



**PURE INDUSTRIAL REAL ESTATE TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the period ended September 30, 2008**

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## SECTION I

### FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis ("MD&A") of the financial position and the results of operations of Pure Industrial Real Estate Trust (the "Trust" or "PIRET") for the period ended September 30, 2008 should be read in conjunction with PIRET's unaudited financial statements for the period ended September 30, 2008 and the audited financial statements for the period ended December 31, 2007. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Certain information in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of PIRET to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, management can give no assurance that actual results will be consistent with these forward-looking statements.

Forward-looking statements generally can be identified by words such as "outlook", "believe", "expect", "may", "anticipate", "should", "intend", "estimates" and similar expressions.

Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, competition for real property investments, the availability of new competitive supply of commercial real estate, PIRET's ability to maintain occupancy, tenant defaults, changes in interest rates, changes in governmental regulations and taxation, and PIRET's ability to obtain adequate insurance and financing.

Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to PIRET, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of October 29, 2008 and PIRET assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

### OVERVIEW

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 September 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. The units of the Trust trade on the TSX Venture Exchange under the symbol "AAR.UN".

PIRET's primary objectives are (a) to generate stable and growing cash distributions on a tax efficient basis from investments in income producing industrial properties in both primary and secondary markets cross Canada, (b) to enhance the value of PIRET's assets and 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.

On August 22, 2007, PIRET purchased ten properties for a total of \$40,345,000 plus standard closing costs and adjustments. On November 19, 2007, PIRET acquired 4907 – 32<sup>nd</sup> Ave, Calgary, AB, ("Tornado") for \$3,900,000 plus standard closing costs and adjustments. On December 14, 2007, PIRET acquired 130 Harry Walker Parkway, Newmarket, ON, ("Eurospec") for \$6,900,000 plus standard closing costs and adjustments. On December 20, 2007, PIRET purchased 2705 – 2737, 57<sup>th</sup> Ave, Calgary, AB, ("57<sup>th</sup> Ave") and five properties from the Shanahan's portfolio ("Shanahan's portfolio") for total of \$18,372,000 plus standard closing costs and adjustments. The occupancy rate is 100% for all properties and the lease terms are between five and fourteen years.

**OVERVIEW (continued)**

The geographic diversification of PIRET's portfolio as at September 30, 2008 is outlined below:

Province	Number of Buildings	Gross leasable area (Sq.ft.)
Alberta	8	346,858
British Columbia	3	112,783
Manitoba	2	52,171
Ontario	2	117,742
Quebec	1	164,525
Saskatchewan	2	19,200
<b>Total</b>	<b>18</b>	<b>813,279</b>

**SECTION II**

**RESULTS OF OPERATIONS**

	<b>Nine months ended September 30, 2008</b>	June 24 to September 30, 2007	<b>Three months ended September 30, 2008</b>	Three months ended September 30, 2007
<b>REVENUES</b>				
Rental and recoveries	\$ 4,923,012	\$ 430,181	\$ 1,624,101	\$ 430,181
Interest and other	55,374	13,251	6,587	13,251
	<b>4,978,386</b>	443,432	<b>1,630,688</b>	443,432
<b>RECOVERABLE OPERATING EXPENSES</b>				
Property insurance	53,845	1,153	13,500	1,153
Property management fees	29,028	1,516	9,673	1,516
Property recoverable operating costs	906	—	802	—
Property taxes	843,521	89,265	289,548	89,265
	<b>927,300</b>	91,934	<b>313,523</b>	91,934
<b>EARNINGS BEFORE THE UNDERNOTED</b>	<b>4,051,086</b>	351,498	<b>1,317,165</b>	351,498
<b>NON-RECOVERABLE EXPENSES</b>				
Amortization	1,179,239	93,008	393,131	93,008
Mortgage interest	1,807,357	143,565	601,667	143,565
Mortgage transaction costs	25,979	—	12,139	—
General and administrative expenses	152,724	20,461	32,863	20,461
Interest expenses on loan and notes payable	2,686	—	2,686	—
	<b>3,167,985</b>	257,034	<b>1,042,486</b>	257,034
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>\$ 883,101</b>	\$ 94,464	<b>\$ 274,679</b>	\$ 94,464
Basic net earnings per unit				
Trust units (7,521,531 units / 7,526,263 units)	\$ 0.112	\$ 0.017	\$ 0.035	\$ 0.017
Subordinated units (278,947 units)	0.158	0.017	0.049	0.017
Diluted net earnings per unit				
Trust units (7,521,531 units / 7,526,263 units)	0.112	0.017	0.035	0.017
Subordinated units (278,947 units)	0.158	0.017	0.049	0.017

**RESULTS OF OPERATIONS (continued)**

During the period from January 1 to September 30, 2008, PIRET earned net income of \$883,101 from 18 properties, with an indebtedness ratio of 60% and a distribution payout ratio of 84%.

**Rental and Recoveries Income**

Rental income from income producing properties includes all amounts earned from tenants related to lease agreements, such as basic rent, operating cost recoveries, and property tax recoveries.

**Interest Income**

Interest income was earned on the funds which were received from the equity raised in August 2007, September 2007, December 2007 and January 2008 and had not been fully deployed. Interest income was also earned from bank deposits at the property level. Interest income decreased gradually after the trust acquired more income producing properties.

**Property Recoverable Operating Expenses**

Property recoverable operating expenses include costs relating to such items as cleaning, building repairs and maintenance, elevator, HVAC, insurance, property taxes, utilities and property management fees among other items, which can be recovered from tenants. The following table illustrates recoverable operating expenses as a percentage of total property recoverable operating expenses:

Recoverable operating expenses	January 1 to September 30, 2008	June 24 to December 31, 2007
Property insurance	5.80%	4.63%
Property management fees	3.13%	1.69%
Property recoverable operating costs	0.10%	0.06%
Property taxes	90.97%	93.62%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**Amortization of Intangible Assets**

Amortization of intangible assets is \$237,058 for the period ended September 30, 2008 (from June 24 to December 31, 2007 - \$56,499). Intangible assets include the in-place operating leases and above and below market leases. In-place leasing costs are those costs that would be incurred to lease up the property had it been vacant upon acquisition, and include commissions and vacancy loss. The continued acquisition of properties will result in an increase of this expense in the future.

**Depreciation of Income Producing Properties**

Depreciation of building is charged to income on a straight-line basis over the estimated useful life of the properties, which is from 22 to 40 years. The depreciation of the buildings is \$942,181 for the period ended September 30, 2008 (from June 24 to December 31, 2007 - \$294,089). The expenses will increase as more income producing properties are purchased.

**Mortgage Interest Expense**

As at September 30, 2008, the weighted average interest rate on the mortgages is 5.59% per annum (December 31, 2007 – 5.59%) and the mortgages mature between 2008 and 2016 with the weighted average mortgage term of 5.01 years.

**RESULTS OF OPERATIONS (continued)**

**Trust Expenses**

Trust expenses are primarily comprised of directors and officers liability insurance, professional fees, legal fees, filing fees and trustee fees. Professional fees include auditing fees and internal control service fees paid to third parties. The trust did not pay any trustee fees. For the period ended September 30, 2008, total trust expenses amounted to 3% of rental revenue (from June 24 to December 31, 2007 – 5%).

The following table illustrates major trust expenses as a percentage of overall trust expenses:

Trust expenses	January 1 to September 30, 2008	June 24 to December 31, 2007
Insurance	15.18%	12.41%
Professional fees	23.35%	41.03%
Legal and filing fees	59.36%	37.83%

**Income Taxes**

PIRET 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 distribution for Canadian income tax purposes. Therefore, no provision for income taxes is required on income earned by the Trust.

**DISTRIBUTABLE INCOME**

PIRET uses Distributable Income (“DI”) to measure its ability to earn and distribute cash to unitholders. DI is a non-GAAP measurement and should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Trust’s performance. PIRET’s DI is calculated based on cash flow from operations in accordance with the National Policy 41-201 of the Canadian Securities Administrators. DI as computed by PIRET may differ from similar computations as reported by other similar business entities and, accordingly, may not be comparable to DI as reported by such business entities.

PIRET may distribute to unitholders on each distribution date such percentage of the DI of PIRET for the month immediately preceding the month in which the distribution date falls, as the Trustees may determine at their discretion. Currently, the Trustees intend to make an annual cash distribution to unitholders of \$0.30 per unit. Monthly distributions will be paid on the distribution date to unitholders of record on the last business day of such month.

From January 1 to September 30, 2008, PIRET either announced it would distribute or distributed \$1,693,409 (June 24 to December 31, 2007 - \$627,210) to trust unitholders and \$89,127 (June 24 to December 31, 2007 - \$33,011) to subordinated unitholders, which represents 84% (June 24 to December 31, 2007 - 103%) of DI. The distributions to unitholders are more than DI in 2007 due to the timing of closing a second public offering, the issuance of additional trust units on December 20, 2007, and the acquisition of an additional eight properties on November 21, December 14 and December 20, 2007.

**DISTRIBUTABLE INCOME (continued)**

	Nine months ended September 30, 2008	June 24 to September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
Cash flow from operations	\$ 677,651	\$ 1,067,322	\$ 542,732	\$ 1,067,322
Adjustment:				
Changes in non-cash operating working capital	1,368,381	(881,605)	119,578	(881,605)
Advances of subordinated notes	49,515	—	29,709	—
Mortgage transaction costs	25,979	—	12,139	—
<b>Distributable Income</b>	<b>2,121,526</b>	<b>185,717</b>	<b>704,158</b>	<b>185,717</b>
Trust units (95% of DI)	2,015,450	176,430	668,950	176,430
Subordinated units (5% of DI)	106,076	9,287	35,208	9,287
<b>Distributions to Unitholders</b>				
Trust units (95% of Distribution)	1,693,409	175,960	564,470	175,960
Subordinated units (5% of Distribution)	89,127	9,261	29,709	9,261
Total distributions paid	1,782,536	185,221	594,179	185,221
<b>Total distributions paid as a % of Distributable Income</b>	<b>84.02%</b>	<b>99.73%</b>	<b>84.38%</b>	<b>99.73%</b>
Weighted average number of units				
Trust units	7,521,531	5,300,000	7,526,263	5,300,000
Subordinated units	278,947	278,947	278,947	278,947
Diluted weighted average number of units				
Trust units	7,521,531	5,300,000	7,526,263	5,300,000
Subordinated units	278,947	278,947	278,947	278,947
Basic DI per unit				
Trust units (95% of DI)	\$ 0.268	\$ 0.033	\$ 0.089	\$ 0.033
Subordinated units (5% of DI)	0.380	0.033	0.126	0.033
Diluted DI per unit				
Trust units (95% of DI)	\$ 0.268	\$ 0.033	\$ 0.089	\$ 0.033
Subordinated units (5% of DI)	0.380	0.033	0.126	0.033
Distributions paid per unit				
Trust units (95% of Distribution)	\$ 0.225	\$ 0.033	\$ 0.075	\$ 0.033
Subordinated units (5% of Distribution)	0.320	0.033	0.107	0.033

The Trustees look beyond quarter-to-quarter fluctuations in working capital when making decisions regarding monthly distributions. As a result, management believes that the measure of DI, which excludes the impact of changes in non-cash working capital, is a better measure for determining operating performance. Management believes that the calculation of Standardized Distributable Cash distorts the Trust's quarter-to-quarter distributable cash and payout ratios, as the non-cash operating working capital fluctuates.

**STANDARDIZED DISTRIBUTABLE CASH**

The following is a reconciliation of the Trust's DI to standardized distributable cash.

	Nine months ended September 30, 2008	June 24 to September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
Distributable income	\$ 2,121,526	\$ 185,717	\$ 704,158	\$ 185,717
(Advances) repayment on subordinated notes	(49,515)	—	(29,709)	—
Mortgage transaction costs	(25,979)	—	(12,139)	—
(Increase) decrease in amounts receivable	(134,309)	(55,234)	(16,453)	(55,234)
(Increase) decrease in prepaid expenses	(194,713)	(117,906)	111,888	(117,906)
Increase (decrease) in rental deposits	28,928	—	31,096	—
Increase (decrease) in accounts payable and accrued liabilities	(1,068,287)	1,054,745	(246,109)	1,054,745
Standardized distributable cash	\$ 677,651	\$ 1,067,322	\$ 542,732	\$ 1,067,322

**SEGMENTED INFORMATION**

PIRET invests in industrial income producing properties in Canada only. Currently, there are eighteen properties located in six provinces. The following tables show the percentage of rental and recoveries revenue from each province for the period ended September 30, 2008.

Rental and recoveries income	Percentage	Amount
Alberta	37.75%	\$ 1,857,801
British Columbia	16.38%	806,537
Manitoba	6.10%	300,373
Ontario	15.48%	762,107
Quebec	22.85%	1,125,124
Saskatchewan	1.44%	71,070
Total	100.00%	\$ 4,923,012

The following table shows the net book value for properties in each province.

Property net book value	September 30, 2008		December 31, 2007	
	Percentage	Amount	Percentage	Amount
Alberta	43.17%	\$ 29,581,562	43.27%	\$ 30,096,904
British Columbia	17.26%	11,825,160	17.20%	11,969,425
Manitoba	5.29%	3,623,373	5.18%	3,605,551
Ontario	13.82%	9,470,090	13.85%	9,631,670
Quebec	19.02%	13,035,976	19.08%	13,271,547
Saskatchewan	1.44%	984,332	1.42%	988,593
Total	100.00%	\$ 68,520,493	100.00%	\$ 69,563,690

**FINANCIAL CONDITION****Assets****Income Producing Properties**

The Trust acquired ten income producing properties on August 22, 2007, with the funds from the proceeds of issuance of trust units and assumption of mortgages from vendors. On November 19, 2007, PIRET purchased one property with cash and a new mortgage. On December 14, 2007, the Trust acquired one property with cash and a new mortgage. On December 20, 2007, PIRET acquired six properties with the funds from the proceeds of issuance of trust units and new mortgages.

Property	Location	Acquisition Date	Purchase price	Mortgage	Ownership %
Mabe	Montreal, QC	08/22/2007	13,375,000	8,388,233	100%
7470 Vantage Way	Delta, BC	08/22/2007	6,430,000	1,675,717	100%
13325 Comber Way	Surrey, BC	08/22/2007	3,600,000	938,193	100%
75 Golden Drive	Coquitlam, BC	08/22/2007	2,000,000	521,219	100%
7805 - 51st St	Calgary, AB	08/22/2007	3,250,000	846,980	100%
1390 & 1401 - 17th Ave	Calgary, AB	08/22/2007	4,270,000	1,112,802	100%
9203 - 35th Ave	Edmonton, AB	08/22/2007	2,160,000	562,916	100%
333 DeBaets St.	Winnipeg, MB	08/22/2007	2,700,000	1,711,024	100%
8055 Esquesing Line	Milton, ON	08/22/2007	2,560,000	8,269,653	100%
Tornado	Calgary, AB	11/19/2007	3,900,000	2,800,000	100%
Eurospec	Newmarket, ON	12/14/2007	6,900,000	4,800,000	100%
Shanahan - 132nd Ave	Edmonton, AB	12/20/2007	3,600,000	2,340,000	100%
Shanahan - 58th Ave	Calgary, AB	12/20/2007	4,693,000	3,120,000	100%
Shanahan - 44th St.	Saskatoon, SK	12/20/2007	482,000	343,000	100%
Shanahan - 225 Quebec St.	Regina, SK	12/20/2007	490,000	318,500	100%
Shanahan - 90 Park Lane	Winnipeg, MB	12/20/2007	907,000	703,500	100%
Shanahan - 57th Ave	Calgary, AB	12/20/2007	8,200,000	5,250,000	100%
Total			<b>\$ 69,517,000</b>	<b>\$ 43,701,737</b>	

The current properties remain relatively new with estimated useful lives between 22 to 49 years and should require minimal capital expenditure in the near future.

The mortgages are secured by the income producing properties and held by separate legal entities. The mortgage obligations are satisfied by rent received from each property first.

**Accrued Rent Receivable**

Certain leases call for rental payments that increase over their terms. Accrued rent receivable records the rental revenue from these leases on a straight-line basis, resulting in accruals for rents that are not billable or due until future years. Accrued rent receivable is \$307,698 as at September 30, 2008 (December 31, 2007 - \$91,028).

**Other Assets**

*Mortgage reserve fund*

The mortgage reserve fund consists of cash on deposit that 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 16 months and 8.5 years. The amortized cost of the mortgage reserve fund is \$799,930 as at September 30, 2008 (December 31, 2007 - \$783,622).

*Prepaid expenses*

Prepaid expenses are due to prepaid insurance and property taxes.

**Liabilities**

PIRET's Declaration of Trust limits the indebtedness of the Trust to a maximum of 70% of the gross book value of the Trust. The gross book value is defined as the total book value of the assets plus accumulated depreciation and amortization in respect of such assets in the prospectus dated August 13, 2007. The indebtedness is 60% of the gross book value as at September 30, 2008 (December 31, 2007 – 62%).

**Mortgages Payable**

The Trust assumed \$24 million in mortgages payable from the vendor on the acquisition of ten properties on August 22, 2007. PIRET received new mortgages of \$19,675,000 on the acquisition of an additional eight properties from November to December 2007. The mortgages bear interest at the weighted average rate of 5.59% as at September 30, 2008 (December 31, 2007 – 5.59%) and mature between 2008 and 2016.

Future principal mortgage payments are as follows:

Years ending December 31:	
2008 (for the remaining 3 months ending December 31, 2008)	\$ 1,564,688
2009	926,867
2010	979,577
2011	15,089,721
2012	7,670,683
Thereafter	16,655,247
	<b>\$ 42,886,783</b>

**Notes Payable**

PIRET has entered into a subordination and support agreement with Sunstone Industrial Investments Inc. (“Sunstone Industrial”). When the target monthly distribution 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 subordinated notes are non interest bearing and due for repayment at the end of the subordination period. From January 1 to September 30, 2008, Sunstone Industrial advanced \$49,515 to PIRET. From October to December 2007, Sunstone Industrial advanced \$23,750 to PIRET, the same amount as the distribution to subordinated units for the same period.

**Equity**

**Unitholders' Equity**

Unitholders' equity is \$25,854,643 as at September 30, 2008 (December 31, 2007 - \$26,532,157).

## LIQUIDITY AND CAPITAL RESOURCES

### Funds from Operations

“Funds from operations” (“FFO”) is a non-GAAP measurement and should not be construed as an alternative to net earnings determined in accordance with GAAP. However, FFO is an operating performance measure which is widely used by the real estate industry and the Trust has calculated FFO in accordance with the recommendations of the Real Property Association of Canada. PIRET’s method of calculating FFO may differ from other companies and accordingly may not be comparable to similar measures presented by other companies.

The use of FFO, combined with the required GAAP presentations, has been presented for the purpose of improving the understanding of operating results of REITs by the investing public and in making comparisons of REIT operating results more meaningful.

As FFO excludes depreciation, amortization, future income tax and gains and losses from property dispositions, it provides a performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities, and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with GAAP.

FFO is a widely accepted supplemental measure of financial performance for real estate entities; however, it does not represent amounts available for capital programs, debt service obligations, commitments or uncertainties. FFO should not be interpreted as an indicator of cash generated from operating activities and is not indicative of cash available to fund operating expenditures, or for the payment of cash distributions. FFO is simply one measure of operating performance.

	Nine months ended September 30, 2008	June 24 to September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
<b>Funds From Operations</b>				
Net earnings	\$ 883,101	\$ 94,464	\$ 274,679	\$ 94,464
Adjustment:				
Amortization of intangible assets	237,058	12,113	79,019	12,113
Depreciation of income producing properties	942,181	80,895	314,112	80,895
<b>Funds from operations</b>	<b>2,062,340</b>	187,472	<b>667,810</b>	187,472
Weighted average number of units				
Trust units	7,521,531	5,300,000	7,526,263	5,300,000
Subordinated units	278,947	278,947	278,947	278,947
Diluted weighted average number of units				
Trust units	7,521,531	5,300,000	7,526,263	5,300,000
Subordinated units	278,947	278,947	278,947	278,947
Funds from operations per unit - Basic				
Trust units (95%)	\$ 0.260	\$ 0.034	\$ 0.084	\$ 0.034
Subordinated units (5%)	0.370	0.034	0.120	0.034
Funds from operations per unit - Diluted				
Trust units (95%)	\$ 0.260	\$ 0.034	\$ 0.084	\$ 0.034
Subordinated units (5%)	0.370	0.034	0.120	0.034

**Funds from Operations (continued)**

The following is a reconciliation of the Trust's funds from operations to cash provided by operations:

	<b>Nine months ended September 30, 2008</b>	June 24 to September 30, 2007	<b>Three months ended September 30, 2008</b>	Three months ended September 30, 2007
Funds from operations	\$ 2,062,340	\$ 187,472	\$ 667,810	\$ 187,472
Amortization of discount on mortgage reserve fund	(16,308)	(1,755)	(5,500)	(1,755)
(Increase) decrease in amounts receivable	(134,309)	(55,234)	(16,453)	(55,234)
(Increase) decrease in prepaid expenses	(194,713)	(117,906)	111,888	(117,906)
Increase (decrease) in rental deposit	28,928	—	31,096	—
Increase (decrease) in accounts payable and accrued liabilities	(1,068,287)	1,054,745	(246,109)	1,054,745
Cash provided by operating activities	\$ 677,651	\$ 1,067,322	\$ 542,732	\$ 1,067,322

**Capital Resources**

The cash collected from issuing trust units and subordinated units in 2007 and January 2008 represents the primary source of funds to fund total distributions to unitholders of \$1,782,536 from January 1 to September 30, 2008.

In accordance with National Instrument 41-102, the Trust is required to provide additional disclosure relating to cash distributions.

	<b>Nine months ended September 30, 2008</b>	June 24 to September 30, 2007	<b>Three months ended September 30, 2008</b>	Three months ended September 30, 2007
Cash provided by operating activities	\$ 677,651	\$ 1,067,322	\$ 542,732	\$ 1,067,322
Net earnings	883,101	94,464	274,679	94,464
Actual cash distributions paid or payable	1,782,536	185,221	594,179	185,221
Excess (shortfall) of cash provided by operating activities over cash distribution paid	(1,104,885)	882,101	(51,447)	882,101
Excess (shortfall) of net earnings over cash distributions paid	(899,435)	(90,757)	(319,500)	(90,757)

For the period ended September 30, 2008, cash provided by operations is less than cash distributions, which is management's expectation. Management expects cash distributions to continually exceed net earnings due to non-cash items which are deducted in determining net earnings. Non-cash items such as depreciation and amortization while deducted for net earnings have no impact on cash available to pay distributions.

For the period from June 24 to December 31, 2007, cash provided by operations exceeded cash distributions.

There are no significant working capital requirements that currently exist and there are no pending items that may affect liquidity. There are no legal or practical restrictions on the ability of the Trust's properties to transfer funds to the Trust.

Proceeds from the issuance of units and conventional mortgage financing have been used mainly to fund property acquisitions.

Management expects to be able to meet all of the Trust's ongoing obligations and to finance future growth through the issuance of new equity as well as by using conventional mortgages, short term financing from the bank and the Trust's cash flow. The Trust is not in default or arrears on any of its obligations including distribution payments, interest or principal payments on debt.

**CAPITAL STRUCTURE**

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's 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 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 is 60% as at September 30, 2008 (December 31, 2007 – 62%).

The Trust Declaration also requires it 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 distribution to trust unitholders was \$0.025 per unit per month from January 1 to September 30, 2008 (August 22 to December 31, 2007 - \$0.025 per unit per month).

The Trust is in compliance with all restrictions during the periods ended September 30, 2008 and December 31, 2007.

The capital structure consisted of the following components at September 30, 2008 and December 31, 2007.

	<b>September 30, 2008</b>	December 31, 2007	Change
Capital			
Mortgages payable	\$ <b>42,886,783</b>	\$ 43,546,918	\$ (660,135)
Notes payable	<b>73,265</b>	23,750	49,515
Unitholders' equity	<b>25,854,643</b>	26,532,157	(677,514)
<b>Total Capital</b>	<b>\$ 68,814,691</b>	\$ 70,102,825	\$ (1,288,134)

**FINANCIAL INSTRUMENTS**

For certain of the Trust's financial instruments, including cash, cash held in trust, amounts receivable, accounts payable and accrued liabilities and the short-term loan, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of the mortgage reserve fund is determined by discounting the future contractual cash flow under current mortgage agreements at a discount rate which represents the investment return rate that the Trust can earn.

The fair values of amounts due for mortgages payable, bank loans and notes payable are determined by discounting the future contractual cash flow under current financing arrangements at discount rates which represent borrowing rates presently available to the Trust for loans with similar terms and maturity.

The fair values of most recent received mortgages payable and subordinated notes payable approximate their fair values as at December 31, 2007.

## FINANCIAL INSTRUMENTS (continued)

	September 30, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage reserve fund	\$ 799,930	\$ 732,146	\$ 783,622	\$ 752,953
Mortgages payable	42,886,783	44,926,465	43,546,918	43,737,350
Notes payable	73,265	72,726	23,750	23,750

## OFF-BALANCE SHEET ITEMS

PIRET does not have any off-balance sheet items.

## SECTION III

## SUMMARY OF QUARTERLY RESULTS

Quarter ended	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 24, 2007 to June 30, 2007
Basic rent	\$ 1,325,519	\$ 1,329,613	\$ 1,329,613	\$ 884,286	\$ 332,173	\$ —
Recoveries	298,582	241,718	397,966	301,196	98,008	—
Interest income	6,587	14,621	34,167	25,300	13,251	—
Total rental income from properties	1,630,688	1,585,952	1,761,746	1,210,782	443,432	—
Recoverable operating expenses	313,523	244,649	369,128	321,769	91,934	—
Non-recoverable expenses	1,042,486	1,031,353	1,094,146	960,113	257,034	—
Net earnings (loss)	274,679	309,950	298,472	(71,100)	94,464	—
Basic net earnings per unit						
Trust units	0.03	0.04	0.04	(0.01)	0.02	—
Subordinated units	0.05	0.06	0.05	(0.01)	0.02	—
Diluted net earnings per unit						
Trust units	0.03	0.04	0.04	(0.01)	0.02	—
Subordinated units	0.05	0.06	0.05	(0.01)	0.02	—

The quarter ended March 31, 2008 represents the first full quarter that all eighteen properties have operated in full. Thus, rental income, recoverable operating expenses and non recoverable expenses all increased in the first quarter of 2008 compared to the fourth quarter of 2007. For the same period, non recoverable expenses increased significantly due to the increase of mortgage interest payments and amortization on building and intangible assets.

In June 2008, some tenants decided to pay property taxes directly to the cities instead of through PIRET, which results in the lower recoveries income and recoverable operating expenses in the second quarter of 2008 compared to those in the first quarter of 2008. Non-recoverable expenses were also lower in the second quarter than those in the first quarter because PIRET incurred additional legal and filing fees related to the annual unitholders meeting and annual financial reporting during the first quarter. Thus, the net earnings in the second quarter were higher than those in the first quarter of 2008. There were no significant changes from the second quarter to the third quarter.

**SUMMARY OF QUARTERLY RESULTS (continued)**

Quarter ended	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Total assets	\$ 69,977,351	\$70,484,369	\$ 70,798,884	\$ 72,077,937	\$ 45,105,548	\$ 10
Total liabilities	44,122,708	44,310,226	44,354,706	45,545,780	25,045,659	—
Unitholders' equity	25,854,643	26,174,143	26,444,178	26,532,157	20,059,889	10
Income producing properties	66,092,795	66,315,101	66,606,588	66,898,934	39,018,659	—
Intangible assets	2,427,698	2,506,717	2,585,737	2,664,756	1,262,557	—
Mortgages payable	42,886,783	43,113,997	43,338,032	43,546,918	23,990,914	—

Total income producing properties and intangible assets decreased in the quarter ended September 30, 2008 due to the amortization on buildings and intangible assets. The Trust incurred additional acquisition costs of \$91,806 during the quarter ended September 30, 2008, related to properties purchased in 2007. Prepaid expenses decreased slightly in the third quarter due to the expense of property taxes, which were paid during the second quarter. Cash decreased due to the distribution payments to unitholders. Total liabilities decreased during the quarter ended September 30, 2008 compared with the liabilities in the prior quarter due in most part to the collection of property tax received from Team Tube for the rest of year.

**SECTION IV****CRITICAL ACCOUNTING 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. PIRET's significant accounting policies are described in note 2 to the December 31, 2007 audited financial statements.

Management believes the policies that are most subject to estimation and judgement are outlined below.

**Impairment of Assets**

PIRET is required to write down to fair value any of its income producing properties that have been determined to have been impaired. The analysis involves assumptions of estimated occupancy, rental rates, residual value, and estimated future cash flow from operations over the anticipated holding period. In the event these factors result in a carrying value that exceeds the sum of future undiscounted cash flows from the use of the properties, impairment would be recognized. From January 1 to September 30, 2008, no impairments were recognized.

**Depreciation**

The buildings are depreciated on a straight-line basis over the remaining estimated useful life. Management is required to allocate a portion of the cost to the buildings and assess the useful lives of income producing properties upon the acquisitions. In the event the allocation to the building is inappropriate or the estimated useful life of the building proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

**Property Acquisition**

According to the CICA handbook, management is required to make judgments and estimates upon property acquisitions. The purchase price must be allocated to land, building, tenant improvements, and intangible assets for the value of in-place operating leases and the value of the tenant relationship. These estimates will impact rental revenue, amortization and depreciation expenses.

## ACCOUNTING POLICIES CHANGES

On January 1, 2008, the Trust adopted three new accounting standards: Section 1535 - Capital Disclosure; Section 3862 – Financial Instruments – Disclosures; and Section 3863 – Financial Instruments – Presentation.

Section 1535 requires the disclosure of an entity’s objective, policies and processes for managing capital; quantitative data about capital; whether the entity has complied with any capital requirements; and the consequences of non-compliance.

Sections 3862 and 3863 replace Section 3861 – Financial Instruments – Disclosure and Presentation, and emphasize more disclosures about the nature and extent of risks arising from financial instruments and how the entity manages risks.

The new requirements are for disclosure only and do not impact the financial results of the Trust.

## SECTION V

### RISKS AND UNCERTAINTIES

All income producing property investments are subject to a degree of risk and uncertainty. They are affected by various factors including general market conditions and local market circumstances. Management attempts to manage these risks through geographic diversification in the Trust’s portfolio.

In the normal course of business, the Trust is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

#### Interest Rate and Financial 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 financial risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

The Trust manages its financial instruments and interest rate risks based on its cash flow needs. The Trust minimizes interest rate risk by obtaining long-term, fixed rate mortgages whenever possible. It targets a conservative ratio of debt (including the face amount of any outstanding convertible debentures and any outstanding subordinated notes) to gross book value within the range of 60% to 65% and is restricted under the Trust Declaration to a maximum of 70%.

#### Credit Risk

The Trust is exposed to some credit risk with respect to the collection of rental revenue, but minimizes the risk by checking tenants’ credit histories and requesting security deposits. As at September 30, 2008, trade receivables in the amount of \$Nil were 30 days past due.

The aging trade receivable was:

	September 30, 2008	December 31, 2007
Current	\$ —	\$ 93,659
Past due 31-60 days	—	—
Past due 61-90 days	—	—
Past due 90+ days	—	—
	<b>\$ —</b>	<b>\$ 93,659</b>

#### Currency Risk

The Trust is not exposed to currency risk since all transactions are in Canadian dollars.

## **RISKS AND UNCERTAINTIES (continued)**

### **Lease Rollover Risk**

Lease rollover risk arises from the possibility that PIRET may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management tries to sign long term leases to tenants to minimize lease rollover risk. Currently, the leases which will expire over the next 5 years represent 44% of total square footage. However, 96% of the leases expiring over the next 5 years have at least one renewal option for another 5 years.

### **Restrictions on Redemptions**

It is anticipated that the redemption right will not be the primary mechanism for trust unitholders to liquidate their investments. PIRET notes or debt securities which may be issued or distributed in specie to trust unitholders in connection with redemption will not be listed on any stock exchange and no established market is expected to develop for such securities. Such securities may be subject to an indefinite “hold period” or other resale restriction under applicable securities laws. PIRET notes and debt securities so issued or distributed may not be qualified investments for deferred income plans. Regulatory approvals will be required in connection with an issuance or distribution of PIRET notes or debt securities in specie to holders of units in connection with the redemption of units. There are no notes or debt securities issued to unitholders as at September 30, 2008.

### **Environmental Risk**

As an owner of real property, PIRET will be subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that PIRET could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect PIRET’s ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against PIRET.

Management carries out environmental inspections before a property is purchased. In addition, most leases require tenants to conduct their businesses in accordance with environmental regulations and be responsible for liabilities arising out of any infractions. Management is not aware of any material non-compliance with environmental laws with respect to the current portfolio and is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with the current portfolio.

### **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.

### **Tax Risk**

PIRET currently qualifies as a real estate investment trust for Canadian income tax purposes. Thus, PIRET is not subject to income tax as long as the Trust distributes all income earned by the Trust to unitholders annually. If PIRET does not qualify or ceases to qualify as a real estate investment trust (“REIT”) under the REIT exception, adverse consequences could arise including a non-deductible distributions amount being taxable to PIRET (with the result that the amount of cash available for distribution by PIRET would be reduced) and such amount also being included in the income of unitholders for purposes of the Tax Act as taxable dividends.

There can be no assurances that Canadian federal income tax laws respecting the treatment of mutual fund trusts and of REITs will not be changed, or that administrative and assessing practices of the Canada Revenue Agency will not develop in a manner which adversely affects PIRET or its unitholders.

**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 and Sunstone Opportunity (2007) Realty Trust by virtue of having officers and directors in common.

<b>Amounts due to related parties</b>	<b>September 30, 2008</b>	June 30, 2008	March 31, 2008	December 31, 2007
Sunstone Realty Advisors (2006) Inc.	\$ —	\$ —	\$ —	\$ 199,785
Sunstone Realty Advisors (2005) Inc.	<b>225,000</b>	225,000	225,000	225,000
Sunstone Advisors (Canada) Inc.	—	—	—	195,000
Sunstone Opportunity (2007) Realty Trust	—	—	—	277,500
<b>Included in accounts payable and accrued liabilities</b>	<b>\$ —</b>	<b>\$ 225,000</b>	<b>\$ 225,000</b>	<b>\$ 897,285</b>

<b>Amounts paid by related parties</b>	<b>September 30, 2008</b>	June 30, 2008	March 31, 2008	December 31, 2007
Sunstone Realty Advisors (2006) Inc.	\$ —	\$ —	\$ —	\$ 199,785
Sunstone Realty Advisors (2005) Inc.	—	—	—	225,000
Sunstone Advisors (Canada) Inc.	—	—	—	195,000
Sunstone Opportunity (2007) Realty Trust	—	—	—	277,500
<b>Total amounts paid by related parties</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 897,285</b>

During the three month period ended March 31, 2008, \$672,285 was reimbursed to the above noted entities. As at September 30, 2008, \$225,000 is owed to Sunstone Realty Advisors (2005) Inc. and is included in short-term loan. The loan bears interest at 4.75% per annum (December 31, 2007 - \$897,285 included in accounts payable and accrued liabilities).

PIRET purchased its initial portfolio income producing properties from Sunstone Opportunity Fund (2005) Limited Partnership in 2007.

PIRET has entered an Asset Management Agreement with Sunstone Management whereby Sunstone Management will provide asset management, administrative and reporting services to PIRET. Under 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 period ended September 30, 2008 or December 31, 2007, Sunstone Management did not charge PIRET pursuant to the Asset Management Agreement.

**OUTSTANDING UNIT DATA**

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 Investments Inc. ("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.

On September 20, 2007, the syndicate of agents associated with PIRET's initial public offering exercised a portion of the over-allotment option granted to them in conjunction with such offering, 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.

On December 20, 2007, the Trust issued additional 2,150,000 trust units to public at a price of \$3.80 per unit for gross proceeds of \$8,170,000.

## OUTSTANDING UNIT DATA (continued)

On January 18, 2008, the syndicate of agents exercised a portion of the over-allotment option granted related to the second public offering, 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 aggregate of \$67,878.

Except as set out in the Trust Declaration, no trust unit or subordinated unit has any preference or priority over another. All units have equal voting rights at meetings of unitholders.

Upon completion of the offerings and exercise of over-allotment, 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.

As at September 30, 2008, the total number of trust units outstanding was 7,526,263 (December 31, 2007 - 7,450,000) and the total number of subordinated units outstanding was 278,947 (December 31, 2007 – 278,947).

In February 2008, the Trustees approved a restricted unit plan, which will be used as an incentive plan to align the interests of the Trustees, key employees, key management and consultants with the success of the Trust. Each restricted unit and distribution restricted unit will give the participant the right to receive the fair market value of such vested restricted unit on the redemption date. **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. The performance criteria as outlined in the grant agreements stipulates that the restricted units granted on February 20, 2008 shall not vest, and the participants shall not be entitled to and shall not have any interest in such restricted units or associated distribution restricted units, until the Trust’s market capitalization reaches \$100,000,000 on the Vesting Date.** As at September 30, 2008, the Trust has issued a total of 30,000 restricted units and 1,469 related distribution restricted units. The purposes of the Plan are to:

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

## SECTION VI

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The president assessed, or caused an assessment under his direct supervision of the design of PIRET’s internal controls over financial reporting as at September 30, 2008, and based on that assessment determined that PIRET’s internal controls over financial reporting were appropriately designed.

Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, have been detected.

## **SECTION VII**

### **OUTLOOK**

The Trustees believe that superior returns can be achieved by targeting properties in both primary and secondary markets across Canada. PIRET intends to acquire properties in clusters and asset sizes that will ensure regional economies of scale and geographic diversification in its portfolio. Acquisitions will be primarily in the \$3 to \$20 million range per property. PIRET will focus on acquiring industrial assets with strong tenant bases, low vacancy rates and existing long-term leases. In addition to providing cash flow stability, these higher quality tenants typically require fewer resources to manage individual properties. Furthermore, PIRET intends to acquire properties that are in good to superior physical condition with little to no deferred maintenance.

The initial portfolio acquired on August 22, 2007 is comprised of ten properties located in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec, having an aggregate of 469,641 square feet of rentable premises. Each property within the portfolio is currently 100% leased to a single tenant. Based on total square footage, 96% of the leases will expire after 2016. The November and December 2007 acquisitions included eight single tenant properties having an aggregate of 343,638 square feet of rental premises. These acquisitions follow the above criteria, which enables the Trust to meet its objectives for the future.

### **SUBSEQUENT EVENTS**

Commencing October 1, 2008, a new tenant will lease 9203 – 35<sup>th</sup> Ave, Edmonton, AB for a 5 year term at a slightly higher rental rate than the current tenant.

### **ADDITIONAL INFORMATION**

Additional information relating to PIRET is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on PIRET's website at [www.piret.ca](http://www.piret.ca).