



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

**For the period ended March 31, 2011**

**Dated: June 15, 2011**

## TABLE OF CONTENTS

---

### SECTION I

---

Forward-Looking Disclaimer	1
Basis of Presentation	1
Overview	2

---

### SECTION II

---

Results of Operations	3
Distributable Income	6
Standardized Distributable Cash	7
Segmented Information	8
Financial Condition	8
Liquidity and Capital Resources	11
Capital Structure	13
Financial Instruments	14
Off-Balance Sheet Items	15

---

### SECTION III

---

Summary of Quarterly Results	15
------------------------------	----

---

### SECTION IV

---

Critical Accounting Estimates	17
Changes in Accounting Policies	18

---

### SECTION V

---

Risks and Uncertainties	20
Related Party Transactions	23
Outstanding Unit Data	24

---

### SECTION VI

---

Internal Controls over Financial Reporting	24
--	----

---

### SECTION VII

---

Outlook	25
Subsequent Events	25
Additional Information	26

## 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 March 31, 2011 and the year ended December 31, 2010 should be read in conjunction with PIRET's unaudited financial statements for the period ended March 31, 2011 and audited financial statements for the year ended December 31, 2010. 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 June 15, 2011 and PIRET assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

### BASIS OF PRESENTATION

Unless otherwise noted, all financial information, including comparative figures pertaining to PIRET's 2010 results, has been prepared in accordance with International Financial Reporting Standards (IFRS), specifically International Accounting Standard (IAS) 34 – *Interim Financial Reporting*.

## **BASIS OF PRESENTATION (continued)**

This is PIRET's first MD&A presented with figures prepared using accounting policies within the framework of International Financial Reporting Standards (IFRS). In previous periods, the company prepared its Financial Statements and Interim Financial Statements in accordance with Canadian generally accepted accounting principles in effect prior to January 1, 2011 (Previous GAAP). Comparative figures presented in the MD&A pertaining to PIRET's 2010 results have been restated to be in accordance with IFRS. A reconciliation of comparative figures from Previous GAAP to IFRS is provided in the notes to the March 31, 2011 unaudited Interim Financial Statements. Comparative figures presented in the MD&A pertaining to PIRET's 2009 results are prepared in accordance with Previous GAAP and are not required by IFRS 1 – *First-Time Adoption of International Financial Reporting Standards* or by the Canadian Securities Administrators to be restated in accordance with IFRS.

All financial information is reported in Canadian dollars, unless otherwise noted. Certain amounts in prior years have been reclassified to conform to the current year's presentation.

## **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". The Trust's registered office is located at 910 – 925 W. Georgia Street, Vancouver, BC, V6C 3L2, Canada.

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 primary 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.

During 2010, PIRET purchased undivided interests in seventeen properties for a total of \$132,209,591 plus standard closing costs and adjustments. These properties are located at 3500 Viking Way, Richmond, British Columbia, ("Viking"); 234040 Wrangler Road, Calgary, Alberta, ("Transforce"); 150 Edmonton Ave, Moncton, New Brunswick, ("Moncton"); 2 Ramm Avenue East, White City, Saskatchewan, 144 Henderson Drive, Regina, Saskatchewan, and 195 Henderson Drive, Regina, Saskatchewan, ("Advance - SK"); 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"); 95 Clegg Road, Markham, Ontario, ("Clegg Rd"); 8481 Marien Place, Montréal-Est, Quebec, ("FedEx Building"); 17 Street NW, Edmonton, Alberta, ("Top-Co"); 650 Finley Avenue, Ajax, Ontario, ("Finley"); 2385 Matheson Boulevard East, Mississauga, Ontario, ("Matheson"); 1000 Thornton Road, Oshawa, Ontario, ("Thornton"); 310 De Baets Street, Winnipeg, Manitoba, ("310 De Baets"); and 90 - 120 Paramount Road, Winnipeg, Manitoba ("Paramount").

On January 31, 2011 PIRET purchased an undivided interest in 7867 – 7890 Express Street, Burnaby, British Columbia, ("Express Street") for \$40,000,000 plus standard closing costs and adjustments. On March 10, 2011, PIRET purchased an undivided interest in 1 Rutherford Court, Guelph, Ontario ("Guelph") for \$6,050,000 plus standard closing costs and adjustments. On March 25, 2011, PIRET purchased an undivided interest in 9255 – 194<sup>th</sup> Street, Surrey, British Columbia, ("194<sup>th</sup> Street") for \$18,380,000 plus standard closing costs and adjustments.

The occupancy rate was 100% for all properties owned as at March 31, 2011. The lease terms are between one 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.

**OVERVIEW (continued)**

The geographic diversification of PIRET’s portfolio as at March 31, 2011 and December 31, 2010 is outlined below:

Province	Number of buildings		Gross leasable area (Sq.ft.)	
	2011	2010	2011	2010
Alberta	13	13	709,429	709,429
British Columbia	6	4	547,454	180,294
Saskatchewan	3	3	161,426	161,426
Manitoba	4	4	158,965	158,965
Ontario	7	6	601,004	499,694
Quebec	2	2	213,560	213,560
New Brunswick	1	1	30,619	30,619
<b>Total</b>	<b>36</b>	<b>33</b>	<b>2,422,457</b>	<b>1,953,987</b>

**SECTION II**

**RESULTS OF OPERATIONS**

<b>Three months ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>REVENUES</b>		
Rental and recoveries	\$ 5,966,535	\$ 1,993,038
	<b>5,966,535</b>	<b>1,993,038</b>
<b>PROPERTY RECOVERABLE OPERATING EXPENSES</b>		
Insurance	28,362	20,272
Management fees	66,425	9,219
Recoverable operating costs	79,298	125
Property taxes	1,038,639	352,476
	<b>1,212,724</b>	<b>382,092</b>
<b>EARNINGS FROM PROPERTY OPERATIONS</b>	<b>4,753,811</b>	<b>1,610,946</b>
<b>OTHER EXPENSES</b>		
General and administrative expenses	247,810	158,914
Valuation loss from investment properties	1,913,279	339,466
	<b>2,161,089</b>	<b>498,380</b>
<b>NET EARNINGS BEFORE NET FINANCE EXPENSE</b>	<b>2,592,722</b>	<b>1,112,566</b>
Finance income	72,092	2,779
Finance expense	(6,522,078)	(3,165,004)
Net finance expense	<b>(6,449,986)</b>	<b>(3,162,225)</b>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (3,857,264)</b>	<b>\$ (2,049,659)</b>
Basic net loss per unit		
Class A units (33,274,596 units / 10,326,263 units)	\$ (0.11)	\$ (0.19)
Diluted net loss per unit		
Class A units (33,420,868 units / 10,462,954 units)	<b>(0.11)</b>	<b>(0.19)</b>

**RESULTS OF OPERATIONS (continued)**

During the period ended March 31, 2011, PIRET reported a net loss of \$3,857,264 from 36 properties. PIRET has an indebtedness ratio of 54% and a distribution payout ratio of 97% as at March 31, 2011. 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.

Due to the new acquisitions, both rental revenue and recoverable expenses increased during the period ended March 31, 2011 compared with those in the same quarter of the prior year. Net operating earnings increased by 197% during the period ended March 31, 2011 compared with net operating earnings during the period ended March 31, 2010. Investment properties and mortgages payable also increased accordingly mainly due to the new acquisitions.

**Rental and Recoveries Revenue**

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

**Finance Income**

Finance income includes interest revenue which was earned from bank deposits at the trust and the property level. Interest revenue increased due to the increase in cash balances held during the period.

**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:

Three months ended March 31	2011	2010
Insurance	2.34%	5.31%
Management fees	5.48%	2.41%
Recoverable operating costs	6.54%	0.03%
Property taxes	85.64%	92.25%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**Mortgage Interest Expense**

Mortgage interest expense is included in finance expense. The weighted average interest rate on the mortgages is 5.13% per annum as at March 31, 2011 (December 31, 2010 – 5.20%) and the mortgages mature between 2011 and 2021 with a weighted average mortgage term of 6.55 years (December 31, 2010 – 4.41 years).

PIRET refinanced the Team Tube mortgage in March 2011. The original mortgage maturing in April 2011 was extended to April 2018, at lower rate of 4.49% with the same lender commencing May 2011. PIRET intends to refinance any mortgages which mature within six months.

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

**RESULTS OF OPERATIONS (continued)**

**Trust Expenses**

Trust expenses are primarily comprised of directors and officers liability insurance, professional fees, legal fees, filing fees, trustee fees and unit based compensation expense. Professional fees include auditing fees and internal control service fees paid to third parties. The Trust accrued \$33,750 trustee fees for the three months ended March 31, 2011. For the period ended March 31, 2011, total trust expenses amounted to 4.07% of rental revenue (for the period ended March 31, 2010 – 8.83%) and are included in the following statement of earnings categories: general and administration expenses; IFRS costs; and unit based compensation expenses. Trust expenses increased by 37.8% during the period ended March 31, 2011 compared with those during the period ended March 31, 2010. Unit based compensation expenses in the amount of \$16,577 was recorded in the statement of loss and comprehensive income in relation to the restricted units and distribution restricted units issued as at March 31, 2011, compared to unit based compensation expense of \$82,879 being recorded during the same period in the prior year. The unit based compensation payable represents the fair value of the restricted units granted to the independent trustees since the commencement of the Trust in August 2007 to March 2010. Commencing 2011, trustees will receive cash compensations every quarter.

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

Three months ended March 31	2011	2010
Insurance	3.14%	3.98%
Professional fees	6.88%	4.54%
Legal and filing fees	26.26%	21.62%
Compensation expenses	20.75%	47.08%
Admin expenses	30.69%	12.70%
Others expenses	12.28%	10.08%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**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. During the period ended March 31, 2011, PIRET expensed \$11,829 on potential acquisitions that did not proceed.

**Valuation gain (loss) from investment properties**

As the Trust revalues its investment properties at fair value each reporting date, it records the fair value adjustments as an income or expense item. For the period ended March 31, 2011, the Trust had a valuation loss of \$1,913,279 (for the three months period ended March 31, 2010 – \$339,466). The increase in the valuation loss from investment properties was due to the acquisition of three new properties during the period ended March 31, 2011 and the subsequent expense of the related acquisition costs.

**Offering costs**

Offering costs are the costs incurred by the Trust that relate to the issuance of Class A units, which are included in finance expense. During the period ended March 31, 2011, the Trust incurred offering costs of \$1,950,132 (for the period ended March 31, 2010 – \$1,581,707).

**RESULTS OF OPERATIONS (continued)**

**Distributions**

The Trust distributed a total of \$2,682,470 to Class A unitholders and of \$141,183 to Class B unitholders during the three months ended March 31, 2011 (three months ended March 31, 2010 - \$924,470 to Class A, \$48,656 to Class B)

**DISTRIBUTABLE INCOME**

PIRET uses Distributable Income (“DI”) to measure its ability to earn and distribute cash to unitholders. DI is a non-IFRS or GAAP measurement and should not be construed as an alternative to net earnings determined in accordance with IFRS 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 either IFRS or GAAP. Management calculates DI by adding to or deducting the following items from cash flow from operations: non-cash working capital items, proceeds or repayment of notes payable, and interest expenses.

Three months ended March 31	2011	2010
Cash flow from operations	\$ 4,564,270	\$ 1,213,293
Adjustment:		
Changes in non-cash operating working capital	(250,782)	226,462
Advances (repayment) on subordinated notes	-	9,903
Accrued rental revenue	349,762	106,241
Interest expense	(1,748,293)	(610,171)
<b>Distributable Income</b>	<b>2,914,957</b>	<b>945,728</b>
Class A units (95% of DI)	<b>2,769,209</b>	<b>898,442</b>
Class B units (5% of DI)	<b>145,748</b>	<b>47,286</b>
<b>Distributions to Unitholders</b>		
Class A units (95% of Distribution)	<b>2,682,470</b>	<b>924,470</b>
Class B units (5% of Distribution)	<b>141,183</b>	<b>48,656</b>
Total distributions paid	<b>2,823,653</b>	<b>973,126</b>
<b>Total distributions paid as a % of Distributable Income</b>	<b>96.87%</b>	<b>102.90%</b>
Weighted average number of units		
Class A units	<b>33,274,596</b>	<b>10,326,263</b>
Class B units	<b>278,947</b>	<b>278,947</b>
Diluted weighted average number of units		
Class A units	<b>33,420,868</b>	<b>10,462,954</b>
Class B units	<b>278,947</b>	<b>278,947</b>
Basic DI per unit		
Class A units (95% of DI)	\$ 0.083	\$ 0.087
Class B units (5% of DI)	<b>0.522</b>	0.170
Diluted DI per unit		
Class A units (95% of DI)	\$ 0.083	\$ 0.086
Class B units (5% of DI)	<b>0.522</b>	0.170
Distributions paid per unit		
Class A units (95% of Distribution)	\$ 0.081	\$ 0.090
Class B units (5% of Distribution)	<b>0.506</b>	0.174

**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 March 31, 2011, PIRET either announced it would distribute or distributed \$2,682,470 (2010 - \$5,987,779) to Class A unitholders and \$141,183 (2010 - \$315,145) to Class B unitholders, which represents 97% (March 31, 2010 - 103%) of DI. The higher payout ratio was due to the timing of the issuance of new units and acquisitions in 2011.

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 operations).

Three months ended March 31	2011	2010
Distributable income	\$ 2,914,957	\$ 945,728
(Advances) repayment on subordinated notes	-	(9,903)
Accrued rental revenue	(349,762)	(106,241)
Interest expense	1,748,293	610,171
Increase in amounts receivable	(33,003)	(107,368)
Increase in prepaid expenses	(114,582)	(151,538)
Increase in accounts payable and accrued liabilities	398,367	32,444
<b>Standardized Distributable Cash</b>	<b>\$ 4,564,270</b>	<b>\$ 1,213,293</b>

**SEGMENTED INFORMATION**

PIRET invests in industrial income producing properties in Canada only. Currently, there are thirty-six properties located in seven provinces. The following table shows the percentage of earnings from property operations from each province for the periods ended March 31, 2011 and 2010.

Three months ended March 31	2011		2010	
	Percentage	Amount	Percentage	Amount
British Columbia	18.32%	\$ 870,743	17.11%	\$ 275,570
Alberta	41.28%	1,962,157	50.10%	807,015
Saskatchewan	6.98%	-	-	-
Manitoba	5.39%	256,309	5.23%	84,280
Ontario	17.79%	845,587	11.91%	84,280
Quebec	8.56%	407,092	15.48%	249,363
New Brunswick	1.69%	80,174	0.18%	2,907
<b>Total</b>	<b>100.00%</b>	<b>\$ 4,753,811</b>	<b>100.00%</b>	<b>\$ 1,610,946</b>

The following table shows the fair value of investment properties in each province.

	March 31, 2011		December 31, 2010	
	Percentage	Amount	Percentage	Amount
British Columbia	29.45%	79,580,000	10.31%	21,200,000
Alberta	35.71%	\$ 96,474,425	46.85%	\$ 96,350,000
Saskatchewan	4.55%	12,300,000	5.98%	12,300,000
Manitoba	5.18%	14,000,000	6.81%	14,000,000
Ontario	16.99%	45,901,849	19.38%	39,851,849
Quebec	7.09%	19,150,000	9.31%	19,150,000
New Brunswick	1.03%	2,790,000	1.36%	2,790,000
<b>Total</b>	<b>100.00%</b>	<b>\$ 270,196,274</b>	<b>100.00%</b>	<b>\$ 205,641,849</b>

**FINANCIAL CONDITION**

**Assets**

**Investment Properties**

Investment properties are stated at fair value. Gains or losses arising from changes in fair values are included in the statement of comprehensive income in the year which they arise.

The current properties remain relatively new with estimated useful lives between 20 to 58 years and should require minimal capital expenditures in the near future.

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

**Accrued Rental Revenue**

Certain leases call for rental payments that increase over their terms. Accrued rental revenue 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 rental revenue is \$2,076,092 as at March 31, 2011 (December 31, 2010 - \$1,726,331). During the period ended March 31, 2011, PIRET accrued \$349,762 in rental revenue (the three months ended March 31, 2010 - \$106,241). Under IFRS, accrued rental revenue is included in the investment properties.

**FINANCIAL CONDITION (continued)**

**Leasing Costs**

Leasing costs include leasing commissions and lease related costs, which were paid to real estate brokers or lawyers for leasing services. They are capitalized to the carrying amount of investment properties when incurred and then considered in the fair value adjustment of the investment properties at the next reporting date.

**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 March 31, 2011, the term for the current mortgage reserve fund is less than 5 years. The amortized cost of the mortgage reserve fund is \$921,928 as at March 31, 2011 (December 31, 2010 - \$378,422). In January 2011, PIRET paid \$541,204 to the lender of Express.

**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. The indebtedness is 54% of the gross book value as at March 31, 2011 (December 31, 2010 – 55%).

**Mortgages Payable**

The mortgages bear interest at a weighted effective rate of 5.13% as at March 31, 2010 (December 31, 2010 – 5.20%) and mature between 2011 and 2020.

Future principal mortgage payments are as follows:

---

Remaining in 2011	\$	4,481,366
2012		11,099,929
2013		5,001,252
2014		5,549,649
2015		56,866,413
Thereafter		68,245,265
	<b>\$</b>	<b>151,243,874</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 Class A 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. The subordination period ended August 31, 2010 in accordance with the subordination and support agreement.

## **FINANCIAL CONDITION (continued)**

### **Class A and Class B units**

Under Previous GAAP, Class A units and Class B units were presented as equity. Under IFRS, they are classified as financial liabilities due to the following:

- i) a contractual obligation arising to deliver cash or another financial asset to another entity;
- ii) Class A units and Class B units are equally subordinate, and
- iii) Class A units and Class B units do not have identical features.

Prior to November 18, 2010, the mandatory requirement to distribute taxable income under the Trust's Declaration of Trust constituted such a contractual obligation, in (i) above. On November 18, 2010, the Declaration of Trust, with the consent of the Unitholders, was modified to eliminate the mandatory distribution and leave distributions to the discretion of the Trustees. Upon elimination of the mandatory distribution requirement, (i) above was no longer a factor in the units being classified as financial liabilities.

As Class A units and Class B units are separate classes of units that are equally subordinate but do not have identical terms, they meet the definition of a financial liability.

At January 1, 2010, December 31, 2010 and March 31, 2011, the Class A units and Class B units are presented as a liability on the IFRS Statement of Financial Position. The Trust has designated these financial liabilities as other financial liabilities and measures them at amortized cost. The amount presented as a liability at each reporting date is representative of the number of units outstanding multiplied by the public offering price at date of issue. Related offering costs and distributions recognized as equity under Previous GAAP, are recognized as a finance expense under IFRS.

In January 2011, PIRET issued additional 8,625,000 Class A units at \$4.00 per unit for total gross proceeds of \$34,500,000. PIRET has 35,766,263 Class A units and 278,947 Class B units outstanding as at March 31, 2011.

### **Unit Based Compensation Accrual**

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

Under Previous GAAP, the units issued under the restricted unit plan were accounted for as cash-settled share-based compensation. The amount owing was included in contributed surplus with a corresponding amount recorded as compensation expense. The compensation expense was measured at the grant date fair value of the number of units that would vest if the vesting date were to be the balance sheet date, provided that the performance conditions were considered probable of achievement. The unit based compensation expense was recognized over the vesting period. Under IFRS, liabilities related to PIRET's restricted unit plan are included in unit based compensation accrual account and measured at fair value at the grant date and re-measured each reporting date. The fair value changes are recorded within general and administrative expenses on the statements of loss and comprehensive income. Unit based compensation accrual has \$757,667 balance as at March 31, 2011 (December 31, 2010 - \$741,090). PIRET accrued \$16,577 (2010 - \$705,600) compensation expenses during the three months ended March 31, 2011 under the restricted unit plan.

**FINANCIAL CONDITION (continued)**

**Bank loan**

On January 11, 2010, PIRET established a revolving operating line of credit bank 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, the bank increased the operating line of credit to \$750,000, with the same rate and terms. PIRET had drawn down \$533 as at March 31, 2011 (December 31, 2010 - \$546,951).

On July 12, 2010, PIRET established an operation loan with a bank 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 March 31, 2011, PIRET has drawn down \$nil (December 31, 2010 - \$2,292,719) and is in compliance with the financial covenant.

**LIQUIDITY AND CAPITAL RESOURCES**

**Funds from Operations**

“Funds from operations” (“FFO”) is a non-IFRS measure and should not be construed as an alternative to net earnings determined in accordance with IFRS. 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 (“REALpac”). Since the REALpac FFO definition does not capture the impact of classifying the Trust’s unitholders’ equity as a liability, PIRET added back the unit offering costs and distributions expenses. PIRET’s method of calculating FFO may differ from other companies and accordingly may not be comparable to similar measures presented by other companies.

<b>Three months ended March 31</b>	<b>2011</b>	<b>2010</b>
Net loss	\$ (3,857,264)	\$ (2,049,659)
Adjustment:		
Amortization of mortgage transaction costs	70,882	10,503
Unit based compensation expenses	16,577	82,879
Valuation loss from investment properties	1,913,279	339,466
Trust unit offering costs	1,950,132	1,581,707
Distributions to unitholders	2,823,653	973,126
Accrued rental revenue	(349,762)	(106,241)
<b>Funds from operations</b>	<b>2,567,497</b>	<b>831,781</b>
Weighted average number of units		
Class A units	33,274,596	10,326,263
Class B units	278,947	278,947
Diluted weighted average number of units		
Class A units	33,420,868	10,462,954
Class B units	278,947	278,947
Funds from operations per unit - Basic		
Class A units (95%)	\$ 0.073	\$ 0.077
Class B units (5%)	0.460	0.149
Funds from operations per unit - Diluted		
Class A units (95%)	\$ 0.073	\$ 0.076
Class B units (5%)	0.460	0.149

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

**Funds from Operations (continued)**

The use of FFO, combined with the required IFRS 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 earnings determined in accordance with IFRS.

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:

Three months ended March 31	2011	2010
Funds from operations	\$ 2,567,497	\$ 831,781
Amortization of discount on mortgage reserve fund	(2,302)	(2,197)
Increase in amounts receivable	(33,003)	(107,368)
Increase in prepaid expenses	(114,582)	(151,538)
Increase in accounts payable and accrued liabilities	398,367	32,444
Interest expense	1,748,293	610,171
Cash provided by operating activities	\$ 4,564,270	\$ 1,213,293

**Capital Resources**

The cash collected from issuing Class A units and Class B units, and the cash generated by investment properties represent the primary source of funds to fund total distributions to unitholders of \$2,823,653 from January 1 to March 31, 2011 and \$6,302,924 from January 1 to December 31, 2010.

For the period ended March 31, 2011, cash provided by operations was more than cash distributions paid or payable. 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. PIRET intends to refinance any mortgages which mature within six months.

Management expects to be able to meet all of the Trust’s ongoing obligations and to finance future growth through the issuance of units 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.

Three months ended March 31	2011	2010
Cash provided by operating activities	\$ 4,564,270	\$ 1,213,293
Net loss	(3,857,264)	(2,049,659)
Actual cash distributions paid or payable	2,823,653	973,126
Excess of cash provided by operating activities over cash distributions paid	1,740,617	240,167
Shortfall of net loss over cash distributions paid	(6,680,917)	(3,022,785)

**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 54% as at March 31, 2011 (December 31, 2010 – 55%).

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 allows the Trustees, at their discretion, to distribute to the Trust’s unitholders in each year all or a portion of 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 March 31, 2011 (January 1 to December 31, 2010 - \$0.025 per unit per month).

The Trust is in compliance with all restrictions during the period ended March 31, 2011 and the year ended December 31, 2010.

The capital structure consisted of the following components at March 31, 2011 and December 31, 2010.

	March 31, 2011	December 31, 2010	Change
Capital			
Class A units	\$ 129,961,957	\$ 95,496,457	\$ 34,465,500
Class B units	1,115,788	1,115,788	-
Unit based compensation accrual	531,559	504,526	27,033
Mortgages payable	144,812,136	96,207,241	48,604,895
Net liabilities attributable to unitholders	(8,639,872)	(4,782,608)	(3,857,264)
<b>Total Capital</b>	<b>\$ 267,781,568</b>	<b>\$ 188,541,404</b>	<b>\$ 79,240,164</b>

The total capital of PIRET increased due to the issuance of new Class A units and the proceeds of new mortgages related to acquisitions, offset by the repayment of mortgage principal and distributions to unitholders during 2011.

**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 bank loans, 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.

The fair value of the Class A units has been calculated based on quoted prices in the active markets for identical assets or liabilities. Prices of units and units outstanding are observable in the open market. The fair value of the Class B units has been calculated based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data. Class B units are entitled to 5% of PIRET’s market capitalization, which is observable in the open market.

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage reserve fund	\$ 921,928	\$ 898,521	\$ 378,422	\$ 227,053
Mortgages payable	150,284,918	152,527,361	113,362,208	112,660,420
Class A units	130,092,049	155,940,907	95,592,049	120,236,214
Class B units	1,115,788	8,207,416	1,115,788	6,328,222

**OFF-BALANCE SHEET ITEMS**

PIRET does not have any off-balance sheet items.

**SECTION III**

**SUMMARY OF QUARTERLY RESULTS**

Total investment properties increased in the three months period ended March 31, 2011 due to the acquisitions in the quarter. Mortgage reserve fund increased due to the additional funding requested by the lender of Express in the amount of \$541,204 in January 2011. Cash held in trust decreased significantly due to the completion of three acquisitions during the three months period ended March 31, 2011. Total liabilities increased significantly during the three months period ended March 31, 2011 compared with liabilities in the prior year due, in most part, to the reclassification of Class A units, Class B units and unit based compensation accrual from equity to liabilities, the proceeds of mortgages payable received on new acquisitions and accrued distributions to unitholders. However, bank loans decreased significantly in the three month period ended March 31, 2011 compared to the prior quarter due to the repayments of the Trusts' operating loan and line of credit. Net loss and comprehensive loss increased by \$3,741,936 over the previous quarter mainly due to the offering costs related to the issuance of Class A units and higher distributions to unitholders during the three months ended March 31, 2011.

In January and March 2011, PIRET acquired an additional three investment properties for total \$64,430,000 plus standard closing costs and adjustments. PIRET earned rental revenue from 36 properties instead of 19, which resulted in net operating earnings increasing by 195% during the three month period ended March 31, 2011 compared to the three month period ended March 31, 2010. During the same periods, other expenses also increased partly due to fair value adjustments of investment properties and additional general and administrative expenses related to Toronto office.

Excluding the impact of expenses of Class A offering costs and distributions to Class A and Class B units, PIRET earned net income of \$916,521. The current quarter loss is mainly due to the transition from Previous GAAP to IFRS. Under Previous GAAP, Class A offering costs and distributions to unitholders were recorded as equity. Under IFRS, they have been recorded as expenses. There are no fundamental changes in PIRET's operations. All properties generate positive cash flows.

Financial information for 2010 has been restated according to IFRS. Financial information for 2009 is still recorded under Previous GAAP.

Quarter ended	<b>March 31, 2011</b>
Basic rent	\$ 4,757,832
Recoveries	1,208,703
Total rental revenue from properties	5,966,535
Property recoverable operating expenses	1,212,724
Other expenses	2,161,089
Net loss and comprehensive income	(3,857,264)
Basic net earnings per unit	
Class A units	(0.110)
Class B units	(0.691)

**SUMMARY OF QUARTERLY RESULTS (continued)**

Quarter ended	December 31, 2010 (restated)	September 30, 2010 (restated)	June 30, 2010 (restated)	March 31, 2010 (restated)
Basic rent	\$ 3,807,672	\$ 3,572,417	\$ 2,807,525	\$ 1,611,103
Recoveries	690,929	778,346	689,346	381,935
Total rental revenue from properties	4,498,601	4,350,763	3,496,871	1,993,038
Property recoverable operating expenses	772,506	773,558	669,721	382,092
Other expenses	(1,135,378)	1,006,641	708,793	498,380
Net loss and comprehensive income	(115,328)	(392,278)	(2,243,336)	(2,049,659)
Basic net earnings per unit				
Class A units	(0.004)	(0.018)	(0.120)	(0.189)
Class B units	(0.021)	(0.070)	(0.402)	(0.367)

(Previous GAAP) 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

Quarter ended	<b>March 31, 2011</b>
Total assets	<b>\$ 277,078,146</b>
Total liabilities	<b>285,718,018</b>
Net liabilities attributable to unitholders	<b>(8,639,872)</b>
Investment properties	<b>270,196,274</b>
Mortgages payable	<b>150,284,918</b>

Quarter ended	December 31, 2010	September 30, 2010	June 30, 2010 (restated)	March 31, 2010 (restated)
Total assets	\$ 211,506,756	\$ 174,615,312	\$ 165,232,268	\$ 118,621,833
Total liabilities	216,289,364	179,282,592	169,507,270	120,653,499
Net liabilities attributable to unitholders	(4,782,608)	(4,667,280)	(4,275,002)	(2,031,666)
Investment properties	205,641,849	173,142,125	158,342,125	114,460,000
Mortgages payable	113,362,208	100,365,243	91,499,349	66,884,633

**SUMMARY OF QUARTERLY RESULTS (continued)**

(Previous GAAP) 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

**SECTION IV**

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS 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 March 31, 2011 unaudited condensed interim financial statements and the December 31, 2010 audited financial statements.

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

**Business combinations**

The Trust acquires individual real estate properties. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

**Lease contracts**

The Trust has entered into property leases on its investment property portfolio. The Trust makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and the Trust is lessor, are operating or finance leases. The Trust must assess each lease separately against land and building. The Trust has determined that all of its leases of land and buildings are operating leases.

**Unit based compensation expense**

The Trust's unit based compensation expense consists of units granted under its Restricted Unit Plan. The units granted are measured at fair value each reporting period and recognized as an expense, within general and administrative expenses, over the vesting period, with a corresponding adjustment to liabilities.

**CRITICAL ACCOUNTING ESTIMATES (continued)**

**Valuation of investment properties**

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

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

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

**CHANGES IN ACCOUNTING POLICIES**

PIRET's significant accounting policies are described in note 3 to the March 31, 2011 unaudited Condensed Interim Financial Statements.

**Adoption of IFRS**

Effective January 1, 2011, the Trust began reporting under IFRS. The accounting policies referenced above have been applied in preparing the financial results for the three-months ended March 31, 2011 and 2010, then financial results for the year ended December 31, 2010, and the Trust's opening balance sheet as at January 1, 2010. A detailed reconciliation of amounts reported under Previous GAAP to those presented in the MD&A is provided in note 5 to the unaudited condensed interim financial statements.

The following table provides a summary reconciliation of net earnings reported under Previous GAAP to that reported under IFRS:

	Three months ended March 31, 2010	Year ended December 31, 2010
Net earnings, as reported under Previous GAAP	\$ 212,245	\$ 2,795,089
Adjustments to net earnings:		
Amortization of deferred expenses	–	4,802
Amortization of properties and intangible assets	452,983	3,201,569
Mortgage interest	(10,503)	(162,320)
Mortgage transaction costs	272,794	711,397
Valuation gain (loss) on investment properties	(339,466)	(13,817)
Class A offering costs	(1,581,707)	(4,588,523)
Distributions to Class A unitholders	(924,470)	(5,987,779)
Distributions to Class B unitholders	(48,656)	(315,145)
Unit based compensation expense	(82,879)	(445,874)
<b>Net loss, as reported under IFRS</b>	<b>\$ (2,049,659)</b>	<b>\$ (4,800,601)</b>

## **CHANGES IN ACCOUNTING POLICIES (continued)**

### **Adoption of IFRS (continued)**

The transition to IFRS included adjustments of \$6,191,806 that increased the carrying amount of PIRET's investment properties as at January 1, 2010. The increase was due to PIRET electing to carry its investment properties at fair value under IFRS, compared to cost under Previous GAAP. Additionally, PIRET's liabilities increased by \$30,664,270 as at January 1, 2010 under IFRS compared to Previous GAAP. This increase was primarily due to the Trust's Class A and Class B units being classified as financial liabilities under IFRS, compared to equity under Previous GAAP.

The decrease in net earnings under IFRS, compared to Previous GAAP, is primarily a result of the expense of the distributions to Class A and Class B units and Class A offering costs. The reclassification of the Class A and Class B units from equity to financial liabilities results in the related unit offering costs and unit distributions being recorded as an expense when incurred under IFRS, compared to being recorded within equity when incurred under Previous GAAP. This was partially offset by the Trust electing to carry its investment properties at fair value and the related mortgage transaction costs being amortized over the term of the mortgage under IFRS, compared to being expensed as incurred under Previous GAAP. In addition, the election to carry investment properties at fair value under IFRS eliminates the need for the Trust to record depreciation expense at each reporting date.

The transition of IFRS also required that the Trust adopt accounting policies that are different to those previously reported. Changes to accounting policies that may have a significant impact on the Trust's net earnings or presentation of net earnings include:

- Investment properties – Under Previous GAAP, investment properties were carried at amortized cost and depreciated over its estimated useful life. Under IFRS, investment properties are carried at fair value with any changes in fair value being recorded under net earnings at each reporting date.
- Classification of Class A and Class B units – Under Previous GAAP, these units were classified as equity, whereas under IFRS they are classified as financial liabilities. As a result, the Trust must expense all related offering costs and distributions as incurred and has restated amounts previously reported as equity under Previous GAAP.
- Unit based compensation – Under Previous GAAP, compensation expense for unit based compensation issued was measured at the grant date fair value of the number of units that would vest if the vesting date were to be the balance sheet date, provided that the performance conditions are considered probable of achievement. The unit based compensation expense was recognized over the vesting period. Under IFRS, the Trust must record the unit based compensation using the fair value method. In order to determine this, the Trust must make forward looking assumptions regarding the various factors that affect the compensation expense payable at vesting date.
- Mortgage transaction costs – Under Previous GAAP, mortgage transaction costs were expensed as incurred. Under IFRS, mortgage transaction costs must be included in the fair value, of mortgages payable, at initial recognition and therefore form part of the carrying amount of the debt instrument. These costs are subsequently amortized and expensed over the term of the related mortgage using the effective interest method.

### **Standards issued but not yet effective**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The completion of this project is expected in early 2011. The Trustees will quantify the effect on the Trust in conjunction with other phases, when issued, to present a comprehensive picture.

## 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 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 a thorough review of tenants' credit histories and requesting adequate security deposits. As at March 31, 2011, trade receivables in the amount of \$692 were 30 days past due. Current receivables totaled only \$424 (2010 - \$3,987) due to billings to new tenants and will be collected during the next few months.

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

Most of PIRET's properties are single tenant properties. As at March 31, 2011, Team Tube / Encore Metals tenants generated 10% (2010 – 17%) of total rental revenue, the Shanahan's portfolio generated 7% (2010 – 11%) of total rental revenue, Mabe generated 6% (2010 – 10%) of total rental revenue, Transforce generated 23% (2010 – 18%) of total rental revenue and the Advance portfolio generated 19% (2010 – 14%) 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.

**RISKS AND UNCERTAINTIES (continued)**

**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. The occupancy rate is 100% as at March 31, 2011 (December 31, 2010 – 100%) and lease terms are between one to twenty five years. The leases which will expire over the next 3 years represent 7.62% 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.

PIRET’s lease expiries for all properties as at March 31, 2011 are as follows:

	Square feet	% of Net leasable area
2011	7,455	0.31%
2012	115,932	4.79%
2013	61,097	2.52%
2014	65,728	2.71%
2015	86,475	3.57%
2016 and thereafter	2,085,770	86.10%
<b>Total</b>	<b>2,422,457</b>	<b>100.00%</b>

**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 March 31, 2011 or December 31, 2010.

**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.

**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.

**RISKS AND UNCERTAINTIES (continued)**

**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:

MORTGAGES PAYABLE	Nominal interest rate	Year of maturity	Carrying value	
			March 31, 2011	December 31, 2010
Mabe	5.677%	2016	\$ 7,916,929	\$ 7,952,966
Team Tube	4.490%	2018	12,778,759	12,868,553
333 De Baets	5.500%	2011	1,574,705	1,585,146
Tornado	5.670%	2012	2,527,414	2,550,153
Eurospec	5.382%	2015	4,482,908	4,509,925
Shanahan - 57th	5.926%	2018	4,927,404	4,955,097
Shanahan portfolio - AB	5.754%	2012	4,950,222	4,993,855
Viking	5.160%	2017	4,604,899	4,640,596
Transforce	4.950%	2015	20,171,934	20,335,226
Moncton	6.210%	2014	1,553,035	1,564,341
Advance portfolio - SK	4.800%	2015	8,365,252	8,433,324
Advance portfolio - AB	4.800%	2015	10,124,477	10,206,846
Clegg Rd	5.510%	2015	6,110,791	6,140,933
Top-Co	5.350%	2020	9,509,080	9,558,212
Finley	4.160%	2015	5,379,333	5,400,000
Matheson	4.160%	2015	2,072,040	2,080,000
Thornton	4.286%	2015	5,190,515	5,220,000
Paramount	5.500%	2013	1,056,614	1,062,919
Express	5.020%	2021	25,947,563	-
194 <sup>th</sup> Street	4.620%	2018	12,000,000	-
Total mortgages principal payable			151,243,874	114,058,092
Unamortized mortgage transaction costs			(958,956)	(695,884)
Total carrying value of mortgages payable			\$150,284,918	\$113,362,208

During the three months ended March 31, 2011, PIRET financed Express and 194<sup>th</sup> Street with two new mortgages. PIRET also refinanced Team Tube with the same lender at a lesser rate in March 2011.

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

**RISKS AND UNCERTAINTIES (continued)**

**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. There were no transactions among the above related parties during the three months ended March 31, 2011.

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

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Amounts due to related parties				
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
Included in accounts payable and accrued liabilities	\$ 49,000	\$ 49,000	\$ 49,000	\$ 49,000
Included in demand note	\$ 125,000	\$ 125,000	\$ 225,000	\$ 225,000

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 was 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 was non-interest bearing and due on demand. On March 5, 2010, PIRET repaid the amount in full.

## **RELATED PARTY TRANSACTIONS (continued)**

PIRET has entered into an Asset Management Agreement with Sunstone Industrial Advisors Inc. (“Sunstone Management”) whereby Sunstone Management will provide asset management, administrative and reporting services to PIRET. 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 March 31, 2011 or the year ended December 31, 2010, 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 \$95,000 for arranging the financing of Express and 194<sup>th</sup> Street during the period ended March 31, 2011 and paid \$135,120 for arranging the financing of Viking, Transforce, the Advance portfolio and Top-Co during the year ended December 31, 2010. It is 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 Class A unit or Class B 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 Class A 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 Class B units, shares in a 5% equity interest (the “Subordinated Unit Percentage Interest”) in all distributions and all net assets of the Trust.

During 2010, PIRET issued 19,615,000 Class A units for total of \$65,932,250. In January 2011, PIRET issued additional 8,625,000 Class A units for total of \$34,500,000 gross proceeds.

As at March 31, 2011, the total number of trust units outstanding was 35,766,263 and the total number of subordinated units outstanding was 278,947.

As at March 31, 2011, the Trust has issued a total of 124,058 restricted units and 22,213 related distribution restricted units.

## **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 IFRS. 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 March 31, 2011, 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 2010, PIRET's management was successfully able to deliver consistent results by focusing on our core values: actively managing our portfolio; maintaining high occupancy levels through our diversified tenant base; prudently managing the Trust's balance sheet by maintaining loan to value ratios at approximately 54%, much lower than our Declaration of Trust's maximum of 70% loan to value. With the economic recovery in 2010, the Trust continued to deliver consistent results and increased its portfolio by acquiring 17 properties in the year, adding over 1 million square feet.

In 2011, 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 continue its ambitious yet conservative acquisition program in 2011. Management's outlook is further supported by PIRET's successful bought deal private placements and public offerings that raised a total of \$34,500,000 during the first quarter of 2011 and another \$59,880,500 in May 2011.

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 April 14, 2011, PIRET purchased 80 Rooney Crescent in Moncton, New Brunswick for \$5,074,313 plus standard closing costs and adjustments.

On April 15, 2011, PIRET purchased 7660 Vantage Way, Delta, British Columbia for \$9,300,000 plus standard closing costs and adjustment. PIRET financed the purchase with a \$4,300,000 mortgage payable and cash.

In April 2011, PIRET established a demand operating credit line with a bank, secured by 310 De Baets Street, with a credit limit of \$5,000,000, bearing interest at prime rate plus 1% per annum. As at June 15, 2011, PIRET has zero balance drawn on the line.

In April 2011, PIRET established a demand operating credit line with a bank, secured by 1 Rutherford Court, Guelph, ON, with a credit limit of \$3,900,000, bearing interest at prime rate plus 1% per annum. As at June 15, 2011, PIRET has not drawn on the line.

In April 2011, PIRET established a demand operating credit line, secured by 80 Rooney Crescent in Moncton, with a credit limit of \$3,300,000, bearing interest at prime rate plus 1% per annum. As at this reporting date, PIRET has not drawn down the line.

On May 17, 2011, PIRET closed a public offering of 14,605,000 trust units including 1,905,000 units from the over-allotment, on a bought deal basis, at a price of \$4.10 per unit, for total gross proceeds of \$59,880,500.

On May 20, 2011, PIRET purchased 5645 70th Street, Edmonton, Alberta for \$28,775,000 plus standard closing costs and adjustments. PIRET financed the purchase with an \$18,700,000 mortgage payable and cash.

On May 31, 2011, a Determination Event as defined in the Declaration of Trust occurred, as a result of the Trust's market capitalization exceeding \$200,000,000 for a period of 10 consecutive trading days. Upon the occurrence of the Determination Event, the number of Class A units into which the Class B units may be converted was fixed at 2,535,118. Commencing upon the Determination Event, the Class B unitholders' proportion of the Trust's total distributions will fluctuate depending on the number of Class A units outstanding from time to time.

**SUBSEQUENT EVENTS (continued)**

On June 8, 2011, PIRET purchased a portfolio of properties located in the Greater Toronto Area, Edmonton, and Calgary for \$70,145,000 plus standard closing costs and adjustments. PIRET financed the purchase with a \$47,000,000 mortgage payable and cash.

**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).