

Financial Statements of

**PURE INDUSTRIAL REAL
ESTATE TRUST**

Years ended December 31, 2009 and 2008



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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the balance sheets of Pure Industrial Real Estate Trust as at December 31, 2009 and 2008 and the statements of earnings and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada
March 4, 2010

PURE INDUSTRIAL REAL ESTATE TRUST

Balance Sheets

December 31, 2009 and 2008

	2009	2008
Assets		
Income producing properties (note 3)	\$ 63,497,481	\$ 65,721,618
Intangible assets (note 4)	1,988,192	2,306,138
Mortgage reserve fund (note 5)	242,568	670,496
Prepaid expenses	42,015	30,278
Amounts receivable	722,585	417,341
Cash held in trust (note 6)	-	441
Cash	210,118	218,691
	<u>\$ 66,702,959</u>	<u>\$ 69,365,003</u>

Liabilities and Unitholders' Equity

Mortgages payable (note 7)	\$ 41,061,100	\$ 42,652,870
Accounts payable and accrued liabilities	599,957	697,129
Demand note (note 13)	125,000	225,000
Rental deposits	204,625	211,289
Notes payable (note 8)	221,810	102,974
	<u>42,212,492</u>	<u>43,889,262</u>
Unitholders' equity (note 9)	24,490,467	25,475,741
	<u>\$ 66,702,959</u>	<u>\$ 69,365,003</u>

Subsequent event (note 16)

See accompanying notes to financial statements.

Approved on behalf of the Trustees:



Douglas R. Scott

Trustee



Stephen J. Evans

Trustee

PURE INDUSTRIAL REAL ESTATE TRUST

Statements of Earnings and Comprehensive Income

Years ended December 31, 2009 and 2008

	2009	2008
Revenues:		
Rental and recoveries	\$ 6,711,851	\$ 6,782,094
Interest and other	36,288	61,319
	<u>6,748,139</u>	<u>6,843,413</u>
Property recoverable operating expenses:		
Insurance	60,534	63,235
Management fees	37,500	38,898
Recoverable operating costs	4,430	4,303
Property taxes	1,323,960	1,340,940
	<u>1,426,424</u>	<u>1,447,376</u>
Earnings before the undernoted	5,321,715	5,396,037
Non-recoverable expenses:		
Amortization	1,591,306	1,671,976
Mortgage interest	2,319,447	2,405,919
Mortgage transaction costs	4,275	25,979
General and administrative expenses	142,082	188,412
Interest expenses on demand loan	8,996	5,373
	<u>4,066,106</u>	<u>4,297,659</u>
Income before dispositions	1,255,609	1,098,378
Gain on disposal of properties	135,832	-
Net earnings and comprehensive income	<u>\$ 1,391,441</u>	<u>\$ 1,098,378</u>
Basic and diluted net earnings per unit:		
Trust units (7,526,263 units / 7,522,721 units)	\$ 0.176	\$ 0.139
Subordinated units (278,947 units)	0.249	0.197

The weighted average number of trust units outstanding for the year ended December 31, 2009 was 7,526,263 and the weighted average number of trust units outstanding for the year ended December 31, 2008 was 7,522,721.

The weighted average number of subordinated units outstanding for the year ended December 31, 2009 was 278,947 and the weighted average number of subordinated units outstanding for the year ended December 31, 2008 was 278,947.

See accompanying notes to financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Statements of Unitholders' Equity

	Units	Amount
Balance, December 31, 2007	7,728,948	\$ 26,532,157
Issuance of units:		
Trust units	76,263	289,799
Issuance costs	-	(67,878)
Net earnings	-	1,098,378
Distributions:		
Trust units	-	(2,257,879)
Subordinated units	-	(118,836)
Balance, December 31, 2008	7,805,211	25,475,741
Net earnings	-	1,391,441
Distributions:		
Trust units	-	(2,257,879)
Subordinated units	-	(118,836)
Balance, December 31, 2009	7,805,211	\$ 24,490,467

See accompanying notes to financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,391,441	\$ 1,098,378
Items not involving cash:		
Amortization of discount on mortgage reserve fund	(12,072)	(21,874)
Amortization of intangible assets	297,574	358,618
Depreciation of income producing properties	1,293,732	1,313,358
Gain on sale of income producing properties	(135,832)	-
	<u>2,834,843</u>	<u>2,748,480</u>
Changes in non-cash working capital items:		
Increase in amounts receivable	(305,244)	(232,614)
Decrease (increase) in prepaid expenses	(11,737)	6,696
Increase in rental deposits	-	16,304
Decrease in accounts payable and accrued liabilities	(97,172)	(973,905)
	<u>2,420,690</u>	<u>1,564,961</u>
Financing:		
Mortgage repayments	(1,591,770)	(894,048)
Mortgage reserve funds	440,000	135,000
Proceeds from short-term loan	-	114,000
Demand note repayments	(100,000)	-
Proceeds from notes payable	118,836	79,224
Net proceeds from issuance of units	-	221,921
Distributions to unitholders	(2,376,715)	(2,374,808)
	<u>(3,509,649)</u>	<u>(2,718,711)</u>
Investments:		
Costs related to purchase of income producing properties and related intangible assets (notes 3 and 4)	(16,965)	(136,042)
Cash held in trust	441	29,103
Proceeds from disposal of income producing properties	1,176,336	-
Property disposal costs	(79,426)	-
	<u>1,080,386</u>	<u>(106,939)</u>
Change in cash	(8,573)	(1,260,689)
Cash, beginning of year	218,691	1,479,380
Cash, end of year	<u>\$ 210,118</u>	<u>\$ 218,691</u>
Supplemental cash flow information:		
Interest paid	\$ 2,336,301	\$ 2,374,374

Non-cash investing and financing activities:

Distributions to unitholders in the amount of \$188,157 were accrued as at December 31, 2008 and were paid in January 2009. Distributions to unitholders in the amount of \$188,157 were accrued as at December 31, 2009 and were paid in January 2010.

See accompanying notes to financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

1. Nature of business and basis of presentation:

Pure Industrial Real Estate Trust (the "Trust" or "PIRET") is an unincorporated open-ended trust formed under and governed by the laws of the Province of British Columbia and created pursuant to the Trust Declaration dated June 24, 2007. PIRET was established for the purposes of acquiring, owning and operating a diversified portfolio of income producing industrial properties in both primary and secondary markets across Canada.

PIRET's primary objectives are (a) to generate stable and growing cash distributions from investments in income producing industrial properties in both primary and secondary markets across Canada, (b) to maximize the long-term value of the properties through active management, and (c) to expand its asset base and increase its distributable income through an accretive acquisition program.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies.

(a) Income producing properties:

Income producing properties are recorded at cost less accumulated amortization. Additions, renewals and betterments are capitalized whereas expenditures for repairs and maintenance are expensed as incurred. The buildings are amortized on a straight-line basis over their estimated useful lives ranging from 22 to 40 years.

(b) Intangible assets:

Intangible assets are recorded at cost and consist of in-place lease agreements with tenants, and above and below market leases. The value assigned is amortized over the remaining term of the in-place leases.

(c) Impairment of long-lived assets:

The Trust performs impairment testing on its income producing properties and intangible assets whenever events or changes in circumstances indicate that the carrying value of the assets, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from an asset's use and disposal are less than its carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment charge is included in earnings for the period.

(d) Offering costs:

Offering costs related to issuance of trust units are recorded against unitholders' equity.

(e) Cash:

Cash consists of cash on hand and cash held at banks.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(f) Revenue recognition:

Revenue from leases with contractual increases at specified dates is recognized on a straight-line basis over the lease term. Accordingly, an accrued rent receivable/payable is recorded from the tenants for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant. Included in amounts receivable at December 31, 2009 is \$692,521 (2008 - \$391,110) of accrued rent receivable. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Interest income is recognized in the period when it is earned.

(g) Income taxes:

The Trust is subject to tax under Part I of the Income Tax Act on its income for tax purposes for the period, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the period to trust unitholders. The Trustees intend to distribute all taxable income to unitholders and to deduct such distributions for Canadian income tax purposes. Therefore, no provision for income taxes is required on income earned by the Trust.

(h) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the assessment of impairment of long-lived assets and determination of the useful lives of income producing properties. Actual results could differ from those estimates.

(i) Unit-based compensation:

The Trust accounts for unit based compensation using the fair value method. Under this method, compensation expense for unit based compensation issued is measured at fair value at the grant date using the Black-Scholes valuation model and is recognized over the related vesting period.

(j) Net earnings per unit:

Basic and diluted net earnings per trust and subordinated unit have been calculated based on 95% of the earnings being allocated to the trust units and 5% allocated to the subordinated units (see note 9), and the respective weighted average number of trust units and subordinated units outstanding.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(k) Financial instruments:

Financial assets and financial liabilities, including derivatives, are recognized on the balance sheet upon entering into a financial instrument or a financial derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held for trading”, “available for sale”, “held to maturity”, “loans and receivables” or “other financial liabilities”. Transaction costs are expensed as incurred for financial instruments on initial recognition.

Financial assets and financial liabilities designated or classified as “held for trading”, if any, are measured at fair value with changes in those fair values recognized in the determination of Net Earnings. Financial instruments classified as “held to maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method. “Available for sale” assets are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, if applicable, being recognized in other comprehensive income.

PIRET does not have any financial instruments classified as available for sale or held to maturity.

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that do not meet certain criteria. Changes in fair values of derivative instruments are recognized in net earnings with the exception of derivatives designated in effective cash flow hedges or hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

At December 31, 2008 and 2008, PIRET does not have any derivative instruments and has not entered into any hedging activities.

The Trust has classified its amounts receivable and mortgage reserve fund as “loans and receivables”; and accounts payable and accrued liabilities, mortgages payable, demand note and notes payable as “other financial liabilities”, all of which are reflected on the balance sheet at amortized cost using the effective interest method of measurement. Cash and cash held in trust are classified as “held for trading” and are reflected on the balance sheet at fair value.

(l) Comprehensive income:

Comprehensive Income consists of net earnings and other comprehensive income (OCI). OCI represents changes in unitholders’ equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(m) Changes in accounting policies:

Effective January 1, 2009, the Trust adopted a new accounting standard from the Canadian Institute of Chartered Accountants (CICA): Handbook Section 3064, *Goodwill and Intangible Assets*. This Section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new accounting standard has no impact on the Trust's financial results, financial position or cash flow for the prior or current periods.

(n) Future changes in accounting policy:

(i) International financial reporting standards:

In February 2008, the CICA announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Enterprises will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Trust's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Trust is currently assessing the impact of the transition to IFRS and developing a plan accordingly.

Based upon the current state of IFRS, management has identified major differences between GAAP and IFRS that may impact the Trust's financial results. The main differences identified to date relate to the accounting for investment properties, joint ventures and business combinations, impairment testing for assets, income taxes, classification of Trust Units when the declaration of Trust requires that all taxable income be distributed and the effects of transitional provisions of IFRS for first-time adopters.

(ii) Business combinations, non-controlling interest and consolidated financial statements:

In January 2009, the CICA issued Handbook Sections 1582, *Business Combinations*, 1601, *Consolidated Financial Statements* and 1602, *Non-controlling Interests* which replace CICA Handbook Sections 1581, *Business Combinations* and 1600 *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Trust's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 and section 1602 are applicable to the Trust's interim and annual consolidated financial statements for its fiscal year beginning on January 1, 2011. Early adoption of these sections is permitted and all three sections must be adopted concurrently. The financial reporting impact of adopting these sections are not known until PIRET has any business combinations in the future.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

3. Income producing properties:

On January 1, 2009, PIRET sold its undivided interest in a small property, located at 509 - 44th Street East, Saskatoon, SK, for \$625,000 less standard closing costs and adjustments. The Trust repaid the mortgage on this property at the same time. On June 1, 2009, PIRET sold its undivided interest in another small property, located at 225 Quebec Street, Regina, SK, for \$558,000 less standard closing costs and adjustments. The Trust repaid the mortgage on this property at the same time. The gain on disposal of these properties is determined as follows:

Gross proceeds	\$ 1,183,000
Selling commission and legal fees	(79,426)
Net proceeds	1,103,574
Net book value of properties	967,742
Gain on disposal of properties	\$ 135,832

December 31, 2009	Cost	Accumulated amortization	Net book value
Land	\$ 25,291,379	\$ -	\$ 25,291,379
Building	41,054,133	2,863,582	38,190,551
Equipment	16,965	1,414	15,551
Total	\$ 66,362,477	\$ 2,864,996	\$ 63,497,481

December 31, 2008	Cost	Accumulated amortization	Net book value
Land	\$ 25,468,640	\$ -	\$ 25,468,640
Building	41,860,425	1,607,447	40,252,978
Total	\$ 67,329,065	\$ 1,607,447	\$ 65,721,618

The income producing properties are pledged as security against the mortgages payable.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

4. Intangible assets:

December 31, 2009	Cost	Accumulated amortization	Net book value
Intangible assets	\$ 2,693,008	\$ 704,816	\$ 1,988,192

December 31, 2008	Cost	Accumulated amortization	Net book value
Intangible assets	\$ 2,721,255	\$ 415,117	\$ 2,306,138

5. Mortgage reserve fund:

The mortgage reserve fund consists of cash on deposit and was requested by lenders to be retained in escrow either pending expiry of the right to terminate in-place leases or to pay for any and all reasonable leasing costs. These funds will be released once certain conditions are met, but no later than the maturity of the mortgages. The term for the current mortgage reserve fund is between a few months and 6.5 years. During 2009, the lenders released a total of \$440,000 from the mortgage reserve fund.

6. Cash held in trust:

Cash held in trust consists of refundable deposits, held pursuant to agreements of purchase and sale, which are to be used solely for the acquisition of income producing industrial properties.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

7. Mortgages payable:

	2009	2008
<p>Mabe - Mortgage with RBC CMBS Group bearing interest at 5.677%, calculated semi-annually maturing March 2016. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$49,143 commencing September 2007.</p>	\$ 8,092,176	\$ 8,223,806
<p>Team Tube - Mortgage with Citizens Bank of Canada bearing interest at 5.48%, calculated semi-annually, maturing April 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$87,120 commencing September 2007.</p>	13,206,740	13,527,298
<p>De Baets - Mortgage with bclMC bearing interest at 5.50%, calculated semi-annually, maturing September 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$10,633 commencing September 2007.</p>	1,625,296	1,663,369
<p>Tornado - Mortgage with Canadian Western Bank bearing interest at 5.67%, calculated semi-annually, maturing November 2012. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$19,432 commencing December 2007.</p>	2,636,089	2,717,299
<p>Eurospec - Mortgage with Great West Life Assurance Company bearing interest at 5.382%, calculated semi-annually, maturing January 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$28,970 commencing February 2008.</p>	4,614,480	4,713,627
<p>Shanahan 57th - Mortgage with CIBC Bank bearing interest at 5.926%, calculated semi-annually, maturing January 2018. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$33,359 commencing February 2008.</p>	5,061,912	5,162,669
<p>Shanahan portfolio (AB) - Mortgages with Canadian Western Bank bearing interest at 5.754%, calculated semi-annually, maturing December 2012. The mortgages are secured by the income producing properties and are repayable in blended monthly payments of principal and interest of \$38,099 commencing January 2008.</p>	5,158,535	5,314,027
<p>Shanahan portfolio (SK and MB) - Mortgages with Canadian Western Bank bearing interest at 6%, calculated semi-annually, maturing December 2009. The mortgages are secured by the income producing properties and are repayable in blended monthly payments of principal and interest of \$9,776, commencing January 2009.*</p>	665,872	1,330,775
	\$ 41,061,100	\$ 42,652,870

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

7. Mortgages payable (continued):

*A mortgage for the Shanahan portfolio was renewed in January 2010 for a one year term.

Principal repayments based on scheduled repayments to be made on the mortgages over the next five years and thereafter are as follows:

2010	\$ 1,645,449
2011	15,089,721
2012	7,670,683
2013	414,547
2014	438,370
Thereafter	15,802,330
	<hr/>
	\$ 41,061,100

Mortgages payable are recorded at amortized cost and bear a weighted effective interest rate of 5.56% as at December 31, 2009 (2008 - 5.54%).

8. Notes payable:

PIRET has entered into a subordination and support agreement with Sunstone Industrial Investments Inc. (Sunstone Industrial). When the target monthly distribution, currently estimated to be \$0.025 per trust unit, is not achieved during the subordination period, holders of trust units will receive an amount equal to 100% of the total amount of cash set aside by the Trustees for distribution in such month. Sunstone Industrial will advance to PIRET cash in an amount equal to its pro-rata share of the monthly cash distribution in exchange for unsecured subordinated notes evidencing such advance, and will be entitled to receive distributions from PIRET equal to such amount. The monthly cash advance from Sunstone Industrial to PIRET will not exceed Sunstone Industrial's proportionate share of the monthly cash distribution during the subordination period. The subordinated notes are non interest bearing and due for repayment at the end of the subordination period.

The Subordination Period will end on the earlier of certain income and distribution targets being satisfied, or certain events occurring, being the earliest of:

- (i) the last day of any fiscal year in which PIRET has reported net income before gains or losses on property sales of at least \$0.18 per Unit and paid cash distributions of at least \$0.30 per Unit;
- (ii) August 31, 2010;
- (iii) the day on which a Determination Event occurs, and
- (iv) the day on which the Conversion Rights (see note 4(b) of the prospectus) are exercised.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

8. Notes payable (continued):

The Determination Event means the earliest to occur of the following:

- (i) a period of 10 consecutive trading days during which the Market Capitalization exceeds \$200,000,000;
- (ii) a take-over bid by a person acting at arm's length to Sunstone Industrial (or any Affiliate of an Associate of or affiliate of Sunstone Industrial or person acting jointly or in concert with Sunstone Industrial) 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;
- (iii) substantially all of the assets of PIRET are sold or PIRET is liquidated; and
- (iv) the Asset Management Agreement (see note 13) is terminated by the Trustees for cause.

As at December 31, 2009, Sunstone Industrial had advanced to PIRET \$221,810 (2008 - \$102,974) pursuant to the subordination and support agreement.

9. Unitholders' equity:

		2009		2008	
	Number Authorized	Number issued and outstanding	Carrying value	Number issue and outstanding	Carrying Value
Initial contribution by settlor	1	1	\$ 10	1	\$ 10
Trust units	unlimited	7,526,263	29,659,799	7,526,263	29,659,799
Subordinated units	unlimited	278,947	1,115,788	278,947	1,115,788
		7,805,211	\$ 30,775,597	7,805,211	\$ 30,775,597

(a) Trust units and subordinated units:

The beneficial interests in the Trust are divided into trust units and subordinated units. The Trust, pursuant to an agency agreement dated August 13, 2007, filed a final prospectus on August 13, 2007 in each of the provinces of Canada in connection with its initial public offering of 4,750,000 trust units at a price of \$4.00 per unit for total gross proceeds of \$19 million (the Offering).

Sunstone Industrial subscribed for 250,000 subordinated units at a price of \$4.00 per unit for total gross proceeds of \$1 million concurrent with the closing of the offering.

The Trust also granted the agents an over-allotment option to purchase up to an additional 712,500 trust units for a period of up to 30 days after closing of the Offering. To the extent additional trust units were issued pursuant to the over-allotment option, Sunstone Industrial agreed to subscribe for its pro rata share of additional subordinated units.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

9. Unitholders' equity (continued):

(a) Trust units and subordinated units (continued):

Except as set out in the Trust Declaration, no trust unit or subordinated unit has any preference or priority over another.

Upon completion of the offering, holders of the trust units share in a 95% equity interest (the Unit Percentage Interest) in all distributions and all net assets of the Trust and Sunstone Industrial, as the holder of the subordinated units, shares in a 5% equity interest (the Subordinated Unit Percentage Interest) in all distributions and all net assets of the Trust.

Each trust unit is transferable and, so long as there are subordinated units issued and outstanding, each trust unit represents an equal undivided ownership interest in and to the Unit Percentage Interest of any net assets of the Trust, whether of net earnings, net realized capital gains or other amounts, and in the Unit Percentage Interest of any net assets of the Trust in the event of the termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the Trust.

Pursuant to the subordination and support agreement (note 8), Sunstone Industrial has agreed not to transfer the subordinated units held to others except to its affiliates and associates. Each subordinated unit represents an equal undivided ownership interest in and to the Subordinated Unit Percentage Interest of any net assets of the Trust, whether of net earnings, net realized capital gains or other amounts, and in the Subordinated Unit Percentage Interest of any net assets of the Trust in the event of the termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the Trust.

The unitholders have the right to require the Trust to redeem their trust units on demand at the prices determined and payable in accordance with the Trust Declaration. The Trust will not be required to pay the redemption price by way of a cash payment if the total amount payable by the Trust in any month will exceed the greater of \$20,000 and the amount that is 0.10% of the aggregate subscription price of all Trust units that were outstanding at the end of such month.

On January 18, 2008, the syndicate of agents exercised a portion of the over-allotment option granted, resulting in the issuance by PIRET of 76,263 additional trust units at a price of \$3.80 per unit for gross proceeds of \$289,799. Costs relating to the over-allotment, including an agency fee, are in aggregate \$67,878.

(b) Conversion rights of subordinated units:

Pursuant to the Trust Declaration, the subordinated unitholders as a class are entitled to convert all but not less than all of their subordinated units into trust units based on the specified ratio. Upon the subordinated unitholders exercising their conversion rights, such subordinated unitholders will own that number of trust units which is equal to the Subordinated Unit Percentage Interest (initially 5%) of all units outstanding after such conversion. Sunstone Industrial did not exercise the conversion rights during the year ended December 31, 2009 or the year ended December 31, 2008.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

9. Unitholders' equity (continued):

(c) Unit rights, warrants and options:

The Trust may create and issue rights, warrants, options or other instruments or securities to subscribe for fully paid trust units which rights, warrants, options, instruments or securities may be exercisable at such subscription price or prices and at such time as the Trustees may determine. As at December 31, 2009 and December 31, 2008, the Trust has not issued any rights, warrants or options.

(d) Distributions:

The Trust intends to make monthly distributions to unitholders. Distributions are at the discretion of the Trustees of PIRET. All distributions from the Trust will be made 95% to the trust units and 5% to the subordinated units. During the year ended December 31, 2009, the Trust announced cash distributions to trust unitholders of \$0.025 per unit per month for a total of \$2,257,879 (2008 - \$2,257,879). The Trust also announced a cash distribution to subordinated unitholders of \$118,836 (2008 - \$118,836).

(e) Restricted units:

On February 20, 2008, the Trustees approved a Restricted Unit Plan for the Trust (the Plan).

The Plan provides for the grant of restricted units to participants (who may be Trustees, key management, key employees or consultants). Each restricted unit will give the participant the right to receive, upon vesting, an amount equal to the fair market value of the units on the payment date, either by way of a cash payment or by the Trust acquiring Units in the open market and distributing them to the participant, or by a combination of the two, at the Trust's option. As distributions are paid on Units, additional restricted units will be credited to the participants in an amount determined by dividing the dollar amount of the distributions payable by the fair market value per Unit on the date of the distribution. As well, the number of restricted units granted to a participant may be increased by a "performance factor" established by the Trustees at the time of grant. Unless otherwise determined by the Trustees, restricted units will vest and become available for redemption on the third anniversary of their being granted, or on a change of control or take over bid for the Trust. Restricted units vested must be redeemed not later than December 31 in the year of vesting. However, the restricted units granted to a participant and any associated distribution restricted units shall not vest, and the participant shall not be entitled to such restricted units or associated distribution restricted units if the performance criteria, which are specified in the grant agreements, are not met.

As at December 31, 2008, the Trust has issued a total of 30,000 restricted units and a total of 2,608 distribution restricted units for proceeds of nil.

PURE INDUSTRIAL REAL ESTATE TRUST

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Years ended December 31, 2009 and 2008

9. Unitholders' equity (continued):

(e) Restricted units (continued):

On March 6, 2009, the Trust issued an additional 52,382 restricted units. As at December 31, 2009, the Trust has issued a total of 82,382 restricted units and a total of 10,788 distribution restricted units for proceeds of nil. No compensation expense has been recorded in the statement of operations in relation to the restricted units and distribution restricted units issued as at December 31, 2009 or at December 31, 2008, as there is insufficient certainty that the performance criteria will be met.

10. Capital management:

The Trust defines capital as the aggregate of unitholders' equity and long-term debt. The Trust's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Trust Declaration; complies with existing debt covenants; funds its business strategies; and builds long-term unitholder value. The Trust's capital structure is approved by its unitholders as related to the Trust Declaration and by its board of Trustees through its periodic reviews. Capital adequacy is monitored by the Trust by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants.

The Trust Declaration provides for a maximum indebtedness level of up to 70% of the gross book value. The term "indebtedness" means any obligation of the Trust for borrowed money (including the face amount outstanding under any convertible debentures and any outstanding liabilities of the Trust arising from the issuance of subordinated notes but excluding any premium in respect of indebtedness assumed by the Trust for which the Trust has the benefit of an interest rate subsidy), but excludes trade accounts payable, distributions payable to unitholders, accrued liabilities arising in the ordinary course of business and short-term acquisition credit facilities. The Trust Declaration defines "gross book value" as the book value of the assets of the Trust and its consolidated subsidiaries plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets), 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 Trust. The Trust's indebtedness level is 59% as at December 31, 2009 (2008 - 60%).

The Trust Declaration also requires the Trust to distribute to its unitholders in each year an amount not less than the Trust's income for the year, as calculated in accordance with the Income Tax Act after all permitted deductions under the Act have been taken. The board of Trustees also reviews the cash distribution paid to unitholders on a regular basis. The monthly distribution to trust unitholders was \$0.025 per unit for the year ended December 31, 2009 (2008 - \$0.025).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2009 and 2008

10. Capital management (continued):

The Trust is in compliance with all investment and debt restrictions pursuant to the Trust Declaration for the year ended December 31, 2009 and for the year ended December 31, 2008.

The capital structure consisted of the following components at December 31, 2009 and December 31, 2008.

The capital structure consisted of the following components at December 31, 2009 and December 31, 2008.

	2009	2008	Change
Capital:			
Mortgages payable	\$ 41,061,100	\$ 42,652,870	\$ (1,591,770)
Notes payable	221,810	102,974	118,836
Unitholders' equity	24,490,467	25,475,741	(985,274)
Total capital	\$ 65,773,377	\$ 68,231,585	\$ (2,458,208)

The total capital decreased primarily due to the repayment of mortgage principal and distributions to trust unitholders, offset by net earnings for the year ended December 31, 2009.

11. Risk management:

In the normal course of business, the Trust is exposed to a number of risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

(a) Credit risk and economic dependence:

The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each tenant.

The Trust is exposed to credit risk in the event of non-payment of rent and recoveries by its tenants. This risk is mitigated by obtaining advance deposits and initiating a prompt collection process. The amount of trade receivables at December 31, 2009 was \$30,064 (2008 - \$26,231).

The Trust earned approximately 21% (2008 - 21%) of its revenue from a single tenant.

The mortgage reserve fund held by the lenders is recoverable once certain conditions are met, but no later than the maturity of the mortgages. The Trust does not believe that there is any material credit risk associated with the mortgage reserve fund.

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Notes to Financial Statements

Years ended December 31, 2009 and 2008

11. Risk management (continued):

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Trust is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments. Mortgages payable and the demand loan bear interest at fixed rates; therefore the Trust is not exposed to significant interest rate risk.

(c) Liquidity risk:

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit PIRET's ability to vary its portfolio promptly in response to changing economic or investment conditions. If PIRET were required to liquidate a real property investment, the proceeds to PIRET might be significantly less than the aggregate carrying value of such property.

The terms and conditions of outstanding mortgages were as follows:

Mortgages payable	Nominal interest rate	Year of maturity	Carrying value	
			2009	2008
Mabe	5.677%	2016	\$ 8,092,176	\$ 8,223,806
Team Tube	5.480%	2011	13,206,740	13,527,298
De Baets	5.500%	2011	1,625,296	1,663,369
Tornado	5.670%	2012	2,636,089	2,717,299
Eurospec	5.382%	2015	4,614,480	4,713,627
Shanahan's 57th	5.926%	2018	5,061,912	5,162,669
Shanahan's portfolio - AB	5.754%	2012	5,158,535	5,314,027
Shanahan's portfolio - SK and MB	6.000%	2009*	665,872	1,330,775
Total mortgages payable			\$ 41,061,100	\$ 42,652,870

The carrying value of the mortgages payable is the same as the face value.

*A mortgage for the Shanahan portfolio was renewed in January 2010 for a one year term.

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12. Fair value:

For certain of the Trust's financial instruments, including cash, cash held in trust, amounts receivable, accounts payable and accrued liabilities, and the demand note, the carrying values approximate their fair values due to their short-term nature. The fair values of the mortgage reserve fund, mortgages payable and notes payable have been calculated based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions, as follows. Discount rates are either provided by lenders or are observable in the open market

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Mortgage reserve fund	\$ 242,568	\$ 215,050	\$ 670,496	\$ 624,903
Mortgages payable	41,061,100	41,164,547	42,652,870	42,406,301
Notes payable	221,810	221,810	102,974	100,993

13. Related party transactions:

PIRET is related to Sunstone Advisors (Canada) Inc., Sunstone Realty Advisors (2005) Inc., Sunstone Realty Advisors (2006) Inc., Sunstone Opportunity Fund (2005) Limited Partnership, Sunstone Opportunity (2007) Realty Trust and Sunstone Industrial Investments Inc. by virtue of having officers and directors in common.

- (a) In December 2008, Sunstone Realty Advisors (2006) Inc. advanced \$65,000 for general expenditures. This amount was included in accounts payable and accrued liabilities at December 31, 2008. The amount, which was non interest-bearing and due on demand, was repaid in January 2009.
- (b) On July 1, 2008, the \$225,000 balance payable by PIRET to Sunstone Realty Advisors (2005) Inc. was converted into a demand note, bearing interest at 4.75% per annum. On August 24, 2009, PIRET repaid \$100,000 of the demand note plus all interest accrued to that date. Interest of \$2,115 relating to this demand note is included in accounts payable and accrued liabilities at December 31, 2009 (December 31, 2008 - \$5,373).
- (c) During 2008, Sunstone Industrial advanced \$49,000 to PIRET to fund working capital requirements in October and November 2008. This amount was included in accounts payable and accrued liabilities at December 31, 2008 and is still outstanding as at December 31, 2009. The balance is non interest-bearing and is due on demand.

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Years ended December 31, 2009 and 2008

13. Related party transactions (continued):

PIRET has entered into an asset management agreement with Sunstone Industrial Advisors Inc. (Sunstone Management) whereby Sunstone Management will provide asset management, administrative and reporting services to PIRET. In accordance with the asset management agreement, PIRET will reimburse Sunstone Management for all reasonable expenses associated with the operation of PIRET, including any third party costs which are reasonably incurred by Sunstone Management on behalf of PIRET, but not personnel costs incurred by Sunstone Management in managing PIRET. During the year ended December 31, 2009, Sunstone Management charged PIRET nil (2008 - nil) pursuant to the Asset Management Agreement.

14. Segment disclosures:

The Trust operates in one business segment, being the ownership and operation of a portfolio of income producing industrial properties in Canada. During the year ended December 31, 2009, PIRET held properties located in five provinces: British Columbia, Alberta, Ontario, Quebec and Manitoba.

15. Income taxes:

Pursuant to the declaration of the Trust, the Trustees are required to distribute all taxable income to the unitholders and to deduct such distributions for income tax purposes each year so as to not be liable for income tax under Part I of the Income Tax Act (Canada). Furthermore, the Trust intends to operate in such a manner so as to qualify as a "Mutual Fund Trust" and a "real estate investment trust" pursuant to that act. Consequently, no provision for income taxes is required on income earned by the Trust.

At December 31, 2009, the tax bases exceed the reported amounts of the Trust's assets and liabilities by \$1,241,196 (2008 - \$2,366,000).

16. Subsequent events:

On January 11, 2010, PIRET renewed the mortgage, which was secured by 90 Park Lane Avenue, Winnipeg, with Canadian Western Bank on a month to month basis. The mortgage bears interest at the lender's prime rate plus 1.75%, with a minimum of 4%, and is repayable in blended monthly payments of principal and interest in the amount of \$4,331. At the same time, Canadian Western Bank established a revolving operating line of credit for PIRET in the amount of \$250,000, bearing interest at the lender's prime rate plus 1.75%, with a minimum of 4% per annum. As at this report, PIRET had drawn down \$250,000.

On February 25, 2010, PIRET announced the closing of a bought deal private placement for 7.2 million trust units priced at \$3.00 per Unit, for total gross proceeds of \$21.6 million. PIRET used the net proceeds from the private placement to fund the acquisition of two income producing industrial properties for a total purchase price of approximately \$39.3 million. The properties are located in the provinces of British Columbia and Alberta and represent 192,791 square feet of high quality industrial real estate property.