



**PURE INDUSTRIAL REAL ESTATE TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the years ended December 31, 2009 and December 31, 2008**

**Dated: March 15, 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 years ended December 31, 2009 and 2008 should be read in conjunction with PIRET's audited financial statements for the years ended December 31, 2009 and 2008. 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 March 15, 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.

The geographic diversification of PIRET’s portfolio as at December 31, 2009 and 2008 is outlined below:

Province	Number of buildings		Gross leasable area (Sq.ft.)	
	2009	2008	2009	2008
Alberta	8	8	346,858	346,858
British Columbia	3	3	112,783	112,783
Manitoba	2	2	52,171	52,171
Ontario	2	2	117,742	117,742
Quebec	1	1	164,525	164,525
Saskatchewan	—	2	—	19,200
<b>Total</b>	<b>16</b>	<b>18</b>	<b>794,079</b>	<b>813,279</b>

The occupancy rate is 100% for all properties owned as at December 31, 2009. The lease terms are between three and twelve years. Leases will expire within the next three years have at least one renewal option for another five years.

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

	Years ended December 31		Three months ended December 31	
	2009	2008	2009	2008
<b>REVENUES</b>				
Rental and recoveries	\$6,711,851	\$6,782,094	\$1,711,949	\$1,859,082
Interest and other	36,288	61,319	2,188	5,945
	<b>6,748,139</b>	6,843,413	<b>1,714,137</b>	1,865,027
<b>PROPERTY RECOVERABLE OPERATING EXPENSES</b>				
Insurance	60,534	63,235	14,894	9,390
Management fees	37,500	38,898	9,219	9,870
Recoverable operating costs	4,430	4,303	(174)	3,397
Property taxes	1,323,960	1,340,940	368,737	497,419
	<b>1,426,424</b>	1,447,376	<b>392,676</b>	520,076
<b>EARNINGS BEFORE THE UNDERNOTED</b>	<b>5,321,715</b>	5,396,037	<b>1,321,461</b>	1,344,951
<b>NON-RECOVERABLE EXPENSES</b>				
Amortization	1,591,306	1,671,976	395,950	492,737
Mortgage interest	2,319,447	2,405,919	574,389	598,562
Mortgage transaction costs	4,275	25,979	4,275	–
General and administrative expenses	142,082	188,412	35,742	35,688
Interest expenses on demand loan	8,996	5,373	1,497	2,687
	<b>4,066,106</b>	4,297,659	<b>1,011,853</b>	1,129,674
<b>INCOME BEFORE DISPOSITIONS</b>	<b>1,255,609</b>	1,098,378	<b>309,608</b>	215,277
Gain (loss) on disposal of properties	135,832	–	(124)	–
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>\$1,391,441</b>	\$1,098,378	<b>\$ 309,484</b>	\$ 215,277
Basic net earnings per unit				
Trust units (7,526,263 units / 7,522,721 units)	\$ 0.176	\$ 0.139	\$ 0.039	\$ 0.027
Subordinated units (278,947 units)	0.249	0.197	0.055	0.039
Diluted net earnings per unit				
Trust units (7,526,263 units / 7,522,721 units)	0.176	0.139	0.039	0.027
Subordinated units (278,947 units)	0.249	0.197	0.055	0.039

During the year ended December 31, 2009, PIRET reported net earnings of \$1,391,441, which included net earnings of \$1,255,609 from 17 properties and a gain on disposition of \$135,832 from two properties. PIRET has an indebtedness ratio of 59% and a distribution payout ratio of 80% as at December 31, 2009. 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 and distributions to unitholders) and the gross book value of the assets of the trust. This ratio is further defined on page 12, under the section Capital Structure. The Trust defines distribution payout ratio as the percentage of Distributable Income that is paid out to trust unitholders.

**RESULTS OF OPERATIONS (continued)**

Due to the sales of the 44<sup>th</sup> Street and 225 Quebec Street properties, both the rental revenue and recoverable expenses decreased during the three months ended December 31, 2009 compared with those in the same quarter of the prior year. Net operating earnings decreased by 1.4% during the year ended December 31, 2009 compared with net operating earnings during the year ended December 31, 2008. Income producing properties, intangible assets, related amortizations and mortgages payable also decreased 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:

Recoverable operating expenses	Year ended December 31, 2009	Year ended December 31, 2008
Insurance	4.24%	4.36%
Management fees	2.63%	2.69%
Recoverable operating costs	0.31%	0.30%
Taxes	92.82%	92.65%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**Amortization of Intangible Assets**

Amortization of intangible assets is \$297,574 for the year ended December 31, 2009 (2008 - \$358,618). 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 40 years. The amortization of the buildings is \$1,293,732 for the year ended December 31, 2009 (2008 - \$1,313,358). 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 December 31, 2009, the weighted average interest rate on the mortgages is 5.56% per annum (December 31, 2008 – 5.54%) and the mortgages mature between 2010 and 2016 with a weighted average mortgage term of 3.87 years (December 31, 2008 – 4.79 years). In December 2008, PIRET renewed two mortgages with Canadian Western Bank for the Saskatchewan and Manitoba locations in the Shanahan’s portfolio. The renewed mortgages bore interest at 6% per annum and matured in December 2009. On January 1, 2009, PIRET paid off the mortgage on the 44<sup>th</sup> Street property in the amount of \$334,394. On June 1, 2009, PIRET paid off the mortgage on 225 Quebec Street in the amount of \$306,751.

**Mortgage Transaction Costs**

Mortgage transaction costs in the amount of \$4,275 (2008 – \$25,979) were related to lender’s legal fees or lender’s review fees for the mortgages PIRET acquired in 2007 for the Shanahan’s portfolio.

**RESULTS OF OPERATIONS (continued)**

**Trust Expenses**

Trust expenses are primarily comprised of directors and officers liability insurance, professional fees, legal fees, filing fees and trustee fees. Professional fees include auditing fees and internal control service fees paid to third parties. The Trust did not pay any trustee fees. For the year ended December 31, 2009, total trust expenses amounted to 2% of rental revenue (for the year ended December 31, 2008 – 3%) and are included in general and administration expenses. Trust expenses decreased by 23% during the year ended December 31, 2009 compared with those during the year ended December 31, 2008.

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

Trust expenses	Year ended December 31, 2009	Year ended December 31, 2008
Insurance	19.96%	15.88%
Professional fees	26.74%	33.39%
Legal and filing fees	46.57%	47.51%
Trust expenses of rental revenue	2.09%	2.69%

**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.

**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 the 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.

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 December 31, 2009, PIRET either announced it would distribute or distributed \$2,257,879 (from January 1 to December 31, 2008 - \$2,257,879) to trust unitholders and \$118,836 (from January 1 to December 31, 2008 - \$118,836) to subordinated unitholders, which represents 80% (from January 1 to December 31, 2008 - 83%) of DI. The lower payout ratio was due to the gain on disposal of income producing properties.

**DISTRIBUTABLE INCOME (continued)**

	Twelve months ended December 31		Three months ended December 31	
	2009	2008	2009	2008
Cash flow from operations	\$ 2,420,690	\$1,564,961	\$ 640,592	\$ 662,310
Adjustment:				
Changes in non-cash operating working capital	414,153	1,183,519	62,794	40,138
Proceeds from notes payable	118,836	79,224	29,709	29,709
Mortgage transaction costs	4,275	25,979	4,275	—
<b>Distributable Income</b>	<b>2,957,954</b>	<b>2,853,683</b>	<b>737,370</b>	<b>732,157</b>
Trust units (95% of DI)	2,810,056	2,710,999	700,502	695,549
Subordinated units (5% of DI)	147,898	142,684	36,868	36,608
<b>Distributions to Unitholders</b>				
Trust units (95% of Distribution)	2,257,879	2,257,879	564,470	564,470
Subordinated units (5% of Distribution)	118,836	118,836	29,709	29,709
Total distributions paid	2,376,715	2,376,715	594,179	594,179
<b>Total distributions paid as a % of Distributable Income</b>	<b>80.35%</b>	<b>83.29%</b>	<b>80.58%</b>	<b>81.15%</b>
Weighted average number of units				
Trust units	7,526,263	7,522,721	7,526,263	7,526,263
Subordinated units	278,947	278,947	278,947	278,947
Diluted weighted average number of units				
Trust units	7,526,263	7,522,721	7,526,263	7,526,263
Subordinated units	278,947	278,947	278,947	278,947
Basic DI per unit				
Trust units (95% of DI)	\$ 0.373	\$ 0.360	\$ 0.093	\$ 0.092
Subordinated units (5% of DI)	0.530	0.512	0.132	0.131
Diluted DI per unit				
Trust units (95% of DI)	\$ 0.373	\$ 0.360	\$ 0.093	\$ 0.092
Subordinated units (5% of DI)	0.530	0.512	0.132	0.131
Distributions paid per unit				
Trust units (95% of Distribution)	\$ 0.300	\$ 0.300	\$ 0.075	\$ 0.075
Subordinated units (5% of Distribution)	0.426	0.426	0.107	0.107

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.

	Year ended December 31		Three months ended December 31	
	2009	2008	2009	2008
Distributable income	\$ 2,957,954	\$ 2,853,683	\$ 737,370	\$ 732,157
Proceeds from notes payable	(118,836)	(79,224)	(29,709)	(29,709)
Mortgage transaction costs	(4,275)	(25,979)	(4,275)	–
Increase in amounts receivable	(305,244)	(232,614)	(77,867)	(98,305)
(Increase) decrease in prepaid expenses	(11,737)	6,696	179,242	201,409
Increase (decrease) in rental deposit	–	16,304	–	(12,624)
Decrease in accounts payable and accrued liabilities	(97,172)	(973,905)	(164,169)	(130,618)
Standardized Distributable Cash	\$ 2,420,690	\$ 1,564,961	\$ 640,592	\$ 662,310

**SEGMENTED INFORMATION**

PIRET invests in industrial income producing properties in Canada only. Currently, there are sixteen properties located in five 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 year ended December 31, 2009.

Year ended	December 31, 2009		December 31, 2008	
	Percentage	Amount	Percentage	Amount
Rental and recoveries revenue				
Alberta	40.88%	\$ 2,743,995	39.87%	\$ 2,704,209
British Columbia	16.01%	1,074,304	15.86%	1,075,382
Manitoba	6.38%	428,087	6.30%	427,497
Ontario	15.14%	1,016,401	14.97%	1,015,301
Quebec	21.19%	1,422,475	21.12%	1,432,629
Saskatchewan	0.40%	26,589	1.88%	127,076
Total	100.00%	\$ 6,711,851	100.00%	\$ 6,782,094

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	December 31, 2009		December 31, 2008	
	Percentage	Amount	Percentage	Amount
Alberta	43.63%	\$ 28,567,884	43.08%	\$ 29,308,097
British Columbia	17.69%	11,584,717	17.31%	11,777,071
Manitoba	5.33%	3,493,564	5.28%	3,594,301
Ontario	14.04%	9,196,150	13.84%	9,415,302
Quebec	19.31%	12,643,358	19.05%	12,957,454
Saskatchewan	–	–	1.44%	975,531
Total	100.00%	\$ 65,485,673	100.00%	\$ 68,027,756

The decreases of the rental and recoveries revenue and property and intangible net book value in Saskatchewan were due to the sales of the 44<sup>th</sup> Street and 225 Quebec Street properties. There were no significant changes in other provinces.

**FINANCIAL CONDITION**

**Assets**

**Income Producing Properties**

On January 1, 2009 and June 1, 2009, PIRET sold two properties, which were part of the Shanahan's portfolio.

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 - 44th St.*	Saskatoon, SK	12/20/2007	482,000	343,000	100%
Shanahan's - 225 Quebec St.*	Regina, SK	12/20/2007	490,000	318,500	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%
<b>Total</b>			<b>\$ 69,517,000</b>	<b>\$ 43,701,737</b>	

\*44<sup>th</sup> Street was sold in January 2009 and 225 Quebec Street was sold in June 2009.

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.

**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 \$692,521 as at December 31, 2009 (December 31, 2008 - \$391,110).

**FINANCIAL CONDITION (continued)**

**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 December 31, 2009, the term for the current mortgage reserve fund is less than 6.5 years. The amortized cost of the mortgage reserve fund is \$242,568 as at December 31, 2009 (December 31, 2008 - \$670,496). In October 2008, Canadian Western Bank released \$135,000 from the mortgage reserve fund after PIRET met the required conditions. In January and March 2009, Canadian Western Bank released an additional \$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 December 31, 2009 (December 31, 2008 – 60%).

**Mortgages Payable**

PIRET repaid the mortgage on 44<sup>th</sup> Street in January 2009 and the mortgage on 225 Quebec Street in June 2009. The mortgages bear interest at a weighted average rate of 5.56% as at December 31, 2009 (December 31, 2008 – 5.54%) and mature between 2010 and 2016.

Future principal mortgage payments are as follows:

Years ending December 31:	
2010	\$ 1,645,449
2011	15,089,721
2012	7,670,683
2013	414,547
2014	438,370
Thereafter	15,802,330
	<b>\$ 41,061,100</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 December 31, 2009, Sunstone Industrial advanced \$118,836 to PIRET. From January 1 to December 31, 2008, Sunstone Industrial advanced \$79,224 to PIRET.

**Equity**

Unitholders' equity is \$24,490,467 as at December 31, 2009 (December 31, 2008 - \$25,475,741).

**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.

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 the financial performance that is not immediately apparent from net income determined in accordance with GAAP.

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

	Year ended December 31		Three months ended December 31	
	2009	2008	2009	2008
Net earnings and comprehensive income	\$ 1,391,441	\$ 1,098,378	\$ 309,484	\$ 215,277
Adjustment:				
Amortization of intangible assets	297,574	358,618	73,923	121,560
Amortization of income producing properties	1,293,732	1,313,358	322,027	371,177
(Gain) loss on disposal of properties	(135,832)	—	124	—
<b>Funds from operations</b>	<b>2,846,915</b>	<b>2,770,354</b>	<b>705,558</b>	<b>708,014</b>
Weighted average number of units				
Trust units	7,526,263	7,522,721	7,526,263	7,526,263
Subordinated units	278,947	278,947	278,947	278,947
Diluted weighted average number of units				
Trust units	7,526,263	7,522,721	7,526,263	7,526,263
Subordinated units	278,947	278,947	278,947	278,947
Funds from operations per unit - Basic				
Trust units (95%)	\$ 0.359	\$ 0.350	\$ 0.089	\$ 0.089
Subordinated units (5%)	0.510	0.497	0.126	0.127
Funds from operations per unit - Diluted				
Trust units (95%)	\$ 0.359	\$ 0.350	\$ 0.089	\$ 0.089
Subordinated units (5%)	0.510	0.497	0.126	0.127

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

**Funds from Operations (continued)**

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

	Year ended December 31		Three months ended December 31	
	2009	2008	2009	2008
Funds from operations	\$ 2,846,915	\$2,770,354	\$ 705,558	\$ 708,014
Amortization of discount on mortgage reserve fund	(12,072)	(21,874)	(2,172)	(5,566)
Increase in amounts receivable	(305,244)	(232,614)	(77,867)	(98,305)
(Increase) decrease in prepaid expenses	(11,737)	6,696	179,242	201,409
(Increase) decrease in rental deposits	–	16,304	–	(12,624)
Decrease in accounts payable and accrued liabilities	(97,172)	(973,905)	(164,169)	(130,618)
Cash provided by operating activities	\$ 2,420,690	\$1,564,961	\$ 640,592	\$ 662,310

**Capital Resources**

The cash collected from issuing trust units and subordinated units in 2007 and January 2008 and cash generated by income producing properties represent the primary source of funds to fund total distributions to unitholders of \$2,376,715 from January 1 to December 31, 2009 and \$2,376,715 from January 1 to December 31, 2008.

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

	Year ended December 31		Three months ended December 31	
	2009	2008	2009	2008
Cash provided by operating activities	\$ 2,420,690	\$1,564,961	\$ 640,592	\$ 662,310
Net earnings	1,391,441	1,098,378	309,484	215,277
Actual cash distribution paid or payable	2,376,715	2,376,715	594,179	594,179
Shortfall of cash provided by operating activities over cash distribution paid	43,975	(811,754)	46,413	68,131
Shortfall of net earnings over cash distributions paid	(985,274)	(1,278,337)	(284,695)	(378,902)

For the year ended December 31, 2008, cash provided by operations was less than cash distributions paid or payable, which was mainly due to the repayment of advances from related parties in January 2008. For the year ended December 31, 2009, cash provided by operations was more than cash distributions. 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.

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

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

**Capital Resources (continued)**

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

**CAPITAL STRUCTURE**

The Trust defines capital as the aggregate of unitholders’ equity and long-term debt. The Trust’s objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Trust Declaration, complies with existing debt covenants, funds its business strategies and builds long-term 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 December 31, 2009 (December 31, 2008 – 60%).

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

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 December 31, 2009 (January 1 to December 31, 2008 - \$0.025 per unit per month).

The Trust is in compliance with all restrictions during the years ended December 31, 2009 and December 31, 2008.

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

	December 31, 2009	December 31, 2008	Change
Capital			
Mortgages payable	\$ 41,061,100	\$ 42,652,870	\$ (1,591,770)
Notes payable	221,810	102,974	118,836
Unitholders' equity	24,490,467	25,475,741	(985,274)
<b>Total Capital</b>	<b>\$ 65,773,377</b>	<b>\$ 68,231,585</b>	<b>\$ (2,458,208)</b>

The total capital of PIRET decreased due to the repayment of mortgage principal and distributions to trust unitholders, offset by net earnings during 2009.

## 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 demand note, 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.

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage reserve fund	\$ 242,568	\$ 215,050	\$ 670,496	\$ 624,903
Mortgages payable	41,061,100	41,164,547	42,652,870	47,649,360
Notes payable	221,810	221,810	102,974	100,993

## OFF-BALANCE SHEET ITEMS

PIRET does not have any off-balance sheet items.

## SECTION III

### SUMMARY OF QUARTERLY RESULTS

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 net earnings per unit				
Trust units	0.04	0.04	0.04	0.06
Subordinated units	0.06	0.06	0.06	0.08
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

During the first quarter of 2009, PIRET sold its interest in 509 – 44<sup>th</sup> Street, Saskatoon, SK, for \$625,000 less standard closing costs and adjustments, which resulted in a gain of \$103,964. During the second quarter of 2009, PIRET sold its interest in 225 Quebec Street, Regina, SK, for \$588,000 less standard closing costs and adjustments, which resulted in a gain of \$31,868. PIRET earned rental revenue from 16 properties instead of 18, which resulted in net operating earnings decreasing by 8% during the three month period ended December 31, 2009 compared to the three month period ended December 31, 2008. During the same periods, non-recoverable expenses also decreased partly due to lower amortization on buildings and intangible assets, and partly due to lower mortgage interest expenses.

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

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

## **SUMMARY OF QUARTERLY RESULTS (continued)**

Total income producing properties and intangible assets decreased in the year ended December 31, 2009 due to the sale of 44<sup>th</sup> Street in January 2009 and the sale of 225 Quebec Street in June 2009. The amortization on buildings and intangible assets also decreased accordingly during the same period. The Trust replaced the HVAC system at 90 Park Lane at a cost of \$16,965 during the three months ended March 31, 2009. During the first quarter of 2009, the lender released \$140,000 from the mortgage reserve fund to PIRET; during the third quarter of 2009, the lender released an additional \$300,000 from the mortgage reserve fund to PIRET. Amounts receivable increased significantly mainly due to the increase of accrued straight-line rent receivables during the year ended December 31, 2009. Total liabilities decreased during the year ended December 31, 2009 compared with the liabilities in the prior year due in most part to the repayment of mortgages payable, including the mortgage repayment in the amount of \$334,394 on 44<sup>th</sup> Street upon the sale of the property on January 1, 2009 and the mortgage repayment in the amount of \$306,751 on 225 Quebec Street upon the sale of the property on June 1, 2009. In August 2009, PIRET repaid \$100,000 of the demand loan plus accrued interest to Sunstone Realty Advisors (2005) Inc.

## **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 December 31, 2009 and 2008 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 years ended December 31, 2009 and 2008, 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.

#### **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**

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

## **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. The financial reporting impact of adopting these sections are not known until PIRET has any business combinations in the future.

### **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 rentals 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. Unlike Canadian GAAP, IFRS requires that an entity choose either the cost model or fair value model to account for its investment properties.

(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.

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

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

#### *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 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.

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.

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

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

#### 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 required rental revenue to be recognized on a straight-line basis prospectively commencing on January 1, 2004.

PIRET is currently in the process of valuating the potential impact of IFRS on its financial statements. This will be an ongoing process as the IASB and the AcSB continued to issue new standards and recommendations and as the Canadian accounting profession interprets those standards and recommendations.

## **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 December 31, 2009, trade receivables in the amount of \$692 were 30 days past due. Current receivables only totaled \$4,754 (2008 - \$Nil) due to the tenant year-end reconciliations and will be collected during the next few months.

**RISKS AND UNCERTAINTIES (continued)**

**Reliance on Single Tenant and Tenant Concentration Risk**

PIRET's properties are single tenant properties. As at December 31, 2009, Team Tube / Encore Metals tenants generated 35% (2008 – 30%) of total rental revenue, the Shanahan's portfolio generated 23% (2008 – 24%) of total rental revenue and Mabe generated 21% (2008 – 21%) 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 4 years represent 18% of total square footage. However, 100% of the leases expiring over the next 4 years have at least one renewal option for another 5 years.

In October 2008, a new tenant replaced the old tenant at 9203 – 35 Ave, Edmonton, AB, at a higher rental rate with a 5-year lease and one renewal option for another 5 years.

The following table illustrates as at December 31, 2009 the staggered nature of the lease termination dates of the Trust's current property portfolio, thereby minimizing the Trust's exposure to lease terminations and increasing the stability of the cash flow. The average remaining weighted lease term is approximately 8 years. The average weighted rent in place is approximately \$6.50 per sq. ft.

Property Address	Tenant	Lease Details	Lease Expiry
130 Harry Walker Parkway Newmarket, ON	Eurospec Manufacturing Inc.	Dec. 14/07 to Dec. 31/12 - \$520,333 Jan. 1/13 to Dec. 31/17 - \$568,431 Jan. 1/18 to Dec. 31/19 - \$599,039	Dec. 31/2019
1601 Dickson St. Montreal, QC	Mabe Canada Inc.	Feb. 23/06 to Feb. 28/07 - \$956,756 Mar. 1/07 to Feb. 28/11 - \$941,274 Mar. 1/11 to Feb. 29/16 - \$1,028,473	Feb. 29, 2016
75 Golden Drive Coquitlam, BC	Reliance Metals Canada Inc.	Apr. 1/06 to Mar. 31/11 - \$130,890 Apr. 1/11 to Mar. 31/16 - \$143,979 Apr. 1/16 to Mar. 31/21 - \$158,377	Mar. 31, 2021
8055 Esquesing Line Milton, ON	Reliance Metals Canada Inc.	Apr. 1/06 to Mar. 31/11 - \$192,153 Apr. 1/11 to Mar. 31/16 - \$211,368 Apr. 1/16 to Mar. 31/21 - \$232,505	Mar. 31, 2021
333 DeBaets St. Winnipeg, MB	RSAC Canada Limited	Feb. 1/02 to Jan. 31/07 - \$208,200 Feb. 1/07 to Jan. 31/12 - \$233,184 Feb. 1/12 to Jan. 31/17 - \$261,166	Jan. 31, 2017

**RISKS AND UNCERTAINTIES (continued)****Lease Rollover Risk (continued)**

<b>Property Address</b>	<b>Tenant</b>	<b>Lease Details</b>	<b>Lease Expiry</b>
1390 – 17th Ave. SE Calgary, AB	Samuel Son & Co., Limited	Jan. 1/08 to Mar. 31/08 - \$ 40,375 Apr. 1/08 to Mar. 31/11 - \$161,500 Apr. 1/11 to Mar. 31/16 - \$177,650 Apr. 1/16 to Mar. 31/21 - \$195,415	Mar. 31, 2021
1401 – 17th Ave. SE Calgary, AB	Samuel Son & Co., Limited	Jan. 1/08 to Mar. 31/08 - \$ 41,246 Apr. 1/08 to Mar. 31/11 - \$164,985 Apr. 1/11 to Mar. 31/16 - \$181,484 Apr. 1/16 to Mar. 31/21 - \$199,632	Mar. 31, 2021
7470 Vantage Way Delta, BC	RSAC Canada Limited	Apr. 1/06 to Mar. 31/11 - \$413,881 Apr. 1/11 to Mar. 31/16 - \$455,269 Apr. 1/16 to Mar. 31/21 - \$500,796	Mar. 31, 2021
7805 – 51st St. SE Calgary, AB	RSAC Canada Limited	Apr. 1/06 to Mar. 31/11 - \$199,665 Apr. 1/11 to Mar. 31/16 - \$219,631 Apr. 1/16 to Mar. 31/21 - \$241,595	Mar. 31, 2021
9203 – 35th Ave. NW Edmonton, AB	Rig Spec Welding and Fabrication Ltd.	Oct. 1/08 to Sep. 30/13 - \$173,558	Sep. 30, 2013
13325 Comber Way Surrey, BC	RSAC Canada Limited	Apr. 1/06 to Mar. 31/11 - \$233,550 Apr. 1/11 to Mar. 31/16 - \$256,905 Apr. 1/16 to Mar. 31/21 - \$282,595	Mar. 31, 2021
90 Park Lane, Winnipeg, MB	Shanahan's Limited Partnership	Oct. 31/07 to Oct. 30/12 - \$89,218	Oct. 30, 2012
2705 - 2737 57th Ave. SE	Shanahan's Limited Partnership	Oct. 31/07 to Nov. 29/10 - \$571,200 Nov. 30/10 to Oct. 30/15 - \$598,400 Oct. 31/15 to Oct. 31/20 - \$625,600	Oct. 31, 2020
2808 – 58th Ave. SE Calgary, AB	Shanahan's Limited Partnership	Oct. 31/07 to Oct. 30/12 - \$337,540	Oct. 30, 2012
16295 – 132nd Ave. Edmonton, AB	Shanahan's Limited Partnership	Oct. 31/07 to Oct. 30/12 - \$250,919	Oct. 30, 2012
4907 – 32nd Street SE Calgary, AB	Tornado Technologies Inc.	Nov. 20/07 to Nov. 19/12 - \$350,000	Nov. 19, 2012

**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 December 31, 2009 or December 31, 2008.

**RISKS AND UNCERTAINTIES (continued)**

**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.

**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:

			December 31, 2009	December 31, 2008
MORTGAGES PAYABLE	Nominal interest rate	Year of maturity	Carrying value	
Mabe	5.677%	2016	\$ 8,092,176	\$ 8,223,806
Team Tube	5.480%	2011	13,206,740	13,527,298
De Baets	5.500%	2011	1,625,296	1,663,369
Tornado	5.670%	2012	2,636,089	2,717,299
Eurospec	5.382%	2015	4,614,480	4,713,627
Shanahan's 57th	5.926%	2018	5,061,912	5,162,669
Shanahan's portfolio - AB	5.754%	2012	5,158,535	5,314,027
Shanahan's portfolio – MB and SK	6.000%	2009*	665,872	1,330,775
<b>Total mortgages payable</b>			<b>\$ 41,061,100</b>	<b>\$ 42,652,870</b>

\*PIRET intends to refinance the mortgages when they mature. In December 2008, PIRET renewed two mortgages secured by 90 Park Lane and 225 Quebec Street for another year at a lower interest rate of 6% per annum (the original mortgages bore interest at 6.14%). The mortgages on 44<sup>th</sup> Street and 225 Quebec Street were paid off upon the sale of the properties in 2009.

**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.

<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

<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	\$ —	\$ —	\$ —

In December 2008, Sunstone Realty Advisors (2006) Inc. advanced \$65,000 for general expenditures. This amount was included in accounts payable and accrued liabilities at December 31, 2008. The amount was non interest-bearing and due on demand, was repaid in January 2009.

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).

## RELATED PARTY TRANSACTIONS (continued)

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 is still outstanding as at December 31, 2009. The balance is non interest-bearing, due on demand.

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 years ended December 31, 2009 and December 31, 2008, Sunstone Management did not charge PIRET pursuant to the Asset Management Agreement.

## OUTSTANDING UNIT DATA

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

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

Upon completion of the offerings and exercise of 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.

As at December 31, 2009, the total number of trust units outstanding was 7,526,263 (December 31, 2008 - 7,526,263) and the total number of subordinated units outstanding was 278,947 (December 31, 2008 – 278,947).

As at the date of this MD&A, the total number of trust units outstanding was 7,526,263 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.** As at December 31, 2009, the Trust has issued a total of 82,382 restricted units and 10,788 related distribution restricted units. The purposes of the Plan are to:

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

## SECTION VI

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The acting President undertook an assessment under his direct supervision of the design of PIRET's internal controls over financial reporting as at December 31, 2009, 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

2009 was a year of extremes for many Canadian real estate investment trusts as the financial and real estate markets experienced sudden and dramatic shifts.

From January until the end of August 2009, worries of a total financial collapse and widespread economic malaise resulted in a dramatic decrease in the number of real estate asset transactions that occurred, while Canadian equity capital markets went into survival mode, causing real estate equity offerings and IPO's to go into hibernation mode.

A shift in the mortgage lending landscape caused many lenders to abandon their conduit and higher leveraged mortgage lending, and caused a tightening of lending criteria that resulted in a return to conservative and increasingly risk-averse lending patterns.

The final quarter of 2009 showcased the return of the Canadian equity markets as some Canadian REITs launched sizable equity offerings. Investors returned to the markets in search of higher yielding investment products, and investors' general perception of the economy, the investment landscape and the REIT markets improved substantially.

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; 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 percent 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 that raised \$21.6 million in February 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 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. As at this report, PIRET had drawn down \$250,000.

On February 25, 2010, PIRET announced the closing of a bought deal private placement for 7.2 million trust units priced at \$3.00 per Unit, for total gross proceeds of \$21.6 million. PIRET will use the net proceeds from the private placement to fund the acquisition of the three income producing industrial properties.

On March 4, 2010, PIRET purchased two assets for a total purchase price of \$39.3 million. These two industrial properties add a total of 192,791 square feet to PIRET's portfolio. The properties are located in strong industrial nodes of Calgary, Alberta and Richmond, British Columbia.

234040 Wrangler Road is a 22 acre industrial property in southeast Calgary, Alberta consisting of a state of the art cross dock and truck maintenance facility representing 125,280 square feet of leasable space. The cross dock facility features 98 truck level doors and the maintenance facility consists of 14 grade level doors. The property was acquired for \$32 million which represents a going-in capitalization rate of approximately 7.98%. The property is leased to TransForce Administration Inc., a subsidiary of TransForce Inc. which is publicly traded on the Toronto Stock Exchange. The lease will mature in 2035. The purchase was financed with cash and a new five-year mortgage of \$20.8 million bearing interest at a rate of 4.95% per annum.

3500 Viking Way is a three acre light industrial property located in Richmond, British Columbia. The property was acquired for \$7.3 million which represents a going-in capitalization rate of approximately 7.24%. The property was originally built in 1980, added a warehouse in 2006 to increase capacity to its current size of 67,511 square feet, and was substantially renovated and updated in 2008. PIRET funded the Viking Way acquisition with cash on hand and a new seven-year first mortgage on the property in the amount of \$4,745,000, bearing interest at a rate of 5.16% per annum.

On March 5, 2010, PIRET repaid \$125,000 of the demand note plus all interest accrued to that date to Sunstone Realty Advisors (2005) Inc. On the same date, PIRET repaid \$49,000 to Sunstone Industrial Investment Inc. and repaid \$27,000 to Sunstone Realty Advisors (2007) Inc. As at March 5, 2010, PIRET did not owe any money to related parties.

## 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).