend rules in respect of foreign affiliates, is enacted as proposed and effective at the relevant time, the REIT LP may realize a capital gain or loss on such redemption as a result of the foreign currency exchange rate being higher or lower at time of redemption than at the time of share subscription. The capital gain must be included in income, but any capital loss on such redemption will be added in part to the adjusted cost base of the ROC Share, and otherwise effectively denied unless the REIT LP sells the Common Shares of the US REIT, which sale is not contemplated.

The exposure of the REIT LP to the tax on SIFTs imposed by the SIFT Measures will depend on whether or not the REIT LP holds “non-portfolio properties” (as defined in the Tax Act). Where the REIT LP holds any “non-portfolio properties”, adverse consequences could arise including that the REIT LP would be subject to tax on its “taxable non-portfolio earnings” (as defined in the Tax Act), with the result that the amount of cash available for distribution by the REIT LP may be reduced, and that such amount be, depending on the circumstances, included in the income of 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 partnerships and SIFTs will not be changed, or that administrative policies and assessing practices of the CRA will not develop, in a manner which adversely affects the REIT LP and the Unitholders.

On October 31, 2003, the Department of Finance (Canada) released for public comment the REOP Proposals regarding the deductibility of interest and other expenses for purposes of the Tax Act. In general, these proposals may deny the deduction of losses arising from Unitholders’ Units in computing their income for Canadian federal income tax purposes in a particular taxation year, if, in the year the loss is claimed, it is not reasonable to expect that an overall cumulative profit would be earned from the investment in the REIT LP for the period in which the Unitholders held and can reasonably be expected to hold the investment. The Managing GP does not anticipate that the activities of the REIT LP will, in and of themselves, generate losses. However, investors may incur expenses in connection with an acquisition of Units that could result in a loss that would be affected by the REOP Proposals. As part of the 2005 Canadian federal budget, the Minister announced that an alternative proposal to reflect the REOP Proposals would be released for comment at an early opportunity. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not adversely affect the Unitholders, or that any revised proposal will not differ significantly from the REOP Proposals described above and in “Principal Canadian Federal Income Tax Considerations”.

The rules governing the Canadian federal income taxation of Unitholders are complex. The summary in “Principal Canadian Federal Income Tax Considerations” does not address or consider all aspects of Canadian federal income tax of an investment in the REIT LP 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, Units offered herein.

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

The following U.S. tax risks relate to situations described in more detail above in the section “Principal United States Federal Income Tax Considerations”. All of the terms below have the same meaning as they do in that section; please refer to that section for more detailed information.

- *The tax treatment described in this Prospectus depends on the REIT LP’s status as a partnership for U.S. federal income tax purposes. There is a risk that for the current year, and for any subsequent year, the REIT LP*

does not meet the “qualifying income” exception (as discussed above) to continue to be treated as a partnership for U.S. federal income tax purposes, and is, thus, treated as a corporation for U.S. federal income tax purposes. Should the REIT LP be treated as a corporation for U.S. federal income tax purposes, the income tax consequences will differ significantly from those described and distributions to Unitholders may be materially lower than if the REIT LP were treated as a flow-through entity for U.S. federal income tax purposes.

- *The tax treatment described in this Prospectus, with regard to 5 percent or smaller holders, depends on the Units being “regularly traded”.* There is a risk that for the current quarter, and for any subsequent quarter, the REIT LP may not be considered to be “regularly traded”. “Regularly traded” requires that more than a de minimis amount of trading occurs during each quarter, certain quarterly volume requirements are satisfied, and less than 50 percent of the REIT LP is owned by 100 or fewer persons at all times. As well, certain other reporting requirements must be met. Should the regularly traded exception not be met, all Unitholders would be taxable upon the disposition of their Units and would also be subject to U.S. tax return filing requirements.
- *Non-Exempt Gains recognized by the US REIT or REIT LP will cause Unitholders to be subject to U.S. federal income tax and U.S. filing obligations.* Management intends to take all reasonable steps to limit the REIT LP from recognizing Non-Exempt Gains that may cause a Unitholder to recognize ECI and, therefore, a U.S. tax return filing requirement. However, no assurances can be given that Non-Exempt Gains will not be recognized in a particular year. Unitholders who are allocated ECI (including USRPI gains) are required to file a U.S. federal income tax return. Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.
- *It is expected that the US REIT will qualify as a REIT for U.S. federal income tax purposes.* Given the highly complex nature of the rules governing REITs and the possibility of future changes in circumstances, no assurances can be given that US REIT will qualify as a REIT for U.S. federal income tax purposes, whether in its first taxable year or in any subsequent year. Should US REIT fail to qualify as a REIT, it should be subject to U.S. federal income tax and may result in materially reduced distributions to Unitholders. A REIT that is disqualified as a REIT cannot generally elect again to become a REIT prior to the fifth taxable year beginning after the first taxable year for which the termination is effective.
- *Withholding certificates may not be granted by the IRS.* The REIT LP and/or US REIT 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.
- *A Unitholder’s investment in the REIT LP may have U.S. gift and estate tax implications.* The U.S. gift and estate tax rules are complex, and each 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 the REIT LP, US REIT, and Unitholders are complex. The summary in the section “Principal United States Federal Income Tax Considerations” does not address or consider all aspects of U.S. federal income tax of an investment in the REIT LP 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 REIT LP Units involve a certain degree of risk. Any person considering the purchase of Units should be aware of these and other factors set forth in this Prospectus and should consult with his or her legal, tax and financial advisors prior to making an investment in the REIT LP Units. The REIT LP Units should only be purchased by persons who can afford to lose all of their investment.**

## MATERIAL CONTRACTS

The material contracts entered into or to be entered into by the REIT LP or its US REIT are as follows:

1. the REIT LP Agreement described under “Partnership Agreement and Description of Units”;

2. the Asset Management Agreement described under “Business and Growth Strategies – Asset Management”;
3. the Acquisition Agreements for the Initial Portfolio described under “The Initial Portfolio”;
4. the assignments of the Acquisition Agreements to the US REIT;
5. the Property Management Agreement described under “Business and Growth Strategies – Property Management”;
6. the Voting Agreement; and
7. the Agency Agreement described under “Plan of Distribution”.

Copies of the foregoing documents will be available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

Except as described in this prospectus, neither the Managing GP nor the Governing GP nor any of their officers or directors, or Unitholder that beneficially owns, or controls or directs more than 10% of the Units, or any associate or affiliate of any of the foregoing persons, has or has had any material interest in any transaction within the last three years, or any proposed transaction, that has materially affected or would materially affect the REIT LP or the US REIT.

### **PROMOTER**

The Managing GP has taken the initiative in founding and organizing the REIT LP and is therefore a promoter of the REIT LP for the purposes of applicable securities legislation.

### **PRINCIPAL UNITHOLDERS**

To the knowledge of the Managing GP, no person or company will own, directly or indirectly, more than 10% of the Units immediately following Closing.

### **PRIOR SALES**

Except as disclosed below, the REIT LP has not issued any Units or securities that are convertible into Units during the 12 months preceding the date of this Prospectus.

Prior to the closing of this Offering, the Managing GP will subscribe for 200,000 Class B Units (each a “Class B Unit”) of the REIT LP and will pay cash consideration of \$5.00 per Class B Unit for aggregate proceeds to the REIT LP of \$1,000,000 and as the Class B Unitholder will, upon the closing of the Offering, own a 5% interest in the REIT LP. Pursuant to the REIT LP Agreement, the Managing GP or any Affiliate or Associate of the Managing GP which is then a Class B Unitholder, will as a class be entitled to convert all but not less than all of their Class B Units into Units, by exercising certain Conversion Rights which upon exercise by the Class B Unitholders require the REIT LP to redesignate all the interests of the Class B Unitholders as Units, at the Specified Ratio.

### **LEGAL PROCEEDINGS**

Neither of the REIT LP nor the US REIT is currently involved in any outstanding, threatened or pending litigation that would have a material adverse effect on the REIT LP.

## **LEGAL MATTERS AND INTEREST OF EXPERTS**

Certain legal matters relating to the issue and sale of the Units will be passed upon on the REIT LP's behalf by Clark Wilson LLP and KPMG LLP, with respect to certain tax matters, and on behalf of the Agents by Miller Thomson LLP.

As of the date of this prospectus, none of the partners or associates of Clark Wilson LLP, the partners or associates of KPMG LLP or the partners or associates of Miller Thomson LLP beneficially own, directly and indirectly, any securities of the REIT LP.

The appraisals of the Initial Portfolio have been prepared by Deverick & Associates Inc. of Dallas, Texas. As of the date of this prospectus, Deverick & Associates Inc. did not beneficially own, directly and indirectly, any securities of the REIT LP.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The REIT LP's auditors are KPMG LLP, Chartered Accountants, located in Vancouver, British Columbia, who were appointed as the REIT LP's auditors on ♦, 2012. The transfer agent and registrar for the Units is Computershare Partnership Company of Canada at its principal office located in Vancouver, British Columbia.

## **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if this prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.



## GLOSSARY OF TERMS

**Act** means the *Limited Partnerships Act* (Ontario), as amended.

**Affiliate** or **Associate** means, where used to indicate a relationship with any person,

- (a) a partner, other than a Unitholder, of that person,
- (b) a trust or estate in which that person has a substantial beneficial interest or for which that person serves as trustee or in a similar capacity,
- (c) an entity in respect of which that person beneficially owns or controls, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the entity, or
- (d) a relative, including the spouse, of that person or a relative of that person's spouse, where the relative has the same home as that person,

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

**Agents** means the Dundee Securities Ltd. (as lead agent), Canaccord Genuity Corp., National Bank Financial Inc., Raymond James Ltd., Scotia Capital Inc., GMP Securities L.P., HSBC Securities (Canada) Inc., Union Securities Ltd., Sora Group Wealth Advisors Inc., Macquarie Capital Markets Canada Ltd. and Desjardins Securities Inc.

**Agents' Commission** means an amount equal to 6% of the gross proceeds of the Offering.

**Agreement** means the REIT LP Agreement.

**Asset Management Agreement** means the agreement made between the REIT LP and the Managing GP pursuant to which Managing GP will provide certain advisory, management and administrative services to the REIT LP, as such agreement is amended, restated and/or supplemented from time to time.

**Audit Committee** means the committee of Directors established pursuant to the REIT LP Agreement.

**Auditors** means the firm of chartered accountants appointed as the auditors of the REIT LP from time to time in accordance with the provisions hereof and, initially, means KPMG LLP, Chartered Accountants.

**Business Day** means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario.

**CDS** means The Canadian Depository for Securities Limited and its successors.

**CDS Participant** means a registered securities dealer which maintains a book record of Units held by CDS on behalf of a Unitholder.

**Class** means a class of units of the REIT LP.

**Class B Unit** means a Class B Unit of the REIT LP and includes a fraction of a Class B Unit of the REIT LP and for greater certainty excludes a Unit.

**Class B Unit Percentage Interest** means, at any particular time, that percentage interest in and to all of the income or capital of the REIT LP which is the percentage determined by the following formula:

$$A \div (A + B)$$

where:

A is the total number of Class B Units outstanding at the particular time multiplied by the Specified Ratio; and

B is the total number of Units outstanding at the particular time;

and, for greater certainty, where A is nil the Class B Unit Percentage Interest is zero.

**Class B Unitholder** means at any time a Person that is a limited partner or the Managing GP and who is the beneficial owner of one or more Class B Units.

**Closing** means the closing of the Offering.

**Closing Date** means the date on which the Closing occurs.

**Common Shares** means common shares in the capital of the US REIT which are issued to the REIT LP.

**Conversion** means the re-designation of Class B Units into Units upon the exercise of the Conversion Rights.

**Conversion Rights** means the right or obligation of the Class B Unitholders to cause the REIT LP to re-designate all their Class B Units into Units at the Specified Ratio, as set forth in the REIT LP Agreement.

**Determination Event** means the earliest to occur of the following:

- (a) a period of 10 consecutive trading days during which the Market Capitalization exceeds \$300,000,000;
- (b) a take-over bid by a person acting at arm's length to the Class B Unitholders and the Managing GP (or any Affiliate or Associate of Class B Unitholders and the Managing GP or person acting jointly or in concert with Class B Unitholders and the Managing GP) is made for the Units, provided that not less than 51% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or Affiliates or Associates of the offeror) are taken-up and paid for pursuant to the take-over bid; and
- (c) substantially all of the assets of the REIT LP are sold or the REIT LP is liquidated.

**Director** means the person(s) who have been elected or appointed as directors of the Governing GP from time to time.

**dissenting offeree** means, where a take-over bid is made for all of the Units other than those held by the offeror (or its Affiliates and Associates), a holder of Units who does not accept the take-over bid and includes a subsequent holder of those Units who acquires them from the first mentioned holder.

**Distributable Cash** means, for any period, the aggregate of all amounts received by the REIT LP in such period, whether by way of dividends, interest or otherwise, from and in respect of its direct and indirect investment in the Securities, including its investment in any Subsidiaries, less reasonable reserves determined by the Governing GP to be necessary to operate the affairs of the REIT LP in a prudent and businesslike manner and less Taxes, if any, payable by the REIT LP.

**Distribution Date** means, in respect of a Distribution Period, no later than the 15th day of the immediately following month, or if such day is not a Business Day, the next following Business Day, and such other dates determined from time to time by the Governing GP.

**Distribution Period** means each calendar month from and including the first day thereof and to and including the last day thereof (whether or not such days are Business Days), provided that the first Distribution Period will begin on the Closing Date and will end on the last day of the first complete calendar month following the Closing Date.

**Exchange** means TSX Venture Exchange Inc.

**Final Prospectus** means the final version of this Prospectus which will be filed by the REIT LP with the securities commissions or other securities regulatory authorities in all provinces of Canada except Quebec.

**Fiscal Year** means each fiscal year of the REIT LP.

**General Partners** means the Governing GP and the Managing GP

**Governing GP** means Pure Multi-Family REIT (GP) Inc., a British Columbia corporation, in its capacity as the governing general partner of the REIT LP, or any Person which is from time to time admitted as the governing general partner of the REIT LP in accordance with the terms of the REIT LP Agreement.

**Gross Book Value** means, at any time, the book value of the assets of the REIT LP and its consolidated Subsidiaries, as shown on its then most recent consolidated statement of assets, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown thereon or in the notes thereto plus the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by the REIT LP shown thereon or in the notes thereto, or if approved by a majority of the Directors at any time, the appraised value of the assets of the REIT LP and its consolidated Subsidiaries may be used instead of book value.

**IFRS** means International Financial Reporting Standards.

**Independent Director** means a Director who, in relation to the REIT LP is independent within the meaning of Multilateral Instrument 52-110 – Audit Committees and is not related within the meaning of the Tax Act, as replaced or amended from time to time.

**Initial Period** means the period commencing on the Closing Date and ending on the earlier of:

- (a) the occurrence of a Determination Event; and
- (b) the third anniversary of the Closing Date.

**joint venture entity** means the entity through which the REIT LP holds its interest in a joint venture.

**joint ventures** means an arrangement between the REIT LP and one or more other persons pursuant to which the REIT LP, directly or indirectly, conducts an undertaking and in respect of which the REIT LP may hold its interest jointly or in common or in another manner with others.

**Manager** means a person who provides advisory, management services to the REIT LP pursuant to a written contract, including the Managing GP and its permitted assigns under the Asset Management Agreement.

**Managing GP** means Pure Multifamily Management Limited Partnership, a British Columbia limited partnership, in its capacity as the managing general partner of the REIT LP, or any person which is from time to time admitted as the managing general partner of the REIT LP in accordance with the terms of the REIT LP Agreement.

**Mandatory Conversion Event** means the event described in paragraph (c) of the definition of “Determination Event”.

**Market Capitalization** means the 20 day weighted average market price of the Units on the principal market on which the Units are quoted for trading multiplied by the aggregate number of outstanding Units.

**Net Income or Net Loss** means, for accounting purposes, the net income or net loss of the REIT LP for a Fiscal Year as determined in accordance with IFRS.

**Nomination and Governance Committee** means the committee of the Governing GP established pursuant to the REIT LP Agreement.

**offeree** means a person to whom a take-over bid is made.

**Offering** means the initial public offering of Units pursuant to the Prospectus.

**Offering Price** means \$◆ per Unit, being the price established by the negotiation between the REIT LP, the Managing GP and Dundee Securities Ltd. for the Offering of Units pursuant to this Prospectus.

**offeror** means a person, other than an agent, who makes a take-over bid, and may include two or more persons who, directly or indirectly:

- (a) make a take-over bid jointly or in concert; or
- (b) intend to exercise jointly or in concert voting rights attached to the Units for which a take-over bid is made.

**Over-Allotment Option** means the option granted to the Agents pursuant to the Agency Agreement to purchase up to ◆ Units at the Offering Price to cover over-allotments, if any, and for market stabilization purposes.

**Over-Allotment Units** means the Units acquired by the Agents pursuant to the Over-Allotment Option.

**Partners** means the Governing GP, the Managing GP, the Unitholders and the Class B Unitholders.

**person** means and includes any individual, general partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, joint stock company, association, trust, trust company, bank, pension fund, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or other organization or entity, whether or not a legal entity, however designated or constituted.

**PIRET** means Pure Industrial Real Estate Trust, an unincorporated, open ended real estate investment trust governed by the laws of British Columbia.

**Plans** means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans, deferred profit sharing plans and tax-free savings accounts, each as defined in the Tax Act.

**Property** means a direct or indirect interest in a multi-family real estate property, including an existing multi-family real estate property or a multi-family real estate property which is newly developed, acquired, developed, owned and operated from time to time by the US REIT or other Subsidiary of the REIT LP.

**Property Manager** means a person who provides property management services to the US REIT or its Subsidiaries pursuant to a written contract, which may include the Managing GP or its Affiliates or Associates. The initial Property Manager is Sunstone Multi-Family Management Inc.

**Property Management Agreement** means the agreement made between the US REIT and the Property Manager pursuant to which the Property Manager will provide certain property management services to the US REIT in respect of the Properties.

**Proportionate Share**, in respect of each Class A Unitholder and Class B Unitholder, as the case may be, means that fraction which, as of the date of such determination:

- (c) has as its numerator the number of Class A Units or Class B Units, as the case may be, held by such Unitholder; and
- (d) has as its denominator the aggregate number of Class A Units or Class B Units, as the case may be, outstanding.

**Prospectus** means the final prospectus of the REIT LP relating to an initial public offering of Units to be filed with one or more securities commissions or similar authorities in Canada, as the same may be amended.

**real property** means property which in law is real property and includes, whether or not the same would in law be real property, leaseholds, mortgages, undivided joint interests in real property (whether by way of tenancy-in-common, joint tenancy, co-ownership, Joint venture or otherwise), any interests in any of the foregoing and the securities of trusts, corporations or partnerships the sole or principal purpose and activity of which is to invest in, hold and/or deal in real property.

**Record Date** means the date established by the Governing GP for determining:

- (a) the identity of Unitholders entitled to notice of any meeting of Partners or entitled to consent to a Limited Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Partners; or
- (b) the identity of Unitholders entitled to receive any report or distribution; and unless otherwise specified by the Governing GP a Record Date shall mean, as of any particular Business Day, the opening of business on such Business Day ;

**Register** means a register maintained at the office of the Transfer Agent, which contains the names and addresses of the Unitholders, the respective numbers of Units held by them, the certificate numbers of certificates representing such Units and a record of all transfers.

**REIT LP** means the Pure Multi-Family REIT LP.

**REIT LP Agreement** means the Agreement made as of May 8, 2012 between the Governing GP, the Managing GP and all persons who become Unitholders establishing and governing the REIT LP.

**Related Party** means, with reference to the Governing GP, any of the following:

- (a) any person who participates in the management of the Governing GP;
- (b) any person who participates in the management of a Property;
- (c) the contractor, where the proceeds from the Offering are used to build or develop a Property;
- (d) a promoter or an Affiliate of a promoter;
- (e) an Affiliate of a person mentioned in (i), (ii) or (iii), or a person with whom any such Affiliate is associated, including Limited Partnerships or other real estate entities set up by any such persons; or
- (f) any director or officer of a person mentioned in (i), (ii), (iii), (iv) or (v), as well as the persons with whom he or she is associated;

**Restricted Unit Plan** means any restricted unit plan adopted from time to time by the REIT LP.

**ROC Share** means a share in the capital of the US REIT which is designated within such capital as a ROC Share and is issued to the REIT LP.

**Securities** means any shares, units, partnership interests, joint venture interests or other securities of Persons which hold real property or interests therein.

**SIFT tax** means tax imposed under the Tax Act on specified investment flow-through entities.

**Specified Ratio** means, at any particular time, that ratio which is determined by the following formula:

$$(A \times B \div (100 - B)) \div C$$

where:

A is the lesser of:

A. the total number of Units outstanding at the Specified Time, not calculated on a fully-diluted basis, which for greater certainty shall not include Units issued upon the conversion of outstanding convertible debentures and other convertible securities until such time as they are converted, and

B. where the Specified Time is immediately after the occurrence of an event described in paragraph (i) of the definition of Determination Event, an number equal to \$300,000,000 divided by the weighted average trading price of the Units during the 10 consecutive trading days during which the Market Capitalization first exceeded \$300,000,000

B is equal to the product obtained when 5 is multiplied by the quotient obtained when the number of Class B Units referred to in (iii) is divided by the total number of Class B Units originally issued by the REIT LP; and

C is the total number of Class B Units outstanding at the particular time.

**Specified Time** means, at any particular time:

- (a) where no Determination Event has occurred, the time that is immediately prior to the particular time; and
- (b) where a Determination Event has occurred, the time immediately prior to the occurrence of the Determination Event.

**Special Resolution** means a resolution proposed to be passed as a special resolution at a meeting of Unitholders (including an adjourned meeting) duly convened for that purpose at which two or more individuals present in person either holding personally or representing as proxies not less in aggregate than 5% of the number of votes attached to Units then outstanding and passed by the affirmative votes of the holders of more than 75% of the Units represented at the meeting and voted on a poll upon such resolution.

**Subsidiary** includes, with respect to any person, a company, partnership, limited partnership, trust or other entity controlled, directly or indirectly, by such person, company, partnership, limited partnership, trust or other entity.

**Sunstone** means Sunstone Realty Advisors Inc., a British Columbia corporation.

**Sunstone Group** means Sunstone, Darren Latoski, Steve Evans and the various corporations, limited partnerships, trusts, joint ventures and other entities which are Associated with Sunstone, as the context requires.

**take-over bid** has the meaning ascribed to such term in the Securities Act (British Columbia), as amended from time to time.

**Target Distribution** means an amount equal to \$◆ per Unit per month, multiplied by the number of Units outstanding as at the end of the month and, where such Units were issued during a particular month, prorated for the number of days in the month during which those Units were issued and outstanding.

**Tax Act** means the Income Tax Act (Canada) and the regulations thereunder, as amended.

**Taxable Income, Taxable Loss, Capital Gain or Capital Loss** means, for income tax purposes, the income, loss, capital gain or capital loss of the REIT LP determined under all applicable income tax statutes and regulations after applying the following principles, subject to a determination by the Governing GP that such an application generally would not be in the best interest of Unitholders:

- (a) deductions in arriving at income, loss, capital gain or capital loss for tax purposes will be taken at the earliest time and to the maximum extent permitted by applicable income tax statutes and regulations; and
- (b) the recognition of income for tax purposes will be deferred to the maximum extent permitted by applicable income tax statutes and regulations.

**Taxation Year** means the taxation year of the REIT LP for the purposes of the Tax Act.

**Taxes** means all forms of taxation, whether direct or indirect and whether levied by reference to income, profits, gains, net wealth, asset values, turnover, added value or other reference and statutory, governmental, national, federal, state, provincial, local governmental or municipal impositions, duties, contributions and levies (including social security contributions, national insurance contributions and any other payroll taxes), whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and in respect of any person, and all penalties, charges, costs and interest relating thereto.

**Tipton Group** means Tipton Group, Inc., a Texas corporation.

**Transfer Agent** means such company as may from time to time be appointed by the REIT LP to act as registrar and transfer agent of the Units, together with any sub-transfer agent duly appointed by the Transfer Agent.

**Unitholder** means at any time a Person that is a limited partner in the REIT LP and who is the beneficial owner of one or more Class A Units.

**Unit** means a Class A Unit of the REIT LP and includes a fraction of a Class A Unit of the REIT LP and for greater certainty excludes a Class B Unit.

**Unit Option Plan** means any unit option plan adopted from time to time by the REIT LP.

**Unit Percentage Interest** means, at any particular time, that percentage interest in and to all of the income or capital of the REIT LP which is determined as 100% less the Class B Unit Percentage Interest.

**US REIT** means Pure US Apartments REIT Inc., a Maryland corporation.

**Voting Agreement** means an agreement made between the REIT LP and Sunstone Multi-Family Investments Inc. with respect to the manner in which Sunstone Multi-Family Investments Inc. will exercise votes on the shares of the Governing GP.

## AUDITOR'S CONSENT

The Directors of Pure Multi-Family REIT (GP) Inc. as general partner of Pure Multi-Family REIT LP

We have read the prospectus dated May ◆, 2012 relating to the sale and issue of units of Pure Multi-Family REIT LP (the "Entity"). 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 offering document of our report to the directors of the general partner of the Entity on the financial statements of the Entity, which comprise the statement of financial position as at May 8, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated May ◆, 2012.

Chartered Accountants  
May ◆, 2012  
Vancouver, Canada



## **AUDITORS' CONSENT**

The Directors of Pure Multi-Family REIT (GP) Inc. as general partner of Pure Multi-Family REIT LP

We have read the prospectus dated May ◆, 2012 relating to the sale and issue of units of Pure Multi-Family REIT LP (the "Entity"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of the general partner of the Entity on the financial statements of the Initial Portfolio, which comprise the combined statements of operations for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated May ◆, 2012

Chartered Accountants  
May ◆, 2012  
Vancouver, Canada

**FINANCIAL STATEMENTS**  
**INDEX TO FINANCIAL STATEMENTS**

This Preliminary Prospectus contains the following financial statements:

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<b>PURE MULTI-FAMILY REIT LP:</b>	
Statement of financial position as at May 8, 2012 with notes	F-4
Unaudited pro forma combined statement of financial position as at May 8, 2012 and for the year ended December 31, 2011	F-11
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Combined statement of operations for the three months ended March 31, 2012 and 2011, with notes	F-30

**Pure Multi-Family REIT LP**  
Statement of Financial Position

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**As at formation on  
May 8, 2012**

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**ASSETS**

**Current assets**

Cash **\$ 20**

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**PARTNER'S CAPITAL**

**General Partner contribution (note 3)** **\$ 20**

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Subsequent events (note 6)

Approved on behalf of the General Partner,  
Pure Multi-Family REIT (GP) Inc.:

\_\_\_\_\_ Director  
Rob King

\_\_\_\_\_ Director  
Darren Latoski

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*See accompanying notes to statement of financial position*

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# Pure Multi-Family REIT LP

## Notes to Statement of Financial Position

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### 1. REIT LP INFORMATION

Pure Multi-Family REIT LP (the “REIT LP”) is a limited partnership formed under the *Limited Partnership Act* (Ontario) to invest in multi-family real estate properties in the United States through US REIT. The REIT LP was established by Pure Multi-Family Management Limited Partnership (the “Managing GP”), its managing general partner, and Pure Multi-Family REIT (GP) Inc. (the “Governing GP”), its governing general partner, pursuant to the terms of the REIT LP Agreement. The REIT LP’s head office and address for service is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. A copy of the REIT LP Agreement can be obtained from the REIT LP during the period of distribution of the REIT LP’s Class A Units (each, a “Unit”) and will be available following the Closing on SEDAR at [www.sedar.com](http://www.sedar.com).

The REIT LP was established, among other things, for the purposes of:

- a) acquiring Common Shares and an ROC Share<sup>(1)</sup> of Pure US Apartments REIT Inc. (the “US REIT”);
- b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the REIT LP and making distributions to Unitholders;
- c) in connection with the undertaking set out above, reinvesting income and gains of the REIT LP and taking other actions besides the mere protection and preservation of the REIT LP Property.

<sup>(1)</sup>An ROC Share means one Return of Capital share in the capital of the US REIT having the terms and conditions set out in the charter of the US REIT and in the prospectus.

The principal business of the REIT LP will be to issue Units and to acquire and hold Common Shares and an ROC Share of the US REIT. The US REIT was established, among other things, for the purposes of acquiring, owning and operating multi-family real estate properties in the United States.

There has been no activity in the REIT LP between its formation date on May 8, 2012 and May 13, 2012, except for the general partner capital contributions. Accordingly, no statement of operations, or statement of cash flows for this period have been presented.

This statement of financial position was authorized for issue by the Governing GP on May 13, 2012.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statement has been prepared in accordance with International Financial Reporting Standards and includes the following significant accounting policies:

- a) Basis of presentation:

The financial statement reflects the financial position of the REIT 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 International Financial Reporting Standards 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.

# Pure Multi-Family REIT LP

## Notes to Statement of Financial Position

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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:

Where Distributable Cash was paid in respect of a Fiscal Year, the Net Income of the REIT LP in respect of that Fiscal Year shall be allocated among the Partners on the following basis:

- (a) first, to the Governing GP 0.01% of the Net Income of the REIT LP to a maximum of \$100 per annum;
- (b) as to the balance:
  - (1) to the Unitholders, as a class, an amount equal to the balance multiplied by a fraction, the numerator of which is the sum of the distributions received by the Unitholders in respect of the Fiscal Year and the denominator of which is the total distributions made by the REIT LP in respect of the Fiscal Year and the amount so determined shall be allocated among the Unitholders in an amount calculated by multiplying the amount distributed by a fraction, the numerator of which is the sum of distributions received by such Unitholder with respect to such Fiscal Year and the denominator of which is the aggregate amount of distributions made by the REIT LP to the Unitholders or Class B Unitholders, as the case may be, as a group with respect to such Fiscal Year; and
  - (2) to the Class B Unitholders, *pro rata*, an amount equal to the balance multiplied by a fraction, the numerator of which is the sum of the distributions received by the Class B Unitholders in respect of the Fiscal Year and the denominator of which is the total distributions made by the REIT LP in respect of the Fiscal Year.

Where no Distributable Cash was paid in respect of a Fiscal Year, Net Income of the REIT LP in respect of that Fiscal Year shall be allocated among the Partners on the following basis:

- (c) first, to the Governing GP 0.01% of the Net Income of the REIT LP to a maximum of \$100 per annum;
- (d) as to the balance:
  - (1) to the Unitholders of record at the end of each month ending in such Fiscal Year, the Class A Unit Percentage of the balance divided by 12; and
  - (2) to the Class B Unitholders of record at the end of each month ending in such Fiscal Year, the Class B Unit Percentage of the balance divided by 12.

Net Loss of the REIT LP in respect of that Fiscal Year shall be allocated among the Partners on the following basis:

- (a) to the Unitholders who were holders of Units at the end of each month ending in such Fiscal Year, *pro rata* in accordance with their respective Proportionate Shares and to the extent of their capital accounts, the Unit Percentage of the Net Loss divided by 12;
- (b) to the Class B Unitholders who were holders of Class B Units at the end of each month ending in such Fiscal Year, *pro rata* in accordance with their respective Proportionate Shares and to the extent of their capital accounts, the Class B Unit Percentage of the Net Loss divided by 12; and.

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(c) as to the balance, to the Governing GP.

d) Functional and presentation currency:

This statement of financial position is presented in United States dollars, which is the REIT LP's functional currency.

### **3. PARTNER'S CAPITAL**

The capital of the REIT LP consists of an unlimited number of units of the REIT LP and the interest held by the Governing GP. The Governing GP has made a capital contribution of \$20 to the REIT LP and has no further obligation to contribute capital.

### **4. MANAGEMENT AND OTHER SERVICES**

#### **Asset Management Agreement:**

The Managing GP, pursuant to the Asset Management Agreement, will provide asset management, administrative and reporting services to the REIT LP as its managing general partner. The Asset Management Agreement also requires the Managing GP to provide the REIT LP with support services consisting of office space and equipment and the necessary clerical and secretarial personnel for the administration of its day-to-day activities, at no cost. The Asset Management Agreement may be terminated by the REIT LP at any time upon the occurrence of certain events of default and at any other time upon not less than 60 days notice, without bonus or penalty. In lieu of the fees typically associated with a third party asset management agreement, the Managing GP will only be entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs but excluding personnel costs) that it incurs providing asset management services to the REIT LP and will not be entitled to any other remuneration or compensation for its services.

# Pure Multi-Family REIT LP

## Notes to Statement of Financial Position

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Initially, the directors of the Governing GP who are not affiliated with or employees of the Managing GP will receive annual compensation in the amount of \$12,500, plus \$500 for attendance at meetings of the directors or any committee. As well, the Governing GP will indirectly reimburse such directors for any out of pocket expenses, including out of pocket expenses for attending meetings. The REIT LP will reimburse the Governing GP for such amounts. In addition, the REIT LP will obtain insurance coverage for such directors. Compensation will be reviewed on an annual basis, giving consideration to the REIT LP's growth and the extent of its portfolio.

### **Voting Agreement**

The REIT LP and Sunstone Multi-Family Investments Inc., which owns 100% of the outstanding shares of the Governing GP have entered into a voting agreement (the "Voting Agreement") that provides the REIT LP with a number of rights. Pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has agreed that any voting rights with respect to the Governing GP will be voted in favour of the election of directors approved by the REIT LP. For these purposes, the REIT LP may maintain, from time-to-time, an approved slate of nominees or provide direction with respect to the approval or rejection of any matter in the form of general guidelines, policies or procedures in which case no further approval or direction will be required. Any such general guidelines, policies or procedures may be modified by the REIT LP in its discretion.

In addition, pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has also agreed that any voting rights with respect to the Governing GP will be voted in accordance with the direction of the Unitholders of the REIT LP with respect to the approval or rejection of the following matters relating to the Governing GP:

- (a) any sale of all or substantially all of its assets,
- (b) any merger, amalgamation, consolidation, business combination or other material corporate transaction, except in connection with any internal reorganization that does not result in a change of control,
- (c) any plan or proposal for a complete or partial liquidation or dissolution, or any reorganization or any case, proceeding or action seeking relief under any existing laws or future laws relating to bankruptcy or insolvency,
- (d) any amendment to the REIT LP Agreement; or
- (e) any commitment or agreement to do any of the foregoing.

In addition, pursuant to the Voting Agreement, Sunstone Multi-Family Investments Inc. has agreed that it will not cause the Governing GP to resign as the Governing GP except with the prior consent of the Unitholders of the REIT LP. The Voting Agreement also contains restrictions on transfers of the shares of the Governing GP, except that Sunstone Multi-Family Investments Inc. may transfer shares of the Governing GP to any of its Affiliates.

## **5. TERMS OF CLASS A UNITS AND CLASS B UNITS**

The REIT LP is authorized to issue an unlimited number of Class A Units and Class B Units.

The beneficial interests in the REIT LP are divided into Class A Units and Class B Units. The Class A Units are the subject of this Offering. The Class B Units will be subscribed for by the Managing GP prior to the closing of this Offering. Except as set out in the REIT LP Agreement and described in this Prospectus, no Class A Unit or Class B Unit has any preference or priority over another.

# Pure Multi-Family REIT LP

## Notes to Statement of Financial Position

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Upon completion of the Offering, holders of the Class A Units will share in a 95% equity interest in all distributions and all net assets of the REIT LP and the Managing GP, as the holder of the Class B Units, will share in a 5% equity interest in all distributions and all net assets of the REIT LP. These respective interests, which are called the Unit Percentage Interest and Class B Unit Percentage Interest, will remain fixed, notwithstanding the issue of further Class A Units, until the occurrence of a Determination Event. Following the occurrence of a Determination Event, the number of Class A Units to which the Class B Unitholder is entitled upon exercising Conversion Rights becomes fixed, and future issuances of Units will result in a decline in the Class B Unit Percentage Interest.

All distributions will be made to the holders of the Class A Units and the Class B Units in accordance with the Unit Percentage Interest and Class B Unit Percentage Interest, respectively. As further detailed in the REIT LP Agreement, until a Determination Event occurs, distributions from the REIT LP will generally be made 95% to the Class A Units and 5% to the Class B Units.

Pursuant to the REIT LP Agreement, the Class B Unitholders as a class are entitled to convert some or all of their Class B Units into Class A Units based on the Specified Ratio. Upon the Class B Unitholders exercising their Conversion Rights, they will own that number of Class A Units which is equal to the Class B Unit Percentage Interest (initially 5%) of all Class A Units outstanding after such conversion. The Class B Unit Percentage Interest will remain fixed at 5% notwithstanding the issue of further Class A Units, until the occurrence of a Determination Event. Following the occurrence of a Determination Event, the number of Class A Units to which the Class B Unitholder is entitled upon exercising Conversion Rights becomes fixed, and future issuances of Class A Units will result in a decline in the Class B Unit Percentage Interest. A Determination Event is the earliest to occur of the following: (a) the REIT LP's Market Capitalization exceeding \$300,000,000 for a period of 10 consecutive trading days; (b) an arm's length take-over bid being made for the Units, provided that not less than 51% of the Class A Units not held by the offer or are taken-up in such bid; and (c) substantially all of the assets of the REIT LP being sold or the REIT LP being liquidated.

The Conversion Rights may be exercised by the Managing GP at any time provided that:

- (a) the REIT LP is legally entitled to comply with its obligations in connection with the exercise of the Conversion Rights; and
- (b) the Class B Unitholder who exercises the Conversion Rights complies with all applicable securities laws.

Upon the exercise of the Conversion Rights, the Class B Unitholders will receive that number of Class A Units which is equal to the Specified Ratio multiplied by the number of outstanding Class B Units. As such, pursuant the terms of the REIT LP Agreement, the Class B Unitholders will receive such number of Class A Units representing the same Class B Unit Percentage Interest in the net assets of the REIT LP as was previously designated in the form of Class B Units. Subject to applicable laws, the REIT LP will redesignate all the interests of Class B Unitholders into Units at the Specified Ratio, as defined in the Preliminary Prospectus dated May ◆, 2012, effective as of the date that the REIT LP receives a notice of exercise of the Conversion Rights. Upon such occurrence, the interests of Class B Unitholders will be redesignated as Class A Units. The Class B Units will not be required to be redeemed or cancelled.

Pursuant to the REIT LP Agreement, the Managing GP or any Affiliate or Associate of the Managing GP which is then the Class B Unitholder, has agreed that it will not dispose of more than one-third of the class A Units received by it upon the conversion of the Class B Units in each consecutive twelve month period ending after the first anniversary of the earlier of: (i) the date a Determination Event occurs; and (ii) the date upon which the conversion is completed. This limitation will not apply where the Conversion Rights have been exercised in connection with a takeover bid or a sale of substantially all of the REIT LP's assets.



# Pure Multi-Family REIT LP

Notes to Statement of Financial Position

## 6. SUBSEQUENT EVENTS

### a) Issuance of units

The REIT LP has entered into an agency agreement dated ♦, 2012 whereby it will raise gross proceeds of \$♦ pursuant to an initial public offering, through the issuance of ♦ Class A Units of the REIT LP at a price of \$♦ per unit. Costs relating to the Offering, including an agency fee of \$1,200,000 are estimated to aggregate of \$1,800,000 excluding any issuance of Units pursuant to an over-allotment option granted to the Agents.

Prior to the issuance of Class A units, the Managing GP subscribed for 200,000 Class B Units (each a “Class B Unit”) of the REIT and will pay cash consideration of \$5.00 per Class B Unit for aggregate proceeds to the REIT of \$1,000,000 and as the Class B Unitholder will own a 5% interest in the REIT.

### b) Purchase of Initial Portfolio

The closing (the “Closing”) of the transactions contemplated by this prospectus will occur no later than June ♦, 2012. On Closing, the REIT LP will use a portion of the net proceeds from the issuance of the Units to acquire three investment properties (the “Initial Portfolio”) located in the state of Texas from third party vendors. The aggregate purchase price for the properties is \$44,458,918 plus costs of acquisition estimated to be \$20,000. Management has obtained external appraisals in support of the purchase price for each of the properties.

### c) Mortgage financing arrangements

On Closing, the REIT LP will enter in to new mortgages on the three investment properties in the amount of \$27,710,000 and incur financing costs of \$338,325. These mortgage will bear interest at a fixed weighted average rate of 3.59% be secured by first charges over the respective properties.

### d) Sources and uses of cash

The REIT LP’s sources and uses of cash after the completion of the transactions contemplated in the Offering are as follows:

*Sources:*

Proceeds from the issuance of units . . . . . \$ ♦

*Uses:*

Purchase of Initial Portfolio (note 3(b)) . . . . . (♦)  
Offering costs and expenses . . . . . (♦)  
Retained working capital . . . . . \$ ♦

**PURE MULTI-FAMILY REIT LP**

Pro forma Combined Statement of Financial Position

(Unaudited)

(Expressed in United States dollars)

May 8, 2012

	REIT LP	Pro forma adjustments	Notes	Pro forma consolidated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment properties	\$ -	\$ 44,478,918	3(b)(i)	\$ 44,478,918
	-	44,478,918		44,478,918
<b>Current assets</b>				
Mortgage reserve fund	-	600,000	3(b)(i)	600,000
Deposits	-	48,623	3(b)(i)	48,623
Cash	20	1,495,816	3(a)	1,495,836
	20	2,144,439		2,144,459
<b>TOTAL ASSETS</b>	\$ 20	\$ 46,623,357		\$ 46,623,377
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Mortgages payable	\$ -	\$ 27,371,675	3(b)(ii)	\$ 27,371,675
Class B units	-	1,000,000	3(a)	1,000,000
	-	28,371,675		28,371,675
<b>Current liabilities</b>				
Rental deposits	-	51,682	3(b)(i)	51,682
<b>TOTAL LIABILITIES</b>	-	28,423,357		28,423,357
<b>PARTNERS' CAPITAL</b>	20	18,200,000	3(a)	18,200,020
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	\$ 20	\$ 46,623,357		\$ 46,623,377

See accompanying notes to pro forma combined financial statements.

**PURE MULTI-FAMILY REIT LP**

Pro forma Combined Statement of Net Income and Comprehensive Income

(Unaudited)

(Expressed in United States dollars)

Year ended December 31, 2011

	REIT LP	Initial Portfolio	Subtotal	Pro forma adjustments	Notes	Pro forma consolidated
<b>REVENUES</b>						
Rental	\$ -	\$ 5,813,891	\$ 5,813,891	\$ -		\$ 5,813,891
<b>RENTAL EXPENSES</b>						
Insurance	-	102,216	102,216	-		102,216
Management fees	-	193,021	193,021	-		193,021
Property taxes	-	683,336	683,336	-		683,336
Property operating expenses	-	2,432,515	2,432,515	-		2,432,515
	-	3,411,088	3,411,088	-		3,411,088
<b>OPERATING INCOME</b>	-	2,402,803	2,402,803	-		2,402,803
<b>NET FINANCE COSTS</b>						
Class B Unit distributions	-	-	-	(75,000)	3(e)	(75,000)
Mortgage interest	-	-	-	(1,044,400)	3(d)	(1,044,400)
	-	-	-	(1,119,400)		(1,119,400)
<b>NET OTHER INCOME (EXPENSES)</b>						
General and administrative	-	-	-	(125,000)	3(c)	(125,000)
Fair value adjustment to investment properties	-	3,030,667	3,030,667	(20,000)	3(b)(i)	3,010,667
	-	3,030,667	3,030,667	(145,000)		2,885,667
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	\$ -	\$ 5,433,470	\$ 5,433,470	\$ (1,264,400)		\$ 4,169,070
<b>Basic and diluted net income per unit</b>						<b>\$◆</b>

See accompanying notes to pro forma combined financial statements.

# PURE MULTI-FAMILY REIT LP

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

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## 1. BASIS OF PRESENTATION

Pure Multi-Family REIT LP (the “REIT LP”) is a limited partnership formed under the *Limited Partnership Act* (Ontario), to invest in multi-family real estate properties in the United States through the US REIT. The REIT LP was formed pursuant to the terms of the REIT LP Agreement, dated May 8, 2012, when \$20 of General Partner contribution was made. The REIT LP’s head office and address for service is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. A copy of the REIT LP Agreement can be obtained from the REIT LP during the period of distribution of the Units and will be available following the Closing on SEDAR at [www.sedar.com](http://www.sedar.com).

The REIT LP was established, among other things, for the purposes of:

- a) acquiring Common Shares and an ROC Share<sup>(1)</sup> of Pure US Apartments REIT Inc. (the “US REIT”);
- b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the REIT LP and making distributions to Unitholders;
- c) in connection with the undertaking set out above, reinvesting income and gains of the REIT LP and taking other actions besides the mere protection and preservation of the REIT LP Property.

<sup>(1)</sup>An ROC Share means one Return of Capital share in the capital of the US REIT having the terms and conditions set out in the charter of the US REIT and in the prospectus.

The principal business of the REIT LP will be to issue Units and to acquire and hold Common Shares and an ROC Share of the US REIT. The US REIT was established, among other things, for the purposes of acquiring, owning and operating multi-family real estate properties in the United States.

These pro forma combined financial statements have been prepared from the audited statement of financial position of the REIT LP as at May 8, 2012 and the audited combined statement of operations of the Initial Portfolio for the year ended December 31, 2011. These financial statements are included elsewhere in the prospectus.

These pro forma combined financial statements have been prepared in accordance with International Financial Reporting Standards. These pro forma combined financial statements incorporate the principal accounting policies used to prepare Initial Portfolio’s December 31, 2011 combined statement of operations.

The pro forma combined statement of financial position gives effect to the transactions in note 3 as if they occurred on May 8, 2012. The pro forma combined statement of operations gives effect to the transactions in note 3 as if they had occurred on January 1, 2011.

These pro forma combined financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated nor are they necessarily of future operating results or the financial position of the REIT LP.

These pro forma combined financial statements were authorized for issue by Pure Multi-Family REIT (GP) Inc. (the “General Partner”) on May 13, 2012.

# PURE MULTI-FAMILY REIT LP

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

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## 2. SIGNIFICANT ACCOUNTING POLICIES

### A. Leases

Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the REIT LP to the lessees are accounted for as finance leases. All current leases of the REIT LP are operating leases.

### B. Revenue recognition

Rental revenue is recognized on a straight line basis over the term of the lease subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

### C. Investment properties

Investment properties comprise property held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value. Fair value is defined as the value a third party is willing to pay for an investment property in an arm's length transaction. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the statement of loss and comprehensive loss in the year in which they arise.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of operations in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

### D. Cash

Cash consists of cash on hand and cash held at banks.

## **PURE MULTI-FAMILY REIT LP**

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *E. Income taxes*

The REIT LP is not subject to tax under Part I of the Income Tax Act (Canada) (the "Tax Act"). Each partner of the REIT 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 the REIT LP for its fiscal year ending in or on the partner's taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains certain provisions (the "SIFT Measures") which levy tax on certain trusts and partnerships that are specified investment flow-through entities ("SIFTs") in defined circumstances. Certain distributions attributable to a SIFT's "non-portfolio earnings" will not be deductible in computing a SIFT's income and the SIFT will be subject to Canadian income tax on such distributions at regular Canadian corporate rates. Management believes that the REIT LP is not a SIFT and therefore not subject to the SIFT Measures. Management further believes that the REIT LP would not have any non-portfolio earnings for the reporting period. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate the REIT LP in such a manner so as it remains exempt from the SIFT Measures on a continuous basis in the future. However, the REIT LP's continued exemption will depend upon meeting, through actual operating results, various conditions imposed by the SIFT Measures. If the REIT LP becomes a SIFT it will be subject to federal and provincial income taxes at regular Canadian corporate rates on its non-portfolio earnings, if any, distributed to unitholders.

The REIT LP intends to make an election to be treated as a partnership for U.S. federal income tax purposes. As such, it is generally not subject to U.S. federal income tax under the U.S. Internal Revenue Code (the "Code"). Furthermore, the US REIT intends to timely make and maintain an election as a real estate investment trust ("REIT") under the Code in the 2012 fiscal year and future fiscal years. In order for the US REIT to qualify, it must meet a number of organizational and operational requirements, including a requirement to make annual distributions to its unitholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The US REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to unitholders annually. Management intends to timely make REIT elections for the US REIT in the 2012 fiscal year and believes the US REIT's organization, ownership, method of operations, future assets and future income will enable the US REIT to qualify as a REIT under the Code. As of May 8, 2012 and for the year ended December 31, 2011, the US REIT does not have current US income tax liability, and accordingly no provision for US federal and state income taxes has been made.

Management intends to operate the US REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual operating results, the various conditions imposed by the Code. If the US REIT fails to qualify as a REIT in any taxable year, it will be subject to US federal and state income taxes at regular US corporate rates, including any applicable alternative minimum tax. In addition, the US REIT may not be able to requalify as a REIT for the four subsequent taxable years. Even if the US REIT qualifies for taxation as a REIT, the US REIT may be subject to certain US state and local taxes on its income and property, and to US federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

***F. Financial instruments***

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the REIT LP's designation of such instruments.

The following is a summary of the accounting model the REIT LP's elected to apply to each of its significant categories of financial instruments:

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Cash	Loans and receivables
Mortgage reserve fund	Loans and receivables
Deposits	Loans and receivables
Mortgages payable	Other financial liabilities
Class B Units	Other financial liabilities

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## PURE MULTI-FAMILY REIT LP

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *F. Financial instruments (continued)*

Mortgage reserve fund and deposits, are financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as loans and receivables and recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are accounted for at amortized cost, using the effective interest rate method.

In addition to the financial instruments accounting policies described above, in accordance with International Accounting Standards (“IAS”) 32 – *Financial Instruments: Presentation*, the REIT LP Class B Units (“Class B Unit”) have been classified as financial liabilities as “other financial liabilities”. The Class A Units qualify for presentation as equity under IAS 32.

#### *G. Fair value*

The fair value of a financial instrument is the amount that a third party is willing to pay in an arm’s length transaction. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

#### *H. Finance costs*

Finance costs comprise distributions to Class B unitholders, mortgage interest and costs incurred to enter into the mortgage agreements. Finance expenses are recognized in the period in which they are incurred.



# PURE MULTI-FAMILY REIT LP

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

## 3. PRO FORMA ADJUSTMENTS

The pro forma adjustments to the pro forma combined financial statements have been prepared to account for the impact of the transactions contemplated by the prospectus as described below.

### A. The Offering

The pro forma combined financial statements assume the REIT LP will raise gross proceeds, pursuant to an initial public offering (the "Offering") of approximately \$21,000,000 through the issuance of ♦ Class A Units (excluding any over-allotment option) and the issuance of 200,000 Class B Units. The costs relating to the Offering, including agents' fees, are forecast to be \$1,800,000 and are charged directly to partners' capital.

The proceeds are assumed to be as follows:

Proceeds from Class A Unit Offering	\$ 20,000,000
Proceeds from Issuance of Class B Units	1,000,000
Cost of issue	(1,800,000)
Net proceeds	19,200,000
Cash cost of Initial Portfolio (note 3b)	(17,704,184)
Retained for working capital, acquisition adjustments and future acquisitions	\$ 1,495,816

### B. Asset acquisitions

#### (i) Acquisition of the Initial Portfolio

On closing, it is assumed that subsidiaries of the REIT LP will indirectly acquire three properties (Stoneleigh at Valley Ranch, Windscape Apartment Homes and Oakchase Apartments) from certain third party co-owners, ("Initial Portfolio").

Upon completion of the offering, the REIT LP will use the proceeds to acquire the Initial Portfolio. Net assets acquired using the purchase method of accounting based on preliminary allocation are as follows:

Investment properties, inclusive of acquisition costs of \$20,000	\$ 44,478,918
Mortgage reserve funds	600,000
Utility deposits	48,623
Rental deposits	(51,682)
	\$ 45,075,859
Financed by:	
Mortgages, net of deferred financing costs of \$338,250	\$ 27,371,675
Cash	17,704,184
	\$ 45,075,859

## PURE MULTI-FAMILY REIT LP

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

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### 3. PRO FORMA ADJUSTMENTS (continued)

#### *B. Asset acquisitions (continued)*

##### *(ii) Debt*

On closing, the REIT LP is expected to obtain mortgages on the Initial Portfolio of \$27,710,000 and at a weighted average interest rate on such debt of 3.59%. As part of obtaining the mortgages, the REIT LP is expected to incur financing costs of \$338,325. The terms of the mortgages are as follows:

##### *Stoneleigh at Valley Ranch*

Mortgage principal in the amount of \$13,680,000 and over a term of seven years. This is an interest only mortgage with an interest rate of 3.63%.

##### *Windscape Apartment Homes*

Mortgage principal in the amount of \$5,090,000 and over a term of seven years. This is an interest only mortgage with an interest rate of 3.68%.

##### *Oakchase Apartments*

Mortgage principal in the amount of \$8,940,000 and over a term of five years. This is a first year interest only mortgage with a thirty year amortization period thereafter and with an interest rate of 3.48%.

#### *C. General and administrative and REIT LP expenses*

To reflect the REIT LP's best estimate of administrative expenses, the amount \$125,000 is expected to be incurred by the REIT LP in connection with reporting to unitholders, directors' fees, professional fees, Directors' and Officers' insurance, and other expenses and costs of being a public entity.

#### *D. Mortgage interest expense*

To record the mortgage interest expense on the mortgages noted above (note 3(b)(ii)) and the amortization of the deferred financing costs.

#### *E. Class B unit distributions*

Class B Unit distributions have been estimated to reflect 5/95ths of the total distributions made to Class A unitholders. The distributions on Class B Units of \$75,000 assume distributions will be paid in an amount that will yield 7.5% on the Offering price. However, no assurance can be given that actual distributions will be at this level. As the Class B Units are classified as a financial liability, these distributions are recorded as a finance cost on the pro forma combined statement of net income and comprehensive income.

## PURE MULTI-FAMILY REIT LP

Notes to Pro forma Combined Financial Statements

(Unaudited)

(Expressed in United States dollars)

As at May 8, 2012 and for the year ended December 31, 2011

### 4. PARTNERS' CAPITAL

	Units	Amount
General Partner contribution	2 \$	20
Class A units issued	◆	20,000,000
Issue costs	-	(1,800,000)
	◆ \$	18,200,020

The REIT LP is authorized to issue an unlimited number of Class A Units. Each Class A Unit is transferrable and, so long as there are any Class B Units issued and outstanding, each Class A Unit represents an equal undivided beneficial interest in and to the Class A Unit percentage interest of any distributions from the REIT LP and in the Class A unit percentage interest of any net assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

Where there are no Class B Units issued and outstanding, each Class A Unit represents an equal and undivided beneficial interest in and to all distributions from the REIT LP and in all assets of the REIT LP in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT LP.

On Closing, the REIT LP anticipates issuing ◆ Class A Units at \$◆ per unit. Prior to Closing, the REIT LP has issued 200,000 Class B Units issued at \$5.00 per unit for net proceeds of \$19,200,000 (see note 3 (a)). The Class B Units are classified as liabilities. Costs relating to the transactions contemplated by the prospectus, including agents' fees, are expected to be \$1,800,000.

## INDEPENDENT AUDITORS' REPORT

To the Directors of Pure Multi-Family REIT (GP) Inc.

We have audited the accompanying combined financial statements of the Initial Portfolio, which comprise the combined statements of operations for the years ended December 31, 2011 and December 31, 2010 and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with the basis of presentation described in Note 2 to the combined financial statements, and for such internal control as management determines is necessary to enable the preparation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined operating statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the combined financial statements present fairly, in all material respects, the financial performance of the Initial Portfolio for the years ended December 31, 2011 and December 31, 2010 in accordance with the basis of presentation described in Note 2 to these combined financial statements.

### *Emphasis of matter*

Without qualifying our opinion, we draw attention to Notes 1 and 2 to the combined statement of operations which indicate that the combined financial statements present aggregated financial information of the rental activities of Initial Portfolio ("combined business") and that in preparing the combined financial statements certain expense items relating to the vendors of the properties have been excluded. The combined financial statements may not necessarily be indicative of the results that would have been achieved if the combined business had operated as an independent entity.

Chartered Accountants,  
Vancouver, Canada  
May ◆, 2012

## INITIAL PORTFOLIO

### Combined Statements of Operations

	Year ended December 31, 2011	Year ended December 31, 2010
<b>REVENUES</b>		
Rental	\$ 5,813,891	\$ 5,645,935
<b>RENTAL EXPENSES</b>		
Insurance	102,216	98,968
Property management fees	193,021	173,698
Property taxes	683,336	717,656
Property operating expenses	2,432,515	2,426,734
	<b>3,411,088</b>	<b>3,417,056</b>
<b>OPERATING INCOME FROM PROPERTIES</b>	<b>2,402,803</b>	<b>2,228,879</b>
Fair value adjustments to investment properties (note 4)	3,030,667	6,455,882
<b>INCOME FROM PROPERTIES</b>	<b>\$ 5,433,470</b>	<b>\$ 8,684,761</b>

# INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

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## 1. OPERATIONS

These combined financial statements present the financial performance of the three investment properties (collectively these properties are known as the “Initial Portfolio”). The Initial Portfolio as presented in these combined financial statements is not a legal entity. The three investment properties, are to be acquired by Pure Multi-Family REIT LP (the “REIT LP”) upon completion of an initial public offering of units by the REIT LP.

The properties comprising the Initial Portfolio are as follows:

	Sq. Ft
Stoneleigh at Valley Ranch	208,136
Windscape Apartment Homes	118,976
Oakchase Apartments	181,372

These combined financial statements include the accounts of the operations of each property in the Initial Portfolio for the years ended December 31, 2011 and 2010.

## 2. BASIS OF PRESENTATION

### a. *Basis of presentation*

These combined financial statements present the financial performance of the Initial Portfolio had the properties been accounted for on a stand-alone basis and include the revenue and expenses relating to the properties, except as noted in the following paragraph, that are expected to be included in the REIT. Management has extracted the information used to prepare these combined financial statements from the financial reporting systems of the vendors of the properties.

The combined financial statements are prepared in accordance with the significant accounting policies in note 3 which are consistent with the recognition and measurement principles of IFRS. These combined financial statements do not comprise a complete set of financial statements under IFRS nor do they meet all of the disclosure principles of IFRS. The combined financial statements do not include all significant recognition and measurement requirements of IFRS because the combined financial statements present only the operating results of the properties and do not include certain items attributable to the property owners such as financing costs and income taxes. Other corporate costs of the vendors of the property have not been allocated to these combined financial statements.

Due to the inherent limitations of carving out activities from larger entities, these combined financial statements are not necessarily indicative of the results that would have been attained if the Initial Portfolio had been operated as a separate legal entity during the periods presented and, therefore, are not necessarily indicative of future operating results.

The combined financial statements were approved and authorized for issue by the General Partner, Pure Multi-Family REIT (GP) Inc. on May 13, 2012.

### b. *Basis of measurement*

These combined financial statements have been prepared on a going concern basis.

### c. *Functional and presentation currency*

These combined financial statements are presented in United States dollars, which is the Initial Portfolio’s functional currency.

# INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

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## 2. BASIS OF PRESENTATION (continued)

### *d. Presentation of financial statements*

The Initial Portfolio classifies the statements of operations using the function of expense method, which classifies expenses according to their functions, such as costs of operation or administrative activities.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these combined financial statements are set out below. These policies have been applied consistently to all periods presented.

### *A. Basis of combination*

The combined financial statements comprise the statements of operations of the Initial Portfolio as described in note 1.

### *B. Leases*

Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the Initial Portfolio to the lessees are accounted for as finance leases. All current leases of the Initial Portfolio are operating leases.

### *C. Revenue recognition*

Rental revenue is recognized on a straight line basis over the term of the lease subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

### *D. Investment properties*

Investment properties comprise property held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value. Fair value is defined as the value a third party is willing to pay for an investment property in an arm's length transaction. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the statement of operations in the year in which they arise.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of operations in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

# INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *E. Operating segments*

The Initial Portfolio comprises one business segment, operating three multifamily apartment properties located in the state of Texas.

### *F. Critical Judgments in Applying Accounting Policies*

The following are the critical judgments that have been made in applying the Initial Portfolio accounting policies and that have the most significant effect on the amounts in the combined financial statements:

#### *a. Investment Properties*

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment properties are set out in note 4.

#### *b. Critical Accounting Estimates and Assumptions*

The preparation of the combined financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting periods. In determining estimates of fair market value for its investment properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of investment are outlined in note 4.



## INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### G. Future accounting policy changes

##### a. Financial instruments: classification and measurement

In November 2009, as part of the IASB's project to replace International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9, *Financial Instruments*, which introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities and is applicable for annual periods starting on or after January 1, 2015. As the Initial Portfolio does not have any financial instruments this standard will not have an impact on the combined financial statements.

##### b. Joint arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements*. This new standard replaces IAS 31, *Interests in Joint Ventures*. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures and will be effective for the Initial Portfolio's year end beginning January 1, 2015. As the Initial Portfolio does not have any joint arrangements this standard will not have an impact on the combined financial statements.

##### c. Consolidated financial statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. This new standard replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12, *Consolidation – Special Purpose Entities*. The new standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. The adoption of IFRS 10 is not expected to have a significant impact on the Initial Portfolio's combined financial statements.

##### d. Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. This new standard includes disclosure requirements about subsidiaries, joint ventures and associates. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities and the nature and risks associated with interests in other entities. IAS 28, *Investments in Associates*, has been amended and will set the requirements for the application of the equity method when accounting for investments in associates. This standard will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. The adoption of IFRS 12 is not expected to have a significant impact on the Initial Portfolio's combined financial statements.

## INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### G. Future accounting policy changes (continued)

##### e. Fair value measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. This new standard establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. This standard will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. This standard will not have an impact on the combined financial statements.

### 4. SUMMARY OF STATEMENT OF OPERATIONS

The tables below expand the combined statements of operations on a property by property basis for the years ended December 31, 2011 and 2010.

Year ended December 31, 2011	Stoneleigh at Valley Ranch	Windscape Apartment Homes	Oakchase Apartments	Total
<b>REVENUES</b>				
Rental	\$ 2,548,169	\$ 1,313,100	\$ 1,952,622	\$ 5,813,891
<b>RENTAL EXPENSES</b>				
Insurance	39,132	24,837	38,247	102,216
Property management fees	89,427	41,962	61,632	193,021
Property taxes	392,239	109,416	181,681	683,336
Property operating expenses	859,321	667,388	905,806	2,432,515
	1,380,119	843,603	1,187,366	3,411,088
<b>OPERATING INCOME FROM PROPERTIES</b>				
	1,168,050	469,497	765,256	2,402,803
Fair value adjustments to investment properties	1,830,667	500,000	700,000	3,030,667
<b>INCOME FROM PROPERTIES</b>	\$ 2,998,717	\$ 969,497	\$ 1,465,256	\$ 5,433,470

Reconciliations of the change in the fair value of investment properties at the beginning and end of the year ended December 31, 2011 is set out below:

Year ended December 31, 2011	Stoneleigh at Valley Ranch	Windscape Apartment Homes	Oakchase Apartments	Total
Investment properties balance, beginning of year	\$ 19,900,000	\$ 7,900,000	\$ 12,800,000	\$ 40,600,000
Capital additions	269,333	-	-	269,333
Fair value adjustment	1,830,667	500,000	700,000	3,030,667
<b>Investment properties balance, end of year</b>	<b>\$ 22,000,000</b>	<b>\$ 8,400,000</b>	<b>\$ 13,500,000</b>	<b>\$ 43,900,000</b>

## INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

### 4. SUMMARY OF STATEMENT OF OPERATIONS (continued)

Year ended December 31, 2010	Stoneleigh at Valley Ranch	Windscape Apartment Homes	Oakchase Apartments	Total
<b>REVENUES</b>				
Rental	\$ 2,481,558	\$ 1,246,558	\$ 1,917,819	\$ 5,645,935
<b>RENTAL EXPENSES</b>				
Insurance	40,079	23,190	35,699	98,968
Property management fees	74,419	39,814	59,465	173,698
Property taxes	414,507	120,195	182,954	717,656
Property operating expenses	860,254	656,961	909,519	2,426,734
	1,389,259	840,160	1,187,637	3,417,056
<b>OPERATING INCOME FROM PROPERTIES</b>	1,092,299	406,398	730,182	2,228,879
Fair value adjustments to investment properties	3,171,056	1,400,000	1,884,826	6,455,882
<b>INCOME FROM PROPERTIES</b>	\$ 4,263,355	\$ 1,806,398	\$ 2,615,008	\$ 8,684,761

Reconciliations of the change in the fair value of investment properties at the beginning and end of the year ended December 31, 2010 is set out below:

Year ended December 31, 2010	Stoneleigh at Valley Ranch	Windscape Apartment Homes	Oakchase Apartments	Total
Investment properties balance, beginning of year	\$ 16,500,000	\$ 6,500,000	\$10,800,000	\$ 33,800,000
Capital additions	228,944	-	115,174	344,118
Fair value adjustment	3,171,056	1,400,000	1,884,826	6,455,882
<b>Investment properties balance, end of year</b>	<b>\$ 19,900,000</b>	<b>\$ 7,900,000</b>	<b>\$ 12,800,000</b>	<b>\$ 40,600,000</b>

## INITIAL PORTFOLIO

Notes to Combined Financial Statements  
Years Ended December 31, 2011 and 2010

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### 4. SUMMARY OF STATEMENT OF OPERATIONS (continued)

The fair values of the investment properties have been determined on a market value basis. As set out in note 3, in arriving at their estimates of market values, management and the independent appraisers have used their market knowledge and professional judgment and did not rely solely on historical transactional comparisons.

The appraisals were performed by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management reviews each appraisal and ensures that the assumptions used below are reasonable and the final fair value amount reflects those assumptions used in the determination of the fair market values of the properties.

The significant assumptions made relating to the valuations are set out below:

December 31, 2011		
	Weighted average	Range
Capitalization rate	6.35%	5.70% - 7.00%

December 31, 2010		
	Weighted average	Range
Capitalization rate	6.63%	6.25% - 7.00%

January 1, 2010		
	Weighted average	Range
Capitalization rate	7.46%	6.90% - 8.00%

## INITIAL PORTFOLIO

Interim Combined Statements of Operations  
(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
<b>REVENUES</b>		
Rental	\$ 1,522,902	\$ 1,425,341
<b>RENTAL EXPENSES</b>		
Insurance	24,962	24,361
Property management fees	47,135	44,079
Property taxes	181,845	184,182
Property operating expenses	595,919	546,797
	<b>849,861</b>	799,419
<b>OPERATING INCOME FROM PROPERTIES</b>	<b>673,041</b>	625,922
Fair value adjustments to investment properties (note 4)	-	-
<b>INCOME FROM PROPERTIES</b>	<b>\$ 673,041</b>	<b>\$ 625,922</b>

# INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements  
Three months ended March 31, 2012 and 2011  
(Unaudited)

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## 1. OPERATIONS

These interim combined financial statements present the financial performance of the three investment properties (collectively these properties are known as the “Initial Portfolio”). The Initial Portfolio as presented in these combined financial statements is not a legal entity. The three investment properties, are to be acquired by Pure Multi-Family REIT LP (the “REIT LP”) upon completion of an initial public offering of units by the REIT LP.

The properties comprising the Initial Portfolio are as follows:

	Sq. Ft
Stoneleigh at Valley Ranch	208,136
Windscape Apartment Homes	118,976
Oakchase Apartments	181,372

These interim combined financial statements include the accounts of the operations of each property in the Initial Portfolio for the three months ended March 31, 2012 and 2011.

## 2. BASIS OF PRESENTATION

### a. Basis of presentation

These interim combined financial statements present the financial performance of the Initial Portfolio had the properties been accounted for on a stand-alone basis and include the revenue and expenses relating to the properties, except as noted in the following paragraph, that are expected to be included in the REIT. Management has extracted the information used to prepare these interim combined financial statements from the financial reporting systems of the vendors of the properties.

The interim combined financial statements are prepared in accordance with the significant accounting policies in note 3 which are consistent with the recognition and measurement principles of IFRS. These combined financial statements do not comprise a complete set of financial statements under IFRS nor do they meet all of the disclosure principles of IFRS. The interim combined financial statements do not include all significant recognition and measurement requirements of IFRS because the interim combined financial statements present only the operating results of the properties and do not include certain items attributable to the property owners such as financing costs and income taxes. Other corporate costs of the vendors of the property have not been allocated to these interim combined financial statements.

Due to the inherent limitations of carving out activities from larger entities, these interim combined financial statements are not necessarily indicative of the results that would have been attained if the Initial Portfolio had been operated as a separate legal entity during the periods presented and, therefore, are not necessarily indicative of future operating results.

The interim combined financial statements were approved and authorized for issue by the General Partner, Pure Multi-Family REIT (GP) Inc. on May 17, 2012.

### b. Basis of measurement

These interim combined financial statements have been prepared on a going concern basis.

### c. Functional and presentation currency

These interim combined financial statements are presented in United States dollars, which is the Initial Portfolio’s functional currency.

# INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements  
Three months ended March 31, 2012 and 2011  
(Unaudited)

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## 2. BASIS OF PRESENTATION (continued)

### *d. Presentation of financial statements*

The Initial Portfolio classifies the statements of operations using the function of expense method, which classifies expenses according to their functions, such as costs of operation or administrative activities.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these interim combined financial statements are set out below. These policies have been applied consistently to all periods presented.

### *A. Basis of combination*

The interim combined financial statements comprise the statements of operations of the Initial Portfolio as described in note 1.

### *B. Leases*

Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the Initial Portfolio to the lessees are accounted for as finance leases. All current leases of the Initial Portfolio are operating leases.

### *C. Revenue recognition*

Rental revenue is recognized on a straight line basis over the term of the lease subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

### *D. Investment properties*

Investment properties comprise property held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value. Fair value is defined as the value a third party is willing to pay for an investment property in an arm's length transaction. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the statement of operations in the year in which they arise.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of operations in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

# INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements  
Three months ended March 31, 2012 and 2011  
(Unaudited)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *E. Operating segments*

The Initial Portfolio comprises one business segment, operating three multifamily apartment properties located in the state of Texas.

### *F. Critical Judgments in Applying Accounting Policies*

The following are the critical judgments that have been made in applying the Initial Portfolio accounting policies and that have the most significant effect on the amounts in the interim combined financial statements:

#### *a. Investment Properties*

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment properties are set out in note 4.

#### *b. Critical Accounting Estimates and Assumptions*

The preparation of the interim combined financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting periods. In determining estimates of fair market value for its investment properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of investment are outlined in note 4.



# INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements  
Three months ended March 31, 2012 and 2011  
(Unaudited)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### G. Future accounting policy changes

#### a. Financial instruments: classification and measurement

In November 2009, as part of the IASB's project to replace International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9, *Financial Instruments*, which introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities and is applicable for annual periods starting on or after January 1, 2015. As the Initial Portfolio does not have any financial instruments this standard will not have an impact on the combined financial statements.

#### b. Joint arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements*. This new standard replaces IAS 31, *Interests in Joint Ventures*. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures and will be effective for the Initial Portfolio's year end beginning January 1, 2015. As the Initial Portfolio does not have any joint arrangements this standard will not have an impact on the combined financial statements.

#### c. Consolidated financial statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. This new standard replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12, *Consolidation – Special Purpose Entities*. The new standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. The adoption of IFRS 10 is not expected to have a significant impact on the Initial Portfolio's combined financial statements.

#### d. Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. This new standard includes disclosure requirements about subsidiaries, joint ventures and associates. Additional disclosures include judgments and assumptions made in determining how to classify involvement with *another* entity, interests that non-controlling interests have in the consolidated entities and the nature and risks associated with interests in other entities. IAS 28, *Investments in Associates*, has been amended and will set the requirements for the application of the equity method when accounting for investments in associates. This standard will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. The adoption of IFRS 12 is not expected to have a significant impact on the Initial Portfolio's combined financial statements.

## INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements  
Three months ended March 31, 2012 and 2011  
(Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### G. Future accounting policy changes

##### a. Fair value measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. This new standard establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. This standard will be effective for the Initial Portfolio's year end beginning January 1, 2013, with early adoption permitted. This standard will not have an impact on the combined financial statements.

### 4. SUMMARY OF STATEMENT OF OPERATIONS

The tables below expand the interim combined statements of operations on a property by property basis for the three months ended March 31, 2012 and 2011.

Three months ended March 31, 2012 (Unaudited)	Stoneleigh at Valley Ranch	Windscape Apartment Homes	Oakchase Apartments	Total
<b>REVENUES</b>				
Rental	\$ 672,832	\$ 340,831	\$ 509,239	\$ 1,522,902
<b>RENTAL EXPENSES</b>				
Insurance	8,147	6,633	10,182	24,962
Property management fees	20,034	10,902	16,199	47,135
Property taxes	107,250	28,038	46,557	181,845
Property operating expenses	199,563	168,601	227,755	595,919
	334,994	214,174	300,693	849,861
<b>OPERATING INCOME FROM PROPERTIES</b>	337,838	126,657	208,546	673,041
Fair value adjustments to investment properties	482,963	100,000	100,000-	682,963
<b>INCOME FROM PROPERTIES</b>	\$ 820,801	\$ 226,657	\$ 308,546	\$ 1,356,004

Reconciliations of the change in the fair value of investment properties at the beginning and end of the three months ended March 31, 2012 is set out below:

Three months ended March 31, 2012 (Unaudited)	Stoneleigh at Valley Ranch	Windscape Apartment Homes	Oakchase Apartments	Total
Investment properties balance, beginning of period	\$ 22,000,000	\$ 8,400,000	\$ 13,500,000	\$ 43,900,000
Capital additions	17,037	-	-	17,037
Fair value adjustment	482,963	100,000	100,000-	682,963
<b>Investment properties balance, end of period</b>	<b>\$ 22,500,000</b>	<b>\$ 8,500,000</b>	<b>\$ 13,600,000</b>	<b>\$ 44,600,000</b>

## INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements

Three months ended March 31, 2012 and 2011  
(Unaudited)

**4. SUMMARY OF STATEMENT OF OPERATIONS (continued)**

<b>Three months ended March 31, 2011 (Unaudited)</b>	<b>Stoneleigh at Valley Ranch</b>	<b>Windscape Apartment Homes</b>	<b>Oakchase Apartments</b>	<b>Total</b>
<b>REVENUES</b>				
Rental	\$ 615,758	\$ 330,615	\$ 478,968	\$ 1,425,341
<b>RENTAL EXPENSES</b>				
Insurance	9,447	5,872	9,042	24,361
Property management fees	18,441	10,566	15,072	44,079
Property taxes	106,500	30,801	46,881	184,182
Property operating expenses	193,854	142,961	209,982	546,797
	328,242	190,200	280,977	799,419
<b>OPERATING INCOME FROM PROPERTIES</b>	<b>287,516</b>	<b>140,415</b>	<b>197,991</b>	<b>625,922</b>
Fair value adjustments to investment properties	-	-	-	-
<b>INCOME FROM PROPERTIES</b>	<b>\$ 287,516</b>	<b>\$ 140,415</b>	<b>\$ 197,991</b>	<b>\$ 625,922</b>

Reconciliations of the change in the fair value of investment properties at the beginning and end of the three months ended March 31, 2011 is set out below:

<b>Three months ended March 31, 2011 (Unaudited)</b>	<b>Stoneleigh at Valley Ranch</b>	<b>Windscape Apartment Homes</b>	<b>Oakchase Apartments</b>	<b>Total</b>
Investment properties balance, beginning of period	\$ 19,900,000	\$ 7,900,000	\$12,800,000	\$ 40,600,000
Capital additions	84,174	-	-	84,174
Fair value adjustment	-	-	-	-
<b>Investment properties balance, end of period</b>	<b>\$ 19,984,174</b>	<b>\$ 7,900,000</b>	<b>\$ 12,800,000</b>	<b>\$ 40,684,174</b>

# INITIAL PORTFOLIO

Notes to Interim Combined Financial Statements  
Three months ended March 31, 2012 and 2011  
(Unaudited)

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## 4. SUMMARY OF STATEMENT OF OPERATIONS (continued)

The fair values of the investment properties have been determined on a market value basis. As set out in note 3, in arriving at their estimates of market values, management and the independent appraisers have used their market knowledge and professional judgment and did not rely solely on historical transactional comparisons.

The appraisals were performed by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management reviews each appraisal and ensures that the assumptions used below are reasonable and the final fair value amount reflects those assumptions used in the determination of the fair market values of the properties.

The significant assumptions made relating to the valuations are set out below:

March 31, 2012		
	Weighted average	Range
Capitalization rate	6.24%	5.50% - 7.00%

March 31, 2011		
	Weighted average	Range
Capitalization rate	6.63%	6.25% - 7.00%

## APPENDIX A

### AUDIT COMMITTEE CHARTER

#### PURE MULTI-FAMILY REIT LP TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

##### PURPOSE

Pure Multi-Family REIT (GP) Inc. (the “**Governing GP**”) as “Governing General Partner” of Pure Multi-Family REIT LP (the “**REIT LP**”) shall appoint an audit committee (the “**Committee**”) to assist the board of directors (the “**Board**”) of the Governing GP in fulfilling its responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures on behalf of the REIT LP and any of its subsidiaries (collectively, the “**Entities**”), the adequacy of internal accounting controls and procedures, and the quality and integrity of the financial statements of the Entities. In addition, the Committee is responsible for directing the auditors’ examination of specific areas, for the selection of the independent auditors of the Entities and for the approval of all non-audit services for which the auditors of the Entities may be engaged.

##### I. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three members, each of whom shall be a director of the Governing GP and a majority of whom shall be “independent” within the meaning of National Instrument 52-110 – *Audit Committees* (“**NI 52- 110**”).

Each member of the Committee shall satisfy the “financial literacy” requirement of NI 52-110, by having the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the financial statements of the REIT LP.

The members of the Committee shall be annually appointed by the Board and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the Board.

##### II. CHAIR OF THE COMMITTEE

Unless the Board elects a Chair of the Committee, the members of the Committee shall designate a Chair by the majority vote of the full Committee membership.

The Chair of the Committee shall:

- (a) Call and conduct the meetings of the Committee;
- (b) Be entitled to vote to resolve any ties;
- (c) Prepare and forward to members of the Committee the agenda for each meeting of the Committee, and include, in the agenda, any items proposed for inclusion in the agenda by any member of the Committee;
- (d) Review with the Chief Financial Officer (“**CFO**”) and the auditors for the REIT LP any matters referred to the Chair by the CFO or the auditors of the REIT LP;
- (e) Appoint a secretary, who need not be a member of the Committee, to take minutes of the meetings of the Committee; and
- (f) Act in a manner that the Committee meetings are conducted in an efficient, effective and focused manner.

### **III. MEETINGS**

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. The Committee may meet privately with outside counsel of its choosing and the CFO of the Governing GP, as necessary. In addition, the Committee shall meet with the external auditors and management quarterly to review the REIT LP's financial statements in a manner consistent with that outlined in these Terms.

The Committee may invite to its meetings any partners of the REIT LP, management and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, shall constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

The Committee shall maintain minutes or other records of meetings and activities of the Committee.

Notice of the time and place of every meeting shall be given in writing or electronic communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

### **IV. RESPONSIBILITIES, DUTIES, AUTHORITY**

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in these Terms. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board from time to time related to the purposes of this Committee.

The Committee in discharging its oversight role is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention. In addition, the Committee shall have the authority to communicate directly with both external and internal auditors of the REIT LP.

The Committee shall be given full access to the Board, management, employees and others, directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the Board.

The Committee shall be responsible for assessing the range of risks that the Board shall focus on, and make recommendations to the Board about how appropriate responsibilities for continuing to identify, monitor and manage these risks are to be delegated. In addition, the Committee shall encourage continuous improvement of, and foster adherence to, the REIT LP's financial policies, procedures and practices at all levels in the organization; and provide an avenue of communication among the independent auditors, management and the Board.

Absent actual knowledge to the contrary (which shall promptly reported to the Board), each member of the Committee shall be entitled to rely on: (i) the integrity of those persons or organizations within and outside the REIT LP from which it receives information; (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations; and (iii) representations made by management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the REIT LP and its subsidiaries.

## V. SPECIFIC RESPONSIBILITIES AND ACTIVITIES

### A. Document Reports/Reviews

1. *Annual Financial Statements.* The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination:
  - (a) the annual audited consolidated financial statements;
  - (b) the external auditor's review of the annual consolidated financial statements and their report;
  - (c) any significant changes that were required in the external audit plan;
  - (d) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and
  - (e) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the REIT LP.

Following completion of the matters contemplated above, the Committee shall make a recommendation to the Board with respect to the approval of the annual financial statements with such changes contemplated and further recommended, as the Committee considers necessary.

2. *Interim Financial Statements.* The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination, the interim unaudited consolidated financial statements of the REIT LP, including a discussion with the external auditors of those matters required to be discussed under generally accepted auditing standards applicable to the REIT LP.
3. *Management's Discussion and Analysis.* The Committee shall review with management and the external auditors, both together and separately prior to public dissemination, the annual and interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").
4. *Approval of Annual MD&A, Interim Financial Statements and Interim MD&A.* The Committee shall make a recommendation to the Board with respect to the approval of the annual MD&A with such changes contemplated and further recommended by the Committee as the Committee considers necessary. In addition, the Committee shall approve the interim financial statements and interim MD&A of the REIT LP, if the Board has delegated such function to the Committee. If the Committee has not been delegated this function, the Committee shall make a recommendation to the Board with respect to the approval of the interim financial statements and interim MD&A with such changes contemplated and further recommended as the Committee considers necessary.
5. *Press Releases.* With respect to press releases by the REIT LP:
  - (a) The Committee shall review the REIT LP's financial statements, MD&A and annual and interim earnings press releases before the REIT LP publicly discloses this information.
  - (b) The Committee shall review with management, prior to public dissemination, the annual and interim earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted non-IFRS" information) as well as financial information and earnings guidance provided to analysts and rating agencies.
6. *Reports and Regulatory Returns.* The Committee shall review and discuss with management, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the REIT LP as may be specified by law.
7. *Other Financial Information.* The Committee shall review the financial information included in any prospectus, annual information form or information circular with the management and the external auditors, both together and separately, prior to public dissemination, and shall make a recommendation to the Board with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary.

**B. Financial Reporting Processes**

1. *Establishment and Assessment of Procedures.* The Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the REIT LP and assess the adequacy of these procedures annually.
2. *Application of accounting principles.* The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgements made by management, and their selection of accounting principles reflect an appropriate application of such accounting principles.
3. *Practices and Policies.* The Committee shall review with management and the external auditors, together and separately, the principal accounting practices and policies of the REIT LP.

**C. External Auditors**

1. *Oversight and Responsibility.* In respect of the external auditors of the REIT LP:
  - (a) The Committee shall recommend to the Board the external auditors nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer; and the compensation of the external auditors.
  - (b) The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the REIT LP, including the resolution of disagreements between management and the external auditors regarding financial reporting.
2. *Reporting.* The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.
3. *Performance and Review.* The Committee shall annually review the performance of the external auditors and recommend to the Board the appointment of the external auditors or approve any discharge of the external auditors when circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the REIT LP.
4. *Annual Audit Plan.* The Committee shall review with the external auditors and management, together and separately, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit.
5. *Non-Audit Services*
  - (a) "Non-audit services" means all services performed by the external auditors other than audit services. The Committee shall pre-approve all non-audit services to be provided to the REIT LP or its subsidiary entities by the REIT LP's external auditor and permit all non-audit services, other than non-audit services where:
    - (i) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the issuer and its subsidiary entities to the REIT LP's external auditor during the fiscal year in which the services are provided;
    - (ii) the issuer or the subsidiary entity of the REIT LP, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
    - (iii) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals had been delegated by the Committee.
  - (b) The Committee may delegate to one or members of the Committee the authority to grant such pre-approvals for non-audited services. The decisions of such member(s) regarding approval of "non-



audit” services shall be reported by such member(s) to the full Committee at its first scheduled meeting following such pre-approval.

- (c) The Committee shall adopt specific policies and procedures for the engagement of the non-audit services if:
    - (i) the pre-approval policies and procedures are detailed as to the particular services;
    - (ii) the Committee is informed of each non-audit service; and
    - (iii) the procedures do not include delegation of the Committee’s responsibilities to management.
6. *Independence Review.* The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the REIT LP. At least annually, the Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the REIT LP and, if necessary, recommend that the Board takes appropriate action to satisfy themselves of the external auditors’ independence and accountability to the Committee.

**D. Reports to Board**

1. *Reports.* In addition to such specific reports contemplated elsewhere in these Terms, the Committee shall report regularly to the Board regarding such matters, including:
- (a) with respect to any issues that arise with respect to the quality or integrity of the financial statements of the REIT LP, compliance with legal or regulatory requirements by the REIT LP, or the performance and independence of the external auditors of the REIT LP;
  - (b) following meetings of the Committee; and
  - (c) with respect to such other matters as are relevant to the Committee’s discharge of its responsibilities.
2. *Recommendations.* In addition to such specific recommendations contemplated elsewhere in these Terms, the Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report.

**E. Whistle-Blowing**

1. *Procedures.* The Committee shall establish procedures for:
- (a) the receipt, retention and treatment of complaints received by the REIT LP regarding questionable accounting, internal accounting controls, or auditing matters; and
  - (b) the confidential, anonymous submission by employees and of concerns regarding questionable accounting or auditing matters.
2. *Notice to Employees.*
- (a) To comply with the above, the Committee shall ensure each of the Entities advises all employees, by way of a written code of business conduct and ethics (the “Code”), or if such Code has not yet been adopted by the respective board, by way of a written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have been employed by the Entities, or their external auditors is strongly encouraged to report such concerns by way of communication directly to the Chair. Matters referred may be done so anonymously and in confidence.
  - (b) None of the Entities shall take or allow any reprisal against any employee for, in good faith, reporting questionable accounting, internal accounting, or auditing matters. Any such reprisal shall itself be considered a very serious breach of this policy.

- (c) All reported violations shall be investigated by the Committee following rules of procedure and process as shall be recommended by outside counsel.

**F. General**

1. *Access to Counsel.* The Committee shall review, periodically, with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements, the REIT LP's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
2. *Hiring of Partners and Employees of External Auditors.* The Committee shall annually review and approve the REIT LP's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the REIT LP.
3. *General.* The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the Board, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

**VI. ANNUAL PERFORMANCE REVIEW**

**Evaluation**

1. The Committee shall perform a review and evaluation, annually, of the performance of the Committee and its members, including a review of the compliance of the Committee with these Terms. In addition, the Committee shall evaluate, annually, the adequacy of these Terms and recommend any proposed changes to the Board.
2. The Committee shall annually review transactions involving directors and officers, including a review of travel expenses and entertainment expenses, related party transactions and any conflicts of interests.
3. Management shall be required to provide the Committee, at least annually, a report on internal controls, including reasonable assurance that such controls are adequate to facilitate reliable and timely financial information. The Committee shall also review and follow-up on any areas of internal control weakness identified by the external auditors with the auditors and management.

**CERTIFICATE OF THE REIT AND THE PROMOTER**

Dated: May 18, 2012

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 each of the provinces of Canada except Québec.

**PURE MULTI-FAMILY REIT LP,**  
By its General Partners

**Pure Multi-Family Management Limited Partnership,**  
By its General Partner,  
Sunstone Multi-Family Investments Inc.

“Steve Evans”  
(Signed) STEVE EVANS  
Chief Executive Officer

“Scott Shillington”  
(Signed) SCOTT SHILLINGTON  
Chief Financial Officer

**Pure Multi-Family REIT (GP) Inc.**

“Steve Evans”  
(Signed) STEVE EVANS  
Chief Executive Officer

“Scott Shillington”  
(Signed) SCOTT SHILLINGTON  
Chief Financial Officer

On behalf of the Board of Governing GP

“Darren Latoski”  
(Signed) DARREN LATOSKI  
Director

“Robert King”  
(Signed) ROBERT KING  
Director

**PURE MULTI-FAMILY MANAGEMENT LIMITED PARTNERSHIP,**  
By its General Partner,  
Sunstone Multi-Family Investments Inc.

(as Promoter)

“Steve Evans”  
(Signed) STEVE EVANS  
Chief Executive Officer

“Scott Shillington”  
(Signed) SCOTT SHILLINGTON  
Chief Financial Officer

## CERTIFICATE OF THE AGENTS

Dated: May 18, 2012

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 each of the provinces of Canada except Québec.

### DUNDEE SECURITIES LTD.

Per: "Onorio Lucchese"  
Onorio Lucchese, Managing  
Director

### CANACCORD GENUITY CORP.

Per: "Justin Bosa"  
Justin Bosa, Managing Director

### NATIONAL BANK FINANCIAL INC.

Per: "Glen Hirsh"  
Glen Hirsh, Managing Director

### RAYMOND JAMES LTD.

Per: "J. Graham Fell"  
J. Graham Fell, Sr. Managing  
Director

### SCOTIA CAPITAL INC.

Per: "Bryce Stewart"  
Bryce Stewart, Director

### GMP SECURITIES L.P.

Per: "Andrew Kiguel"  
Andrew Kiguel, Managing Director

### DESJARDINS SECURITIES INC.

Per: "Mark Edwards"  
Mark Edwards,  
Managing Director

### HSBC SECURITIES (CANADA) INC.

Per: "Jay Lewis"  
Jay Lewis,  
Managing Director

### MACQUARIE CAPITAL MARKETS CANADA LTD.

Per: "John Bartkiw"  
John Bartkiw,  
Managing Director

### SORA GROUP WEALTH ADVISORS INC.

Per: "Bradley Miller"  
Bradley Miller,  
President & Chief  
Executive Officer

### UNION SECURITIES LTD.

Per: "Vilma Jones"  
Vilma Jones,  
Managing  
Director