



**PURE INDUSTRIAL REAL ESTATE TRUST**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the period ended September 30, 2010**

**Dated: November 19, 2010**

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## SECTION I

### FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis 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, 2010 and the year ended December 31, 2009 should be read in conjunction with PIRET's unaudited financial statements for the period ended September 30, 2010 and audited financial statements for the year ended December 31, 2009. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Results of Operations", "Financial Conditions", "Liquidity and Capital Resources", "Risks and Uncertainties" and "Outlook" relating to PIRET's objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "believe", "expect", "may", "anticipate", "should", "intend", "estimates" and similar expressions.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Those risks and uncertainties include, among other things, risks related to: unit prices; liquidity; credit risk and tenant concentration; interest rate and other debt related risk; tax risk; ability to access capital markets; lease rollover risk; competition for real property investments; environmental matters; changes in legislation and indebtedness of PIRET. Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions and information currently available; however, management can give no assurance that actual results will be consistent with these forward-looking statements.

Factors and assumptions that were applied in drawing conclusions and 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 November 19, 2010 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 across 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 January 1, 2009, PIRET sold its undivided interest in a small property, located at 509 – 44<sup>th</sup> Street East, Saskatoon, Saskatchewan, (part of the Shanahan’s portfolio) for \$625,000 less standard closing costs and adjustments. On June 1, 2009, PIRET sold its undivided interest in another small property, located at 225 Quebec Street, Regina, Saskatchewan, (part of the Shanahan’s portfolio) for \$558,000 less standard closing costs and adjustments. PIRET paid off the mortgages on these properties upon the sale of these properties.

On March 1, 2010, PIRET purchased an undivided interest in 3500 Viking Way, Richmond, British Columbia, (“Viking”) for \$7,300,000 plus standard closing costs and adjustments. On March 4, 2010, PIRET purchased an undivided interest in 234040 Wrangler Road, Calgary, Alberta, (“Transforce”) for \$32,000,000 plus standard closing costs and adjustments. On March 29, 2010, PIRET purchased an undivided interest in 150 Edmonton Ave, Moncton, New Brunswick, (“Moncton”) for \$2,790,000 plus standard closing costs and adjustments, and assumed a mortgage in the amount of \$1,597,240. On April 23, 2010, PIRET purchased undivided interests in 2 Ramm Avenue East, White City, Saskatchewan; 144 Henderson Drive, Regina, Saskatchewan; and 195 Henderson Drive, Regina, Saskatchewan, (“Advance - SK”) for \$12,300,000 plus standard closing costs and adjustments. On May 19, 2010, PIRET purchased undivided interests in 5502 and 5532 56<sup>th</sup> Avenue, S.E. Calgary, Alberta; 1002 15 Avenue, Nisku, Alberta; and 10498 17 Street, Strathcona County, Alberta, (“Advance - AB”) for \$14,950,000 plus standard closing costs and adjustments. On May 21, 2010, PIRET purchased an undivided interest in 95 Clegg Road, Markham, Ontario, (“Clegg Rd”) for \$9,582,125 plus standard closing costs and adjustments. On June 4, 2010, PIRET purchased an undivided interest in 8481 Marien Place, Montreal Est, Quebec, (“FedEx Building”) for \$7,050,000 plus standard closing costs and adjustments. On July 29, 2010, PIRET purchased an undivided interest in 17 Street, NW Edmonton, Alberta, (“Top-Co”) for \$14,800,000 plus standard closing costs and adjustments.

The geographic diversification of PIRET’s portfolio as at September 30, 2010 and December 31, 2009 is outlined below:

Province	Number of buildings		Gross leasable area (Sq.ft.)	
	2010	2009	2010	2009
Alberta	13	8	709,429	346,858
British Columbia	4	3	180,294	112,783
Manitoba	2	2	52,171	52,171
New Brunswick	1	–	30,619	–
Ontario	3	2	227,859	117,742
Quebec	2	1	213,560	164,525
Saskatchewan	3	–	161,426	–
Total	28	16	1,575,358	794,079

The occupancy rate was 100% for all properties owned except Moncton as at September 30, 2010. Moncton had 1,250 square feet vacant upon acquisition. However, PIRET executed a new five year term lease for the vacant space that commenced on September 1, 2010. The lease terms are between two and twenty five years. Most of the leases that will expire within the next three years have at least one renewal option for another five years.

**SECTION II****RESULTS OF OPERATIONS**

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
<b>REVENUES</b>				
Rental and recoveries	\$ 9,840,672	\$ 4,999,902	\$ 4,350,763	\$ 1,657,936
Interest and other	56,526	34,100	47,881	3,331
	<b>9,897,198</b>	5,034,002	<b>4,398,644</b>	1,661,267
<b>PROPERTY RECOVERABLE OPERATING EXPENSES</b>				
Insurance	97,293	45,640	47,389	16,336
Management fees	57,164	28,281	19,820	9,218
Recoverable operating costs	38,349	4,604	29,850	4,283
Property taxes	1,632,565	955,223	676,499	315,833
	<b>1,825,371</b>	1,033,748	<b>773,558</b>	345,670
<b>EARNINGS BEFORE THE UNDERNOTED</b>	<b>8,071,827</b>	4,000,254	<b>3,625,086</b>	1,315,597
<b>NON-RECOVERABLE EXPENSES</b>				
Amortization of deferred expenses	1,097	–	1,097	–
Amortization of properties	2,168,543	1,195,356	971,553	395,950
Mortgage interest	3,124,505	1,745,058	1,299,126	579,092
Mortgage transaction costs	586,235	–	81,531	–
General and administrative expenses	204,939	106,340	63,431	21,035
Interest expenses on loans	56,831	7,499	1,784	2,199
IFRS transition costs	27,143	–	5,775	–
Compensation expenses	217,792	–	217,792	–
	<b>6,387,085</b>	3,054,253	<b>2,642,089</b>	998,276
<b>INCOME BEFORE DISPOSITIONS</b>	<b>1,684,742</b>	946,001	<b>982,997</b>	317,321
Gain on disposal of properties	–	135,956	–	–
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>\$ 1,684,742</b>	\$ 1,081,957	<b>\$ 982,997</b>	\$ 317,321
Basic and diluted net earnings per unit				
Trust units (16,511,245 units / 7,526,263 units)	\$ 0.097	\$ 0.137	\$ 0.044	\$ 0.040
Subordinated units (278,947 units)	0.302	0.194	0.176	0.057

During the period ended September 30, 2010, PIRET reported net earnings of \$1,684,742 from 28 properties. PIRET has an indebtedness ratio of 59% and a distribution payout ratio of 94% as at September 30, 2010. For further clarity, the Trust's indebtedness ratio is defined as the ratio between the Trust's indebtedness (meaning any obligation of the Trust for borrowed money but excluding trade accounts payable, distributions to unitholders and short term acquisition credit facilities) and the gross book value of the assets of the trust. This ratio is further defined on page 13, under the section Capital Structure. The Trust defines distribution payout ratio as the percentage of Distributable Income that is paid out to unitholders.

**RESULTS OF OPERATIONS (continued)**

Due to the twelve new acquisitions, both the rental revenue and recoverable expenses increased during the nine months ended September 30, 2010 compared with those in the same quarter of the prior year. Net operating earnings increased by 101.8% during the period ended September 30, 2010 compared with net operating earnings during the period ended September 30, 2009. Income producing properties, intangible assets, related amortizations and mortgages payable also increased accordingly.

**Rental and Recoveries Revenue**

Rental and recoveries revenue 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 Revenue**

Interest revenue was earned from bank deposits at the trust and the property level. Interest revenue 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:

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Recoverable operating expenses		
Insurance	5.33%	4.41%
Management fees	3.13%	2.74%
Recoverable operating costs	2.10%	0.45%
Property taxes	89.44%	92.40%
Total	100.00%	100.00%

**Amortization of Intangible Assets**

Amortization of intangible assets is \$507,413 for the period ended September 30, 2010 (September 30, 2009 - \$223,651). Intangible assets include in-place operating 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.

**Amortization of Income Producing Properties**

Amortization of buildings is charged to income on a straight-line basis over the estimated useful life of the properties, which ranges from 22 to 49 years, but is amortized to a maximum of 47 years. The amortization of the buildings is \$1,661,130 for the period ended September 30, 2010 (September 30, 2009 - \$971,705). This expense will increase as more income producing properties are purchased, and will decrease as more income producing properties are sold.

**Mortgage Interest Expense**

As at September 30, 2010, the weighted average interest rate on the mortgages is 5.28% per annum (December 31, 2009 – 5.56%) and the mortgages mature between 2010 and 2020 with a weighted average mortgage term of 4.64 years (December 31, 2009 – 3.87 years).

On January 11, 2010, PIRET renewed the mortgage which was secured by 90 Park Lane Avenue, Winnipeg, with Canadian Western Bank on a month to month basis. The mortgage bears interest at the lender's prime rate plus 1.75%, with a minimum of 4%, and is repayable in blended monthly payments of principal and interest in the amount of \$4,331, commencing January 2010. At the same time, Canadian Western Bank established a revolving operating line of credit for PIRET in the amount of \$250,000, bearing interest at the lender's prime rate plus 1.75%, with a minimum of 4% per annum. In March 2010, PIRET paid off the mortgage on 90 Park Lane in the amount of \$659,427.

**RESULTS OF OPERATIONS (continued)**

**Mortgage Transaction Costs**

Mortgage transaction costs in the amount of \$586,235 (2009 – \$4,275) were related to lenders’ legal fees or lenders’ review fees for the mortgages PIRET acquired related to new acquisitions during the period ended September 30, 2010.

**Trust Expenses**

Trust expenses are primarily comprised of directors and officers liability insurance, professional fees, legal fees, filing fees, trustee fees and compensation expenses. 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, 2010, total trust expenses amounted to 4.6% of rental revenue (for the period ended September 30, 2009 – 2.2%) and are included in the following statement of earnings categories: general and administration expenses; interest expenses on loan; and compensation expenses. Trust expenses increased by 319% during the period ended September 30, 2010 compared with those during the period ended September 30, 2009. The significant increase is mainly due to the compensation expenses accrued during the current period. Compensation expenses in the amount of \$217,792 were recorded in the statement of operations in relation to the restricted units and distribution restricted units issued as at September 30, 2010, as there is sufficient certainty that the performance criteria will be met. The compensation expenses represents the current dollar value of the restricted units granted to the independent trustees since the commencement of the Trust in August 2007.

Other increases of trust expenses were due to the interest on bridge financing for the new acquisitions and property investigation costs for property acquisitions that did not proceed. PIRET paid \$48,000 of interest on the bridge financing loans in February 2010 and May 2010. These expenses are not considered to be part of the Trust’s normalized trust expenses, as defined above.

The following table illustrates major trust expenses as a percentage of overall trust expenses, normalized for the period:

Trust expenses	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Insurance	4.68%	19.39%
Professional fees	5.29%	21.85%
Legal and filing fees	21.63%	51.41%
Compensation expenses	47.97%	–
Major trust expenses as a percentage of overall trust expenses	79.57%	92.65%
Major trust expenses as a percentage of rental revenue	3.67%	2.01%

**Property Investigation Costs**

Property investigation costs are fees paid for due diligence on properties which PIRET was interested in acquiring but subsequently elected not to proceed with. They are included in general and administrative expenses but are not considered to be major trust expenses. During the period ended September 30, 2010, PIRET expensed \$47,302 on potential acquisitions that did not proceed.

**IFRS Transition Costs**

IFRS transition costs are costs incurred to convert financial reports from current Canadian GAAP to International Financial Reporting Standards (IFRS). PIRET incurred \$27,143 on appraisals to get market values for all properties held on January 1, 2010. IFRS transition costs are considered to be non-recurring once transition is complete. They will continue to increase until PIRET issues financial statements under IFRS.

**Income Taxes**

PIRET is subject to tax under Part I of the Income Tax Act on its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the period to trust unitholders. The Trustees intend to distribute all taxable income to unitholders and to deduct such

**RESULTS OF OPERATIONS (continued)**

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. 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. DI does not have any standardized meaning prescribed by GAAP. Management calculates DI by adding to or deducting from cash flow from operations the following items: non-cash working capital items, proceeds or repayment of notes payable, and mortgage transaction costs.

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Cash flow from operations	\$ 4,022,745	\$ 1,780,098	\$ 2,022,230	\$ 659,258
Adjustment:				
Changes in non-cash operating working capital	42,759	351,359	148,960	51,866
Proceeds from notes payable	(221,810)	89,127	(200,607)	29,709
Mortgage transaction costs	586,235	–	81,531	–
<b>Distributable Income</b>	<b>4,429,929</b>	2,220,584	<b>2,052,114</b>	740,833
Trust units (95% of DI)	<b>4,208,433</b>	2,109,555	<b>1,949,508</b>	703,791
Subordinated units (5% of DI)	<b>221,496</b>	111,029	<b>102,606</b>	37,042
<b>Distributions to Unitholders</b>				
Trust units (95% of Distribution)	<b>3,952,184</b>	1,693,409	<b>1,595,745</b>	564,470
Subordinated units (5% of Distribution)	<b>208,008</b>	89,127	<b>83,985</b>	29,709
Total distributions paid	<b>4,160,192</b>	1,782,536	<b>1,679,730</b>	594,179
<b>Total distributions paid as a % of Distributable Income</b>	<b>93.91%</b>	80.27%	<b>81.85%</b>	80.20%
Weighted average number of units				
Trust units	<b>16,511,245</b>	7,526,263	<b>21,276,263</b>	7,526,263
Subordinated units	<b>278,947</b>	278,947	<b>278,947</b>	278,947
Diluted weighted average number of units				
Trust units	<b>16,511,245</b>	7,526,263	<b>21,276,263</b>	7,526,263
Subordinated units	<b>278,947</b>	278,947	<b>278,947</b>	278,947
Basic DI per unit				
Trust units (95% of DI)	\$ 0.255	\$ 0.280	\$ 0.092	\$ 0.094
Subordinated units (5% of DI)	<b>0.794</b>	0.398	<b>0.368</b>	0.133
Diluted DI per unit				
Trust units (95% of DI)	\$ 0.255	\$ 0.280	\$ 0.092	\$ 0.094
Subordinated units (5% of DI)	<b>0.794</b>	0.398	<b>0.368</b>	0.133
Distributions paid per unit				
Trust units (95% of Distribution)	\$ 0.239	\$ 0.225	\$ 0.075	\$ 0.075
Subordinated units (5% of Distribution)	<b>0.746</b>	0.320	<b>0.301</b>	0.107

**DISTRIBUTABLE INCOME (continued)**

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, 2010, PIRET either announced it would distribute or distributed \$3,952,184 (from January 1 to September 30, 2009 - \$1,693,409) to trust unitholders and \$208,008 (from January 1 to September 30, 2009 - \$89,127) to subordinated unitholders, which represents 94% (from January 1 to September 30, 2009 - 80%) of DI. The higher payout ratio was due to the timing of the issuance of new units and acquisitions in 2010. The lower payout ratio in 2009 was due to the gain on disposal of income producing properties.

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, defined as cash flow from operations, distorts the Trust's quarter-to-quarter distributable cash and payout ratios, as non-cash operating working capital fluctuates.

For the purpose of this MD&A, management defines "Diluted DI per unit" as Distributable Income divided by the diluted weighted average number of units outstanding.

**STANDARDIZED DISTRIBUTABLE CASH**

The following is a reconciliation of the Trust's DI to standardized distributable cash (net cash flow from operation).

	Nine months ended September 30		Three months ended September 30	
	<b>2010</b>	2009	<b>2010</b>	2009
Distributable income	<b>\$ 4,429,929</b>	\$ 2,220,584	<b>\$ 2,052,114</b>	\$ 740,833
Proceeds from notes payable	<b>221,810</b>	(89,127)	<b>200,607</b>	(29,709)
Mortgage transaction costs	<b>(586,235)</b>	–	<b>(81,531)</b>	–
Increase in amounts receivable	<b>(740,354)</b>	(227,377)	<b>(310,651)</b>	(58,304)
(Increase) decrease in prepaid expenses	<b>(350,595)</b>	(190,979)	<b>138,843</b>	105,924
Increase (decrease) in rental deposit	<b>103,535</b>	–	<b>32,267</b>	–
Increase (decrease) in accounts payable and accrued liabilities	<b>944,655</b>	66,997	<b>(9,419)</b>	(99,486)
<b>Standardized Distributable Cash</b>	<b>\$ 4,022,745</b>	\$ 1,780,098	<b>\$ 2,022,230</b>	\$ 659,258

## SEGMENTED INFORMATION

PIRET invests in industrial income producing properties in Canada only. Currently, there are twenty eight properties located in seven provinces. Two properties located in Saskatchewan were sold during the year ended December 31, 2009. The following table shows the percentage of rental and recoveries revenue from each province for the period ended September 30, 2010 and September 30, 2009.

Period ended September 30	2010		2009	
	Percentage	Amount	Percentage	Amount
Rental and recoveries revenue				
Alberta	49.57%	\$ 4,878,529	40.31%	\$ 2,014,879
British Columbia	12.44%	1,223,893	16.11%	805,728
Manitoba	3.34%	328,229	6.42%	321,066
New Brunswick	2.37%	233,310	–	–
Ontario	11.42%	1,123,583	15.35%	767,435
Quebec	13.91%	1,369,095	21.28%	1,064,205
Saskatchewan	6.95%	684,033	0.53%	26,589
Total	100.00%	\$ 9,840,672	100.00%	\$ 4,999,902

The following table shows the net book value in each province for income producing properties and intangible assets.

Property and intangible asset net book value	September 30, 2010		December 31, 2009	
	Percentage	Amount	Percentage	Amount
Alberta	54.19%	\$ 89,339,518	43.63%	\$ 28,567,884
British Columbia	11.41%	18,809,883	17.69%	11,584,717
Manitoba	2.07%	3,405,076	5.33%	3,493,564
New Brunswick	1.70%	2,800,134	–	–
Ontario	11.34%	18,696,152	14.04%	9,196,150
Quebec	11.86%	19,541,928	19.31%	12,643,358
Saskatchewan	7.43%	12,244,844	–	–
Total	100.00%	\$ 164,837,535	100.00%	\$ 65,485,673

## FINANCIAL CONDITION

### Assets

#### 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 \$1,379,134 as at September 30, 2010 (December 31, 2009 - \$692,521). During the period ended September 30, 2010, PIRET accrued \$686,613 in rental revenue (year ended December 31, 2009 - \$301,411).

#### Income Producing Properties

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 first by rent received from each property.

**FINANCIAL CONDITION (continued)****Assets (continued)****Income Producing Properties (continued)**

The following table illustrates the value of the income producing properties and their respective mortgage balances on acquisition:

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	3,689,893	100%
13325 Comber Way	Surrey, BC	08/22/2007	3,600,000	2,065,881	100%
75 Golden Drive	Coquitlam, BC	08/22/2007	2,000,000	1,147,712	100%
7805 - 51st St	Calgary, AB	08/22/2007	3,250,000	1,865,031	100%
1390 & 1401 - 17th Ave	Calgary, AB	08/22/2007	4,270,000	2,450,364	100%
9203 - 35th Ave	Edmonton, AB	08/22/2007	2,160,000	1,239,528	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	1,469,071	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's - 132nd Ave	Edmonton, AB	12/20/2007	3,600,000	2,340,000	100%
Shanahan's - 58th Ave	Calgary, AB	12/20/2007	4,693,000	3,120,000	100%
Shanahan's - 90 Park Lane	Winnipeg, MB	12/20/2007	907,000	703,500	100%
Shanahan's - 57th Ave	Calgary, AB	12/20/2007	8,200,000	5,250,000	100%
3500 Viking Way	Richmond, BC	03/01/2010	7,300,000	4,745,000	100%
234040 Wrangler Road	Calgary, AB	03/04/2010	32,000,000	20,800,000	100%
150 Edmonton Ave	Moncton, NB	03/29/2010	2,790,000	1,597,240	100%
Advance - 2 Ramm Ave	White City, SK	04/23/2010	3,700,000	2,590,000	100%
Advance - 144 Henderson Dr	Regina, SK	04/23/2010	4,400,000	3,080,000	100%
Advance - 195 Henderson Dr	Regina, SK	04/23/2010	4,200,000	2,940,000	100%
Advance - 5502 & 5532 56th Ave	Calgary, AB	05/19/2010	3,400,000	2,362,943	100%
Advance - 1002 15 Ave	Nisku, AB	05/19/2010	4,850,000	3,370,669	100%
Advance - 17 Street	Strathcona, AB	05/19/2010	6,700,000	4,656,388	100%
95 Clegg Road	Markham, ON	05/21/2010	9,582,125	6,200,000	100%
8481 Marien Place	Montreal, QC	06/04/2010	7,050,000	–	100%
17 Street, NW	Edmonton, AB	07/28/2010	14,800,000	9,620,000	100%
<b>Total</b>			<b>\$ 169,317,125</b>	<b>\$ 105,002,477</b>	

**FINANCIAL CONDITION (continued)**

**Deferred expenses**

Deferred expenses include leasing commissions and lease related costs, which were paid to real estate brokers or lawyers for leasing services. Deferred expenses are amortized on a straight-line basis over the terms of leases.

**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. As at September 30, 2010, the term for the current mortgage reserve fund is less than 5.5 years. The amortized cost of the mortgage reserve fund is \$249,238 as at September 30, 2010 (December 31, 2009 - \$242,568). In January and March 2009, Canadian Western Bank released \$140,000 from the mortgage reserve fund after PIRET met the required conditions. In August 2009, Citizens Bank released \$300,000 plus interest.

*Prepaid expenses*

Prepaid expenses consist of 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 59% of the gross book value as at September 30, 2010 (December 31, 2009 – 59%).

**Mortgages Payable**

The mortgages bear interest at a weighted average rate of 5.28% as at September 30, 2010 (December 31, 2009 – 5.56%) and mature between 2010 and 2020.

Future principal mortgage payments are as follows:

Years ending December 31:	
Remaining in 2010	\$ 678,369
2011	16,847,890
2012	9,516,051
2013	2,357,732
2014	3,841,757
Thereafter	67,782,866
	<b>\$ 101,024,665</b>

**Notes Payable**

PIRET has entered into a subordination and support agreement with Sunstone Industrial Investments Inc. ("Sunstone Industrial"). When the target monthly distribution, 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 subordinated notes are non interest-bearing and due for repayment at the end of the subordination period. From January 1 to August 31, 2010, PIRET repaid \$221,810 to Sunstone Industrial. From January 1 to December 31, 2009, Sunstone Industrial advanced \$118,836 to PIRET. The subordination period ended August 31, 2010 in accordance with the subordination and support agreement.

**FINANCIAL CONDITION (continued)**

**Bank loan**

On January 11, 2010, Canadian Western Bank established a revolving operating line of credit for PIRET in the amount of \$250,000, bearing interest at the lender’s prime rate plus 1.75%, with a minimum of 4% per annum. The line of credit is secured by 90 Park Lane. In April 2010, Canadian Western Bank increased the operating line of credit to \$750,000, with the same rate and terms. PIRET had drawn down \$545,598 as at September 30, 2010.

On July 12, 2010, HSBC established an operating loan for PIRET in the amount of \$4,750,000, bearing interest at the lender’s prime rate plus 1.35%. The loan is secured by 8481 Marien Place (“FedEx Building”) and requires PIRET to maintain a debt service coverage ratio of not less than 125% at all times. As at September 30, 2010, PIRET had not drawn down any funds from the operating loan.

**Equity**

Unitholders’ equity is \$63,629,671 as at September 30, 2010 (December 31, 2009 - \$24,490,467). Since PIRET will issue trust units from treasury upon the redemption of restricted units, the restricted units related compensation expenses were included in unitholders’ equity.

**LIQUIDITY AND CAPITAL RESOURCES**

**Funds from Operations**

“Funds from operations” (“FFO”) is a non-GAAP measure 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.

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Net earnings and comprehensive income	\$ 1,684,742	\$ 1,081,957	\$ 982,997	\$ 317,321
Adjustment:				
Amortization of deferred expenses	1,097	–	1,097	–
Amortization of intangible assets	507,413	223,651	234,817	73,924
Amortization of income producing properties	1,661,130	971,705	736,736	322,026
(Gain) loss on disposal of properties	–	(135,956)	–	–
<b>Funds from operations</b>	<b>3,854,382</b>	<b>2,141,357</b>	<b>1,955,647</b>	<b>713,271</b>
Weighted average number of units				
Trust units	16,511,245	7,526,263	21,276,263	7,526,263
Subordinated units	278,947	278,947	278,947	278,947
Diluted weighted average number of units				
Trust units	16,511,245	7,526,263	21,276,263	7,526,263
Subordinated units	278,947	278,947	278,947	278,947
Funds from operations per unit - Basic				
Trust units (95%)	\$ 0.222	\$ 0.270	\$ 0.087	\$ 0.090
Subordinated units (5%)	0.691	0.384	0.351	0.128
Funds from operations per unit - Diluted				
Trust units (95%)	\$ 0.222	\$ 0.270	\$ 0.087	\$ 0.090
Subordinated units (5%)	0.691	0.384	0.351	0.128

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

**Funds from Operations (continued)**

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 taxes 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 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.

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

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Funds from operations	\$ 3,854,382	\$ 2,141,357	\$ 1,955,647	\$ 713,271
Amortization of discount on mortgage reserve fund	(6,670)	(9,900)	(2,249)	(2,147)
Non-cash compensation expenses	217,792	–	217,792	–
Increase in amounts receivable	(740,354)	(227,377)	(310,651)	(58,304)
(Increase) decrease in prepaid expenses	(350,595)	(190,979)	138,843	105,924
Increase in rental deposits	103,535	–	32,267	–
Increase (decrease) in accounts payable and accrued liabilities	944,655	66,997	(9,419)	(99,486)
Cash provided by operating activities	\$ 4,022,745	\$ 1,780,098	\$ 2,022,230	\$ 659,258

**Capital Resources**

The cash collected from issuing trust units and subordinated units, and the cash generated by income producing properties represent the primary source of funds to fund total distributions to unitholders of \$4,160,192 from January 1 to September 30, 2010 and \$1,782,536 from January 1 to September 30, 2009.

For the periods ended September 30, 2010 and 2009, cash provided by operations was less than cash distributions paid or payable, which was mainly due to the timing of the issuance of units and new acquisitions. In future years, management expects that cash provided by operating activities will exceed cash distributions paid or payable. However, 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 amortization, while deducted for net earnings, have no impact on cash available to pay 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.

**LIQUIDITY AND CAPITAL RESOURCES (continued)****Capital Resources (continued)**

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.

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

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Cash provided by operating activities	<b>\$ 4,022,745</b>	\$ 1,780,098	<b>\$ 2,022,230</b>	\$ 659,258
Net earnings	<b>1,684,742</b>	1,081,957	<b>982,997</b>	317,321
Actual cash distributions paid or payable	<b>4,160,192</b>	1,782,536	<b>1,679,730</b>	594,179
Excess (shortfall) of cash provided by operating activities over cash distributions paid	<b>(137,447)</b>	(2,438)	<b>342,500</b>	65,079
Shortfall of net earnings over cash distributions paid	<b>(2,475,450)</b>	(700,579)	<b>(696,733)</b>	(276,858)

**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 unitholders' 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 59% as at September 30, 2010 (December 31, 2009 – 59%).

Having a relatively low indebtedness ratio is important in current economic conditions, which allows PIRET to access additional financing if necessary.

**CAPITAL STRUCTURE (continued)**

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 distribution to trust unitholders was \$0.025 per unit per month from January 1 to September 30, 2010 (January 1 to December 31, 2009 - \$0.025 per unit per month).

The Trust is in compliance with all restrictions during the period ended September 30, 2010 and the year ended December 31, 2009.

The capital structure consisted of the following components at September 30, 2010 and December 31, 2009.

	September 30, 2010	December 31, 2009	Change
Capital			
Mortgages payable	\$ 101,024,665	\$ 41,061,100	\$ 59,963,565
Notes payable	–	221,810	(221,810)
Unitholders' equity	63,629,671	24,490,467	39,139,204
<b>Total Capital</b>	<b>\$ 164,654,336</b>	<b>\$ 65,773,377</b>	<b>\$ 98,880,959</b>

The total capital of PIRET increased due to the issuance of new trust units and the proceeds of new mortgages related to acquisitions and net earnings, offset by the repayment of mortgage principal and distributions to unitholders during 2010.

**FINANCIAL INSTRUMENTS**

For certain of the Trust's financial instruments, including cash, cash held in trust, amounts receivable, accounts payable and accrued liabilities, the demand note and the bank 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 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. Discount rates are either provided by the lenders or are observable on the open market.

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage reserve fund	\$ 249,238	\$ 223,970	\$ 242,568	\$ 215,050
Mortgages payable	101,024,665	98,577,443	41,061,100	41,164,547
Notes payable	–	–	221,810	221,810

**OFF-BALANCE SHEET ITEMS**

PIRET does not have any off-balance sheet items.

## SECTION III

### SUMMARY OF QUARTERLY RESULTS

In March 2010, PIRET acquired three income producing properties and in-place leases for total of \$42,090,000 plus standard closing costs and adjustments. From April to June 2010, PIRET acquired an additional eight income producing properties and in-place leases for total of \$43,882,125 plus standard closing costs and adjustments. In July 2010, PIRET acquired an additional income producing property and in-place lease for total of \$14,800,000 plus standard closing costs and adjustments. PIRET earned rental revenue from 28 properties instead of 17, which resulted in net operating earnings increasing by 176% during the three month period ended September 30, 2010 compared to the three month period ended September 30, 2009. During the same periods, non-recoverable expenses also increased partly due to higher amortization on buildings and intangible assets, mortgage transaction costs incurred to finance the new acquisitions and compensation expenses related to accrued restricted units and distribution restricted units.

Quarter ended	September 30, 2010	June 30, 2010	March 31, 2010
Basic rent	\$ 3,572,417	\$ 2,807,525	\$ 1,611,103
Recoveries	778,346	689,346	381,935
Interest and other income	47,881	5,866	2,779
Total rental revenue from properties	4,398,644	3,502,737	1,995,817
Property recoverable operating expenses	773,558	669,721	382,092
Non-recoverable expenses	2,642,089	2,343,516	1,401,480
Net earnings and comprehensive income	982,997	489,500	212,245
Basic and diluted net earnings per unit			
Trust units	0.04	0.02	0.02
Subordinated units	0.18	0.09	0.04

Quarter ended	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Basic rent	\$ 1,317,301	\$ 1,317,302	\$ 1,323,970	\$ 1,327,305
Recoveries	394,648	340,634	301,725	388,966
Interest and other income	2,188	3,331	11,724	19,045
Total rental revenue from properties	1,714,137	1,661,267	1,637,419	1,735,316
Property recoverable operating expenses	392,676	345,670	326,071	362,007
Non-recoverable expenses	1,011,853	998,276	1,018,156	1,037,821
Net earnings and comprehensive income	309,484	317,321	325,184	439,452
Basic and diluted net earnings per unit				
Trust units	0.04	0.04	0.04	0.06
Subordinated units	0.06	0.06	0.06	0.08

**SUMMARY OF QUARTERLY RESULTS (continued)**

Quarter ended	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Basic rent	\$ 1,350,487	\$ 1,325,519	\$ 1,329,613	\$ 1,329,613
Recoveries	508,595	298,582	241,718	397,966
Interest and other income	5,945	6,587	14,621	34,167
Total rental income from properties	1,865,027	1,630,688	1,585,952	1,761,746
Property recoverable operating expenses	520,076	313,523	244,649	369,128
Non-recoverable expenses	1,129,674	1,042,486	1,031,353	1,094,146
Net earnings	215,277	274,679	309,950	298,472
Basic net earnings per unit				
Trust units	0.03	0.03	0.04	0.04
Subordinated units	0.04	0.05	0.06	0.05
Diluted net earnings per unit				
Trust units	0.03	0.03	0.04	0.04
Subordinated units	0.04	0.05	0.06	0.05

Quarter ended	September 30, 2010	June 30, 2010	March 31, 2010
Total assets	\$ 167,726,069	\$ 158,736,087	\$ 112,316,510
Total liabilities	104,096,398	94,625,754	68,568,631
Unitholders' equity	63,629,671	64,110,333	43,747,879
Income producing properties	150,308,099	138,380,196	100,219,859
Intangible assets	14,529,436	12,420,201	7,136,056
Mortgages payable	101,024,665	92,105,602	67,293,731

Quarter ended	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Total assets	\$ 66,702,959	\$ 67,364,549	\$ 68,046,997	\$ 68,721,380
Total liabilities	42,212,492	42,589,387	42,994,977	43,400,366
Unitholders' equity	24,490,467	24,775,162	25,052,020	25,321,014
Income producing properties	63,497,481	63,819,508	64,141,534	64,934,975
Intangible assets	1,988,192	2,062,115	2,136,039	2,226,126
Mortgages payable	41,061,100	41,303,535	41,539,348	42,080,107

**SUMMARY OF QUARTERLY RESULTS (continued)**

Quarter ended	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Total assets	\$ 69,365,003	\$ 69,977,351	\$ 70,484,369	\$ 70,798,884
Total liabilities	43,889,262	44,122,708	44,310,226	44,354,706
Unitholders' equity	25,475,741	25,854,643	26,174,143	26,444,178
Income producing properties	65,721,618	66,092,795	66,315,101	66,606,588
Intangible assets	2,306,138	2,427,698	2,506,717	2,585,737
Mortgages payable	42,652,870	42,886,783	43,113,997	43,338,032

Total income producing properties and intangible assets increased in the period ended September 30, 2010 due to the acquisitions from July 2010 to September 2010. The amortization on buildings and intangible assets also increased accordingly during the same period. Amounts receivable increased slightly mainly due to the increase of accrued straight-line rent receivables during the period ended September 30, 2010. Cash held in trust decreased significantly due to deposits on potential acquisitions, which had closed as at September 30, 2010. Total liabilities increased during the period ended September 30, 2010 compared with the liabilities in the prior year due in most part to the proceeds of mortgages payable received on new acquisitions and accrued distributions to unitholders. In March 2010, PIRET repaid \$125,000 of the demand loan plus accrued interest to Sunstone Realty Advisors (2005) Inc. In August 2010, PIRET paid off the demand note.

**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. The Trust's significant accounting policies are described in note 2 to the September 30, 2010 unaudited financial statements and the December 31, 2009 audited financial statements.

The policies that are most subject to estimation and judgement are outlined below.

**Impairment of Assets**

The Trust is required to write down to fair value any of its income producing properties that it determines to be 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 that these factors result in a carrying value that exceeds the sum of future undiscounted cash flows from the use of the properties, an impairment charge would be recorded. For the period ended September 30, 2010 and the year ended December 31, 2009, no impairment charge was recorded.

**Amortization**

The buildings and equipment are amortized on a straight-line basis over their remaining estimated useful lives. Management is required to allocate a portion of the cost of acquisition of a property to the buildings and to assess the useful life of an income producing property upon acquisition. In the event that the allocation to the building is inappropriate or the estimated useful life of the building and equipment proves incorrect, the amortization will not be appropriately reflected over future periods.

## **CRITICAL ACCOUNTING ESTIMATES (continued)**

### **Property Acquisition**

Management is required to make judgments and estimates upon property acquisition. The purchase price must be allocated to land, building, tenant improvements, and intangible assets. These estimates will impact rental income, amortization and depreciation expenses recorded in the financial statements.

## **NEW ACCOUNTING POLICIES**

There are no new accounting standards from the Canadian Institute of Chartered Accountants (“CICA”) to be adopted in 2010.

## **FUTURE ACCOUNTING POLICY CHANGES**

### **Business Combinations, Non-controlling Interest and Consolidated Financial Statements**

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Trust’s business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 and Section 1602 are applicable to the Trust’s interim and annual consolidated financial statements for its fiscal year beginning on January 1, 2011. Early adoption of these sections is permitted and all three sections must be adopted concurrently. PIRET does not currently have any subsidiaries or non-controlling interests.

### **International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced that Canadian generally accepted accounting principles (“GAAP”) for publicly accountable entities will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on January 1, 2011. The Trust will be required to provide IFRS comparative information for the previous fiscal year and the conversion to IFRS will be applicable to the Trust’s reporting for the first quarter of 2011.

The Trust is currently developing a plan to convert its financial statements to IFRS. Management has identified differences in the conceptual framework between GAAP and IFRS and expects the transition to IFRS to impact various areas including but not limited to the accounting for investment properties, financial instruments, joint ventures and business combinations, impairment testing for assets, leases, income taxes, Trust units when the declaration of Trust requires that all taxable income be distributed and the effects of transitional provisions of IFRS for first-time adopters. Some accounting standards under IFRS are highlighted below. As a result, management is developing a plan to convert the Trust’s financial statements to IFRS and in order to assess the full impact of IFRS on accounting policies, internal controls over financial reporting, note disclosure, financial reporting, and business activities, and is providing additional training to key employees.

#### *Investment Property*

IFRS defines an investment property as a property held to earn rental revenues or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. All of PIRET’s income producing properties will qualify as investment properties except some properties with long term leases which may be classified as financing leases. Unlike Canadian GAAP, IFRS requires that an entity choose either the cost model or fair value model to account for its investment properties.

## **FUTURE ACCOUNTING POLICY CHANGES (continued)**

### **International Financial Reporting Standards (continued)**

#### *Investment Property (continued)*

(i) The fair value model requires an entity to record a gain or loss in net earnings arising from a change in the fair value of investment property in the period of change. The determination of fair value is based upon, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions, less future cash outflows in respect of tenant installation costs and the investment property operations. No depreciation related to investment property is recognized under the fair value model.

(ii) The cost model is generally consistent with Canadian GAAP in that separate components are recognized for each significant part of an asset, which is carried at its cost less any accumulated depreciation and any accumulated impairment losses. It is expected that the balance sheet categorization of certain components, such as the differential between contractual and market rents which are currently reported by the Trust with receivables for Canadian GAAP presentation, will be presented as an investment property component under IFRS. Where an entity selects the cost model, it is required to disclose the fair value of investment property in the notes to its financial statements.

#### *Impairment*

Under Canadian GAAP, impairment is recognized for non-financial assets based on estimated fair value when the undiscounted future cash flows from an asset, or group of assets, is less than the carrying value.

Under IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. Value-in-use is the discounted present value of estimated future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its useful life.

IFRS also requires the reversal of an impairment loss when the recoverable amount is higher than the carrying value (by no more than what the depreciated amount of the asset would have been had the impairment not occurred) unlike Canadian GAAP, which does not permit reversals.

Value-in-use does not adjust for selling costs and allows for certain entity specific adjustments. As a result, it is currently anticipated that value-in-use will not be below fair value or fair value less costs to sell for the majority of PIRET's investment property. Exceptions could occur where the fair value for a property is based on its highest-and-best-use. Management cannot quantify the impact of impairment adjustments, if any, at the present time. The impact of any impairment may be reversed as such assets are depreciated because IFRS requires the reversal of an impairment loss when the recoverable amount is higher than the carrying amount.

#### *Business Combinations*

Both IFRS and current Canadian GAAP require the acquisition method of accounting for all business combinations. However, significant differences exist between the two frameworks in other areas. The most significant differences are that under IFRS transaction costs are expensed immediately whereas under Canadian GAAP such amounts are included in the cost of the asset. Further, IFRS requires the purchaser to measure any non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets, whereas Canadian GAAP requires the minority interest to be measured at the non-controlling interest's proportionate share of the historic carrying value of the acquiree's identifiable net assets. Additionally, contingent consideration under IFRS is recognized at fair value on the date of acquisition, with subsequent changes generally recognized in net earnings. Under Canadian GAAP contingent consideration is recognized initially to the extent such amounts are assured beyond a reasonable doubt, and any change is recognized in the carrying cost of the asset.

The IFRS definition of a business is broader than the current Canadian GAAP definition and may capture single asset acquisitions. By definition, investment property includes all ancillary processes that may not be significant to the overall operation of the investment property. In circumstances where only some minor ancillary processes are acquired with an investment property, this may lead to an assessment that such investment property acquisitions are the acquisition of an asset, rather than the acquisition of a business.

**FUTURE ACCOUNTING POLICY CHANGES (continued)**

**International Financial Reporting Standards (continued)**

Business Combinations (continued)

In circumstances where an investment property acquisition meets the definition of a business, this will result in measurement of the investment property components at the acquisition date fair value, expensing of acquisition transaction costs and recognition of any contingent consideration. Theoretically, as the investment property components are measured at the acquisition date fair value, this could also result in the recognition of goodwill where the total purchase price exceeds its net asset value or a gain from a bargain purchase where the total purchase price is less than net asset value. Further, IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset in a transaction that is not a business combination.

Leases

Both Canadian GAAP and IFRS require tenant incentives to be recorded as a reduction of rental revenue. However, the IFRS definition of tenant incentives differs from that under Canadian GAAP.

Differences between the determination of what is a tenant incentive versus a lessor owned improvement may result in the lease commencement date being earlier under IFRS (i.e., at tenant possession under IFRS versus the tenant opening date under Canadian GAAP). Additionally, under IFRS there are no bright-line finance lease criteria as compared to Canadian GAAP, which may cause certain leases to tenants to be classified as finance leases rather than operating leases, as is generally the Trust's current treatment under Canadian GAAP.

IFRS requires rental revenue to be determined on a straight-line basis considering all rentals from the inception of the lease, whereas Canadian GAAP only requires rental revenue to be recognized on a straight-line basis prospectively commencing on January 1, 2004.

PIRET is currently in the process of evaluating the potential impact of IFRS on its financial statements. Most income producing properties are qualified as investment properties. PIRET has completed all appraisals on properties held on January 1, 2010, which provided fair market value on January 1, 2010. The board of trustees chose the fair value model to evaluate all investment properties. The difference between the fair market value and the net book value on January 1, 2010 is approximately \$5 million, which will increase the 2010 opening retained earnings balance. Some long-term lease agreements may be classified as financing leases under IFRS, and will be taken out from investment properties and recorded as financing lease receivables. In addition, mortgage transaction costs expensed under Canadian GAAP will be capitalized against mortgages and increase the beginning retained earnings balance. Furthermore, subordinated units may meet the criteria of liabilities and have to be classified as liabilities instead of equity. Distributions to subordinated unitholders will be recorded as expenses on the income statement accordingly. The board of trustees is in discussion with its professional advisors to determine the feasibility of revising the trust declaration so that the trust units will qualify as equity. There are more differences between Canadian GAAP and IFRS, which PIRET continues to review. This will be an ongoing process as the IASB and the AcSB continue to issue new standards and recommendations and as the Canadian accounting profession interprets those standards and recommendations.

The following chart is an update of the significant elements of PIRET's IFRS conversion plan:

<b><i>IFRS Impact on Financial Statement Presentation</i></b>		
<b>Impact of IFRS during Transition</b>	<b>Milestones</b>	<b>Progress to Date</b>
1(a). Identification of IFRS versus Canadian GAAP differences and ranking of standards based on their anticipated impact on PIRET 's consolidated financial statements	Assessment and quantification of the significant effects of the conversion is expected to be complete by the third quarter of 2010	Completed the identification of significant IFRS differences

**FUTURE ACCOUNTING POLICY CHANGES (continued)**

**International Financial Reporting Standards (continued)**

<i>IFRS Impact on Financial Statement Presentation (continued)</i>		
<b>Impact of IFRS during Transition</b>	<b>Milestones</b>	<b>Progress to Date</b>
1(b). Design and implement solutions	Expected to complete the identification of changes to processes required to resolve most significant IFRS differences by September 30, 2010	Ongoing analysis of the changes and their impact on PIRET 's financial statements
2(a). Evaluate and select IFRS 1 exemptions and ongoing accounting policy alternatives	Final selection of accounting policy alternatives by October 31, 2010	Selection of one-time transition choices is substantially complete
2(b). Quantify the effects of the conversion to IFRS	Ongoing accumulation of data to establish opening balance sheet as at January 1, 2010	Evaluation and selection of accounting policy alternatives has commenced and will continue to be assessed
3. Prepare financial statements and related note disclosures to comply with IFRS		Preparation of draft first quarter financial statements that are IFRS compliant estimated to be completed by December 31, 2010
4. Engage advisors to assist with conversion		Advisors have been engaged to commence review and validation of the PIRET 's technical accounting analysis and impacts on the financial statements
<i>IFRS Impacts on Business Functions</i>		
<b>Impact of IFRS during Transition</b>	<b>Milestones</b>	<b>Progress to Date</b>
1(a). Identify project risks	Monitor project risks and evaluate the impact on the PIRET's risk management practices	PIRET continues to monitor project risks, with regular reporting to the Audit Committee and the Board of Trustees
1(b). Identify and assign necessary resources with the requisite expertise for technical analysis and implementation	Procure and assign any additional project resources if required	Senior management has identified and addressed critical path tasks and resourcing matters
2(a). Development of a real estate valuation strategy	Finalize audit of real estate valuation as at January 1, 2010 by the third quarter of 2010	PIRET completed valuing its real estate portfolio
2(b). Assess impact of IFRS accounting standards on business activities	Changes to mortgage documents and loan agreements to be completed by the third quarter of 2010 as necessary	PIRET has generally identified significant IFRS differences with potential impacts on various agreements, and is also in the process of assessing the impact of IFRS on its covenants

**FUTURE ACCOUNTING POLICY CHANGES (continued)****International Financial Reporting Standards (continued)**

<i>IFRS Impacts on Business Functions (continued)</i>		
<b>Impact of IFRS during Transition</b>	<b>Milestones</b>	<b>Progress to Date</b>
2(c). Identify impact on contractual agreements including financial covenants and employee/Trustee compensation plans and make any changes to agreements and plans		The Trust received approval at the April 2010 AGM to amend its Declaration as required to remain compliant with the changes as a result of the implementation of IFRS. Currently there are no employee compensation plans. The impact of IFRS on the independent Trustee's Restricted Unit Plan is ongoing and is being reviewed by advisors to determine if there are compliance issues.
<i>IFRS Impacts on Training and Communication</i>		
<b>Impact of IFRS during Transition</b>	<b>Milestones</b>	<b>Progress to Date</b>
1. Provide training to senior management and accounting staff, and Board of Trustees, including the Audit Committee	Timely training provided to coincide with work under transition - training to be substantially completed by fourth quarter 2010	Detailed training for senior accounting staff and senior management has taken place and will be ongoing as required. PIRET has commenced general training for the Board of Trustees and the Audit Committee. In addition, PIRET continues to receive briefings from advisors and management on the latest IFRS developments
2. Communication of progress of conversion plan to internal and external stakeholders	Communicate the effects of the transition throughout 2010	Ongoing communication to external stakeholders through PIRET's MD&A disclosure  Regular project status updates are presented to PIRET 's Audit Committee and Board of Trustees by senior management on a regular and timely basis
<i>IFRS Impacts on Information Technology and Data Systems</i>		
<b>Impact of IFRS during Transition</b>	<b>Milestones</b>	<b>Progress to Date</b>
1. Identify and address IFRS differences that require changes to financial systems	Changes to systems and development of the requisite reporting to be complete by the fourth quarter of 2010.	To date no significant requirements for changes to PIRET's financial systems have been identified. PIRET has identified the method to address dual record keeping during 2010 for both IFRS and Canadian GAAP

## 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. An example of general market conditions would be the availability of long-term financing whereas local conditions would relate to factors affecting specific properties in a particular geographic location, such as changes in market lease rates as a result of an over supply of space or a reduction in demand for real estate. 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%. Mortgages payable and the demand loan bear interest at fixed rates; therefore the Trust is not exposed to significant interest rate risk.

#### 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, 2010, trade receivables in the amount of \$20,471 were 30 days past due. Current receivables only totaled \$38,634 (2009 - \$4,754) due to the billings to new tenants and will be collected during the next few months.

#### Reliance on Single Tenant and Tenant Concentration Risk

PIRET's properties are single tenant properties except Moncton. As at September 30, 2010, Team Tube / Encore Metals tenants generated 18% (2009 – 35%) of total rental revenue, the Shanahan's portfolio generated 12% (2009 – 23%) of total rental revenue, Mabe generated 11% (2009 – 21%) of total rental revenue, Transforce generated 19% of total rental revenue and Advance portfolio generated 13% of total rental revenue. In the event that the above-listed tenants were to terminate their tenancies or become insolvent, the financial results of PIRET would be materially and adversely affected. Until such a time that PIRET is in a position to acquire more assets and further diversify its tenant base, management has taken certain steps to mitigate any credit risk by instructing the third party property managers to closely monitor the tenants' compliance with the terms of their respective leases and to report any issues as soon as they are identified.

#### Currency Risk

The Trust is not exposed to currency risk since there are no foreign subsidiaries and the Trust does not enter into foreign currency transactions.

#### Lease Rollover Risk

Lease rollover risk arises from the possibility that the Trust 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 3 years represent 10% of total square footage. However, most of the leases expiring over the next 3 years have at least one renewal option for another 5 years.

**RISKS AND UNCERTAINTIES (continued)**

**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, 2010 or December 31, 2009.

**Unit Prices**

It is not possible to predict the price at which units will trade and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of PIRET. Accordingly, the units may trade at a premium or discount to the value implied by the value of PIRET’s properties. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond PIRET’s control.

**Liquidity Risk**

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

The terms and conditions of the outstanding mortgages are as follows:

			September 30, 2010	December 31, 2009
MORTGAGES PAYABLE	Nominal interest rate	Year of maturity	Carrying value	
Mabe	5.677%	2016	\$ 7,988,503	\$ 8,092,176
Team Tube	5.480%	2011	12,955,290	13,206,740
De Baets	5.500%	2011	1,595,356	1,625,296
Tornado	5.670%	2012	2,572,192	2,636,089
Eurospec	5.382%	2015	4,536,587	4,614,480
Shanahan - 57th	5.926%	2018	4,982,388	5,061,912
Shanahan portfolio - AB	5.754%	2012	5,036,107	5,158,535
Shanahan portfolio - SK and MB	6.000%	2009	–	665,872
Viking	5.160%	2017	4,675,841	–
Transforce	4.950%	2015	20,544,460	–
Moncton	6.210%	2014	1,575,475	–
Advance portfolio - SK	4.800%	2015	8,499,513	–
Advance portfolio - AB	4.800%	2015	10,286,934	–
Clegg Rd	5.510%	2015	6,170,667	–
Top-Co	5.350%	2020	9,605,352	–
<b>Total mortgages payable</b>			<b>\$ 101,024,665</b>	<b>\$ 41,061,100</b>

**RISKS AND UNCERTAINTIES (continued)**

**Liquidity Risk (continued)**

In 2010, PIRET repaid the mortgage secured by 90 Park Lane; financed Viking, Transforce, the Advance portfolio, Clegg Rd, and Top-Co with six new mortgage;s and assumed a mortgage on Moncton. The mortgages payable are secured by the income producing properties.

**Environmental Risk**

As an owner of real property, PIRET is 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.

**Tax Risk**

PIRET currently qualifies as a real estate investment trust (“REIT”) 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 REIT under the REIT exception, adverse consequences could arise including a non-deductible distribution 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 Realty Advisors (2005) Inc., Sunstone Realty Advisors (2006) Inc. and Sunstone Industrial Investments Inc. by virtue of having officers and directors in common.

<b>Amounts due to related parties</b>	September 30, 2010	June 30, 2010	March 31, 2010
Sunstone Realty Advisors (2005) Inc.	\$ –	\$ –	\$ –
Sunstone Industrial Investments Inc.	–	–	–
<b>Included in accounts payable and accrued liabilities</b>	\$ –	\$ –	\$ –
<b>Included in demand note</b>	\$ –	\$ –	\$ –

<b>Amounts due to related parties</b>	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Sunstone Realty Advisors (2005) Inc.	\$ 125,000	\$ 125,000	\$ 225,000	\$ 225,000
Sunstone Industrial Investments Inc.	49,000	49,000	49,000	49,000
<b>Included in accounts payable and accrued liabilities</b>	\$ 49,000	\$ 49,000	\$ 49,000	\$ 49,000
<b>Included in demand note</b>	\$ 125,000	\$ 125,000	\$ 225,000	\$ 225,000

**RELATED PARTY TRANSACTIONS (continued)**

<b>Amounts due to related parties</b>	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Sunstone Realty Advisors (2006) Inc.	\$ 65,000	\$ –	\$ –	\$ –
Sunstone Realty Advisors (2005) Inc.	225,000	225,000	225,000	225,000
Sunstone Industrial Investments Inc.	49,000	–	–	–
<b>Included in accounts payable and accrued liabilities</b>	\$ 114,000	\$ –	\$ 225,000	\$ 225,000
<b>Included in demand note</b>	\$ 225,000	\$ 225,000	\$ –	\$ –

<b>Amounts paid by related parties</b>	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Sunstone Realty Advisors (2006) Inc.	\$ 65,000	\$ –	\$ –	\$ –
Sunstone Industrial Investments Inc.	49,000	–	–	–
<b>Total amounts paid by related parties</b>	\$ 114,000	\$ –	\$ –	\$ –

On July 1, 2008, the \$225,000 balance payable by PIRET to Sunstone Realty Advisors (2005) Inc. was converted into a demand note, bearing interest at 4.75% per annum. On August 24, 2009, PIRET repaid \$100,000 of the demand note plus all interest accrued to that date. Interest of \$2,115 relating to this demand note is included in accounts payable and accrued liabilities as at December 31, 2009 (December 31, 2008 - \$5,373). On March 5, 2010, PIRET repaid the remaining balance of the demand note in the amount of \$125,000 plus all interest accrued to that date.

During 2008, Sunstone Industrial Investments Inc. advanced \$49,000 to PIRET to fund working capital requirements in October and November 2008. This amount was included in accounts payable and accrued liabilities as at December 31, 2008 and December 31, 2009. The balance is non interest-bearing and due on demand. On March 5, 2010, PIRET repaid the amount in full.

PIRET has entered an Asset Management Agreement with Sunstone Industrial Advisors Inc. (“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, 2010 or the year ended December 31, 2009, Sunstone Management did not charge PIRET pursuant to the Asset Management Agreement.

PIRET is related to a mortgage brokerage firm by virtue of having trustees and directors in common. PIRET paid the firm a mortgage brokerage fee in the amount of \$124,120 for arranging the financing of Viking, Transforce, Advance portfolio and Top-Co during the period ended September 30, 2010. It is in management’s opinion that the mortgage brokerage fees are in line with current market rates.

**OUTSTANDING UNIT DATA**

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 the over-allotment option, holders of the trust units share in a 95% equity interest (the “Unit Percentage Interest”) in all distributions and all net assets of the Trust and Sunstone Industrial, as the holder of the subordinated units, shares in a 5% equity interest (the “Subordinated Unit Percentage Interest”) in all distributions and all net assets of the Trust.

## **OUTSTANDING UNIT DATA (continued)**

On February 25, 2010, PIRET closed a bought deal private placement for 7.2 million trust units priced at \$3.00 per Unit, for total gross proceeds of \$21.6 million, and incurred offering costs of \$1,581,707.

On May 18, 2010, PIRET closed a public offering of 5.8 million trust units, on a bought deal basis, at a price of \$3.50 per unit for total gross proceeds of \$20.3 million. PIRET also granted to the underwriters an over allotment option to purchase up to an additional 870,000 units on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of this offering.

On May 28, 2010, the underwriters exercised the over allotment option and purchased an additional 750,000 trust units at \$3.50 per unit for gross proceeds of \$2,625,000.

As at September 30, 2010, the total number of trust units outstanding was 21,276,263 (December 31, 2009 - 7,526,263) and the total number of subordinated units outstanding was 278,947 (December 31, 2009 – 278,947).

As at the date of this MD&A, the total number of trust units outstanding was 21,276,263 and the total number of subordinated units outstanding was 278,947.

In February 2008, the Trustees approved a restricted unit plan (the “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 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. On November 18, 2010, the Plan was amended to permit the Trust to issue to each participant one unit in the Trust to be delivered from treasury for each full restricted unit and full distribution restricted unit. The Trust will make a lump-sum cash payment in respect of any fractional restricted unit or distribution restricted unit. The other terms and provisions of the Plan remain unchanged.

As at September 30, 2010, the Trust has issued a total of 124,058 restricted units and 17,600 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.

Compensation expenses in the amount of \$217,792 were accrued on the statement of operations in relation to the restricted units and distribution restricted units issued as at September 30, 2010, as there is sufficient certainty that the performance criteria will be met. As it is likely that PIRET will issue most if not all trust units from treasury upon the redemption of restricted units, the compensation was included in unitholders’ equity as contributed surplus.

## **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

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING (continued)**

statements for external purposes in accordance with GAAP. The acting Chief Executive Officer undertook an assessment under his direct supervision of the design of PIRET's internal controls over financial reporting as at September 30, 2010, 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**

Despite the economic challenges faced by many REITs in 2009, PIRET's management was successfully able to deliver consistent results by focusing on core values: actively managing our portfolio; maintaining high occupancy levels through our diversified tenant base; and prudent management of the Trust's balance sheet by maintaining loan to value rates at approximately 60%, much lower than our Declaration of Trust's maximum of 70% loan to value.

In 2010, PIRET's management is encouraged by a strengthening economy, active Canadian equity capital markets, heightened demand for investments featuring higher yields, a safety-first investor sentiment seeking tangible and defensive asset classes, and a burgeoning Canadian real estate industry. These drivers combine to provide an attractive platform, and an improving landscape for PIRET to resume its ambitious yet conservative acquisition program in 2010. Management's outlook is further supported by PIRET's successful bought deal private placement and a public offering that raised a total of \$44.5 million in February and May 2010.

Management continues to believe that superior returns can be achieved by targeting properties in primary industrial 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.

PIRET focuses 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.

### **SUBSEQUENT EVENTS**

On October 20, 2010, PIRET announced the closing of a bought deal for 5,865,000 trust units priced at \$3.65 per unit, for total gross proceeds of \$21,407,250.

At its Annual General Meeting on April 16, 2010, by way of a Special Resolution of the Unitholders, the Declaration of Trust was amended to allow the Trustees to make amendments to the Declaration of Trust which, in the opinion of the Trustees, are necessary or desirable as a result of changes in accounting standards applicable to the Trust which may affect the Trust or the Unitholders. Further to this Resolution, on November 18, 2010 the Trustees amended several sections of the Declaration of Trust which are intended to ensure that the trust units continue to be treated as equity upon conversion to the International Financial Reporting Standards. The amendments remove the automatic year-end distribution to unitholders of net income and capital gains which was previously provided for in the Trust Declaration and add to the circumstances in which Trustees may pay distributions in whole or in part by issuing additional units to unitholders.

### **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).