

Financial Statements of

PURE INDUSTRIAL REAL ESTATE TRUST

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Pure Industrial Real Estate Trust as at December 31, 2008 and 2007 and the statements of earnings and comprehensive income, unitholders' equity and cash flows for the year ended December 31, 2008 and the period from June 24, 2007 to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and cash flows for the year ended December 31, 2008 and the period from June 24, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

February 13, 2009

PURE INDUSTRIAL REAL ESTATE TRUST

Balance Sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Income producing properties (notes 3 and 4)	\$ 65,721,618	\$ 66,898,934
Intangible assets (note 5)	2,306,138	2,664,756
Mortgage reserve fund (note 6)	670,496	783,622
Prepaid expenses	30,278	36,974
Amounts receivable	417,341	184,727
Cash held in trust (note 7)	441	29,544
Cash	218,691	1,479,380
	<u>\$ 69,365,003</u>	<u>\$ 72,077,937</u>

Liabilities and Unitholders' Equity

Mortgages payable (note 8)	\$ 42,652,870	\$ 43,546,918
Accounts payable and accrued liabilities	697,129	1,780,127
Demand note (note 14)	225,000	-
Rental deposits	211,289	194,985
Notes payable (note 9)	102,974	23,750
	<u>43,889,262</u>	<u>45,545,780</u>
Unitholders' equity (note 10)	25,475,741	26,532,157
	<u>\$ 69,365,003</u>	<u>\$ 72,077,937</u>


Subsequent event (note 17)

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

	Year ended December 31, 2008	Period from June 24, 2007 to December 31, 2007
Revenues:		
Rental and recoveries	\$ 6,782,094	\$ 1,615,663
Interest and other	61,319	38,551
	<u>6,843,413</u>	<u>1,654,214</u>
Recoverable property operating expenses:		
Insurance	63,235	19,169
Management fees	38,898	6,985
Recoverable operating costs	4,303	258
Taxes	1,340,940	387,291
	<u>1,447,376</u>	<u>413,703</u>
Earnings before the undernoted	5,396,037	1,240,511
Non-recoverable expenses:		
Amortization	1,671,976	350,588
Mortgage interest	2,405,919	526,157
Mortgage transaction costs	25,979	247,986
General and administrative expenses	188,412	92,416
Interest expense on demand loan	5,373	-
	<u>4,297,659</u>	<u>1,217,147</u>
Net earnings and comprehensive income	\$ 1,098,378	\$ 23,364
Basic net earnings per unit:		
Trust units (7,522,721 units; 2007 - 5,495,455 units)	\$ 0.139	\$ 0.004
Subordinated units (278,947 units)	0.197	0.004
Diluted net earnings per unit:		
Trust units (7,522,721 units; 2007 - 5,495,455 units)	0.139	0.004
Subordinated units (278,947 units)	0.197	0.004

The weighted average number of trust units outstanding for the year ended December 31, 2008 was 7,522,721 and the weighted average number of trust units outstanding for the period from June 24, 2007 to December 31, 2007 was 5,495,455.

The weighted average number of subordinated units outstanding for the year ended December 31, 2008 was 278,947 and the weighted average number of subordinated units outstanding for the period from June 24, 2007 to December 31, 2007 was 278,947.

See accompanying notes to financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Statements of Unitholders' Equity

	Units	Amount
Issuance of units:		
Initial unit	1	\$ 10
Trust units	7,450,000	29,370,000
Subordinated units	278,947	1,115,788
Issuance costs	-	(3,316,784)
Net earnings	-	23,364
Distributions:		
Trust units	-	(627,210)
Subordinated units	-	(33,011)
Balance, December 31, 2007	7,728,948	26,532,157
Issuance of 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

See accompanying notes to financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Statements of Cash Flows

	Year ended December 31, 2008	Period from June 24, 2007 to December 31, 2007
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,098,378	\$ 23,364
Items not involving cash:		
Amortization of discount on mortgage reserve fund	(21,874)	(7,065)
Amortization of intangible assets	358,618	56,499
Amortization of income producing properties	1,313,358	294,089
	<u>2,748,480</u>	<u>366,887</u>
Changes in non-cash working capital items:		
Increase in amounts receivable	(232,614)	(184,727)
Decrease (increase) in prepaid expenses	6,696	(36,974)
Increase in rental deposits	16,304	194,985
Increase (decrease) in accounts payable and accrued liabilities	(973,905)	1,586,903
	<u>1,564,961</u>	<u>1,927,074</u>
Financing:		
Mortgage proceeds	-	19,675,000
Mortgage repayments	(894,048)	(154,819)
Proceeds from mortgage reserve fund	135,000	(776,557)
Proceeds from short-term loan (note 14)	114,000	-
Proceeds from notes payable	79,224	23,750
Net proceeds from issuance of units	221,921	27,169,014
Distributions to unitholders	(2,374,808)	(466,997)
	<u>(2,718,711)</u>	<u>45,469,391</u>
Investments:		
Acquisition of initial portfolio (note 3)	-	(16,347,488)
Costs related to purchase of income producing properties and related intangible assets (notes 3, 4 and 5)	(136,042)	(29,540,053)
Cash held in trust	29,103	(29,544)
	<u>(106,939)</u>	<u>(45,917,085)</u>
Increase (decrease) in cash	(1,260,689)	1,479,380
Cash, beginning of period	1,479,380	-
Cash, end of period	<u>\$ 218,691</u>	<u>\$ 1,479,380</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 2,374,374</u>	<u>\$ 410,465</u>

Non-cash investing and financing activities:

PIRET assumed mortgages payable on acquisition of the initial portfolio in the amount of \$24,026,736 on August 22, 2007. The distribution to trust unitholders in the amount of \$186,250 was accrued as at December 31, 2007 and paid in January 2008.

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

See accompanying notes to financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

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

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

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, 2008 is \$391,110 (2007 - \$91,028) 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 10), and the respective weighted average number of trust units and subordinated units outstanding.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

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 classified as “held for trading”, if any, are measured at fair value with changes in those fair values recognized in the determination of Net Income. Financial assets 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 presented separately on the balance sheet and 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 Income 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, 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, bank loans 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 Income 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

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

2. Significant accounting policies (continued):

(m) Changes in accounting policies:

On January 1, 2008, the Trust adopted three new accounting policies: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments Presentation ("Section 3863").

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Refer to notes 11 and 12 for additional disclosures.

(n) Future changes in accounting policy:

(i) Goodwill and intangible assets:

Effective January 1, 2009 the Trust will adopt new 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 Trust is currently assessing the possible impact of the new standard on the Trust's financial statements.

(ii) 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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

3. Acquisition of income producing properties:

On August 22, 2007, PIRET acquired a portfolio of income producing properties, including in-place leases and third party management agreements, and also assumed the related debt on the properties (the "Initial Portfolio"), from Sunstone Opportunity Fund (2005) Limited Partnership (see note 14). Concurrently with the acquisition, PIRET entered into an Asset Management Agreement with Sunstone Industrial Advisors Inc. ("Sunstone Management") (see note 14) to manage the properties. The acquisition has been accounted for as a business combination based on the fair values of the assets and liabilities acquired. The purchase price included acquisition costs of \$29,225.

The results of operations of the properties acquired have been included in the statement of operations from August 22, 2007 to December 31, 2007 and the year ended December 31, 2008.

The purchase price of the acquisition has been allocated as follows:

Assets and liabilities assumed:	
Land	\$ 13,842,223
Building	25,257,331
Intangible assets	1,274,670
Assumed mortgages on properties	(24,026,736)
	<hr/>
	\$ 16,347,488
<hr/>	
Financed by:	
Cash	\$ 16,347,488

On November 19, 2007, PIRET acquired an income producing property and an in-place lease for \$3,900,000 plus standard closing costs and adjustments. On December 14, 2007, PIRET acquired an income producing property and an in-place lease for \$6,900,000; a portfolio of five income producing properties and an in-place lease for \$10,172,000 and an income producing property and an in-place lease for \$8,200,000 plus standard closing costs and adjustments. The total purchase price of \$29,540,053 for these properties includes acquisition costs of \$368,054, and has been allocated to the assets acquired as follows:

Land	\$ 11,617,522
Building	16,475,947
Intangible assets	1,446,584
	<hr/>
	\$ 29,540,053

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

4. Income producing properties:

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
	<u>\$ 67,329,065</u>	<u>\$ 1,607,447</u>	<u>\$ 65,721,618</u>

December 31, 2007	Cost	Accumulated amortization	Net book value
Land	\$ 25,459,745	\$ -	\$ 25,459,745
Building	41,733,278	294,089	41,439,189
	<u>\$ 67,193,023</u>	<u>\$ 294,089</u>	<u>\$ 66,898,934</u>

During the year ended December 31, 2008, the Trust did not acquire any income producing properties. However, the Trust incurred an additional \$136,042 in acquisition costs and building improvements related to the properties acquired during December 2007.

The income producing properties are pledged as security against the mortgages payable (see note 8).

5. Intangible assets:

December 31, 2008	Cost	Accumulated amortization	Net book value
Intangible assets	\$ 2,658,886	\$ 352,748	\$ 2,306,138

December 31, 2007	Cost	Accumulated amortization	Net book value
Intangible assets	\$ 2,721,255	\$ 56,499	\$ 2,664,756

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

6. 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 3 months and 7.5 years.

7. 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.

8. Mortgages payable:

	2008	2007
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	\$ 8,223,806	\$ 8,348,270
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	13,527,298	13,830,599
De Baets - Mortgage with bcIMC 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	1,663,369	1,699,431
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	2,717,299	2,793,618
Carry forward	26,131,772	26,671,918

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

8. Mortgages payable (continued):

	2008	2007
Brought forward	\$ 26,131,772	\$ 26,671,918
Eurospec - Mortgage with the 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	4,713,627	4,800,000
Shanahan 57 th - 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	5,162,669	5,250,000
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	5,314,027	5,460,000
Shanahan portfolio (SK and MB) - Mortgages with Canadian Western Bank bearing interest at 6.14% calculated semi-annually, maturing December 2008. 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 2008 and were renewed for one year bearing interest at 6% commencing January 2009	1,330,775	1,365,000
	<u>\$ 42,652,870</u>	<u>\$ 43,546,918</u>

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

8. Mortgages payable (continued):

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

2009	\$ 2,257,642
2010	979,577
2011	15,089,721
2012	7,670,683
2013	414,547
Thereafter	16,240,700
	<hr/> \$ 42,652,870 <hr/>

Mortgages payable are recorded at amortized cost and bear a weighted effective interest rate of 5.54% as at December 31, 2008 (2007 - 5.59%).

9. 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 later of December 31, 2008 and 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

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

9. 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 14) is terminated by the Trustees for cause.

As at December 31, 2008, Sunstone Industrial had advanced to PIRET \$102,974 (2007 - \$23,750) pursuant to the subordination and support agreement.

10. Unitholders' equity:

	Number Authorized	2008		2007	
		Number issued and outstanding	Amount	Number issue and outstanding	Amount
Initial contribution by settler	1	1	\$ 10	1	\$ 10
Trust units	unlimited	7,526,263	29,659,799	7,450,000	29,370,000
Subordinated units	unlimited	278,947	1,115,788	278,947	1,115,788
		7,805,211	\$ 30,775,597	7,728,948	\$ 30,485,798

(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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

10. Unitholders' equity (continued):

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

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.

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 ("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 ("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 income, 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 9), 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 income, 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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

10. Unitholders' equity (continued):

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

On August 22, 2007, the Trust sold 4,750,000 Trust Units at a price of \$4.00 per trust unit for total gross proceeds of \$19 million. In conjunction with the Offering, Sunstone Industrial purchased 250,000 subordinated units for additional gross proceeds of \$1 million, for aggregate gross proceeds to the Trust of \$20,000,000. Costs relating to the Offering, including an agency fee of \$1,330,000, are in aggregate \$1,755,630 excluding an issuance of the units pursuant to an over-allotment option granted to the Agents.

On September 20, 2007, the syndicate of agents exercised a portion of the over-allotment option granted, resulting in the issuance by PIRET of 550,000 additional trust units at a price of \$4.00 per unit for gross proceeds of \$2,200,000. At the same time, Sunstone Industrial purchased 28,947 subordinated units at \$4.00 per unit for additional gross proceeds of \$115,788. Costs relating to the over-allotment, including an agency fee of \$154,000, are in aggregate \$409,522.

On December 20, 2007, the Trust sold an additional 2,150,000 Trust Units at a price of \$3.80 per trust unit for total gross proceeds of \$8,170,000. Costs relating to the Offering, including an agency fee of \$571,900, are in aggregate \$1,151,632.

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, 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, 2008 or the period from June 24, 2007 to December 31, 2007.

(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, 2008, the Trust did not issue any rights, warrants or options.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

10. Unitholders' equity (continued):

(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, 2008, the Trust announced a cash distribution to trust unitholders at \$0.025 per unit per month for a total of \$2,257,879 (period from June 24, 2007 to December 31, 2007 - \$627,210). The Trust also announced a cash distribution to subordinated unitholders of \$118,836 (period from June 24, 2007 to December 31, 2007 - \$33,011).

(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. 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, 2008.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

11. 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 60% as at December 31, 2008 (2007 – 62%).

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, 2008 (June 24, 2007 to December 31, 2007 - \$0.025).

The Trust is in compliance with all investment and debt restrictions pursuant to the Trust Declaration for the year ended December 31, 2008 and for the period from June 24, 2007 to December 31, 2007.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

11. Capital management (continued):

The capital structure consisted of the following components at December 31, 2008 and December 31, 2007.

	2008	2007	Change
Capital:			
Mortgages payable	\$ 42,652,870	\$ 43,546,918	\$ (894,048)
Notes payable	102,974	23,750	79,224
Unitholders' equity	25,475,741	26,532,157	(1,056,416)
Total capital	\$ 68,231,585	\$ 70,102,825	\$ (1,871,240)

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, 2008.

12. 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 Trust earned approximately 22% (2007 - 34%) 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.

(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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

12. Risk management (continued):

(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.

13. 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.

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Mortgage reserve fund	670,496	624,903	783,622	752,953
Mortgages payable	42,652,870	42,406,301	43,546,918	43,737,350
Notes payable	102,974	100,993	23,750	23,750

14. 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) During 2008, Sunstone Realty Advisors (2006) Inc. paid nil (2007 - \$24,785) in offering costs and nil (2007 - \$175,000) in property acquisition costs on behalf of PIRET. The 2007 costs were reimbursed during 2008. In December 2008, Sunstone 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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

14. Related party transactions (continued):

- (b) During 2008, Sunstone Realty Advisors (2005) Inc. paid nil (2007 - \$225,000) in property acquisition costs on behalf of PIRET. Commencing 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. Interest of \$5,373 relating to this demand note is included in accounts payable and accrued liabilities at December 31, 2008.
- (c) During 2008, Sunstone Advisors (Canada) Inc. paid nil (2007 - \$195,000) in property acquisition costs on behalf of PIRET. The 2007 costs were reimbursed during 2008.
- (d) During 2008, Sunstone Realty Advisors (2007) Inc. paid nil (2007 - \$277,500) in property acquisition costs on behalf of PIRET. The 2007 costs were reimbursed during 2008.
- (e) During 2008, Sunstone Industrial advanced \$49,000 to PIRET to fund working capital requirements in October and November 2008. This amount is included in accounts payable and accrued liabilities at December 31, 2008. The balance is non interest-bearing and is due on demand.

PIRET has entered into an asset management agreement with 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, 2008, Sunstone Management charged PIRET nil (period from June 24, 2007 to December 31, 2007 - nil) pursuant to the Asset Management Agreement.

15. 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 period ended December 31, 2008, PIRET held properties located in six provinces: British Columbia, Alberta, Ontario, Quebec, Saskatchewan and Manitoba.

16. 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, 2008, the tax bases exceed the reported amounts of the Trust's assets and liabilities by \$2,366,000 (2007 - \$3,397,000).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Year ended December 31, 2008

Period from June 24, 2007 to December 31, 2007

17. Subsequent event:

On January 2, 2009 PIRET disposed of its property located at 509 – 44th Street East, Saskatoon, part of the Shanahan portfolio, for proceeds of \$625,000 less standard closing costs and adjustments. PIRET repaid the mortgage secured by the property upon closing of the transaction.