



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

**For the period ended March 31, 2009**

**Dated: May 12, 2009**

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## SECTION I

### FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis of the financial position and the results of operations of Pure Industrial Real Estate Trust (the "Trust" or "PIRET") for the period ended March 31, 2009 should be read in conjunction with PIRET's unaudited financial statements for the period ended March 31, 2009 and audited financial statements for the year ended December 31, 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, PIRET's 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 May 12, 2009 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 August 22, 2007, PIRET purchased ten properties for a total of \$40,345,000 plus standard closing costs and adjustments. On November 19, 2007, PIRET acquired 4907 – 32<sup>nd</sup> Ave, Calgary, AB, (“Tornado”) for \$3,900,000 plus standard closing costs and adjustments. On December 14, 2007, PIRET acquired 130 Harry Walker Parkway, Newmarket, ON, (“Eurospec”) for \$6,900,000 plus standard closing costs and adjustments. On December 20, 2007, PIRET purchased 2705 – 2737 57<sup>th</sup> Ave, Calgary, AB, (“57<sup>th</sup> Ave”) and five properties from the Shanahan’s portfolio (“Shanahan’s portfolio”) for a total of \$18,372,000 plus standard closing costs and adjustments. The occupancy rate is 100% for all properties and the lease terms are between five and fourteen years.

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 Shanahan’s portfolio) for \$625,000 less standing closing costs and adjustments. PIRET paid off the mortgage on the property at the same time.

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

Province	Number of Buildings	Gross leasable area (Sq.ft.)
Alberta	8	346,858
British Columbia	3	112,783
Manitoba	2	52,171
Ontario	2	117,742
Quebec	1	164,525
Saskatchewan	1	8,100
<b>Total</b>	<b>17</b>	<b>802,179</b>

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

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

**SECTION II**

**RESULTS OF OPERATIONS**

<b>Three months ended March 31</b>	<b>2009</b>	<b>2008</b>
<b>REVENUES</b>		
Rental and recoveries	\$ 1,716,271	\$ 1,727,579
Interest and other	19,045	34,167
	<b>1,735,316</b>	1,761,746
<b>PROPERTY RECOVERABLE OPERATING EXPENSES</b>		
Insurance	14,636	26,867
Management fees	9,594	9,682
Recoverable operating costs	–	451
Taxes	337,777	332,128
	<b>362,007</b>	369,128
<b>EARNINGS BEFORE THE UNDERNOTED</b>	<b>1,373,309</b>	1,392,618
<b>NON-RECOVERABLE EXPENSES</b>		
Amortization	400,341	392,976
Mortgage interest	583,695	604,512
Mortgage transaction costs	–	13,183
General and administrative expenses	51,150	83,475
Interest expenses on demand loan	2,635	–
	<b>1,037,821</b>	1,094,146
<b>INCOME BEFORE THE DISPOSITION</b>	<b>335,488</b>	298,472
Gain on disposal of property	103,964	–
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>\$ 439,452</b>	\$ 298,472
Basic net earnings per unit		
Trust units (7,526,263 units / 7,512,016 units)	\$ 0.055	\$ 0.038
Subordinated units (278,947 units)	0.079	0.053
Diluted net earnings per unit		
Trust units (7,526,263 units / 7,512,016 units)	0.055	0.038
Subordinated units (278,947 units)	0.079	0.053

During the period ended March 31, 2009, PIRET earned net income of \$439,452, which included regular net income of \$335,488 from 17 properties and a gain on disposition of \$103,964 from one property, with an indebtedness ratio of 60% and a distribution payout ratio of 78%. 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 13, 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 sale of 44<sup>th</sup> Street, both the rental revenue and recoverable expenses decreased slightly. The net operating income decreased by 1.4% during the three months ended March 31, 2009 compared with the net operating income during the three months ended March 31, 2008. Income producing properties, intangible assets, related amortizations and mortgages payable also decreased accordingly.

**Rental and Recoveries Revenue**

Rental 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 Income**

Interest revenue was earned on the funds which were received from the equity raised in August 2007, September 2007, December 2007 and January 2008 that had not been fully deployed. Interest revenue was also earned from bank deposits at 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	January 1 to March 31, 2009	January 1 to December 31, 2008
Insurance	4.04%	4.36%
Management fees	2.65%	2.69%
Recoverable operating costs	0.00%	0.30%
Taxes	93.31%	92.65%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**Amortization of Intangible Assets**

Amortization of intangible assets is \$75,052 for the period ended March 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 \$325,289 for the period ended March 31, 2009 (2008 - \$1,313,358). This expense will increase as more income producing properties are purchased, but will decrease as more income producing properties are sold.

**Mortgage Interest Expense**

As at March 31, 2009, the weighted average interest rate on the mortgages is 5.58% per annum (December 31, 2008 – 5.54%) and the mortgages mature between 2009 and 2016 with a weighted average mortgage term of 4.54 years (December 31, 2008 – 4.79 years). In December 2008, PIRET renewed 2 mortgages with Canadian Western Bank for the Saskatchewan and Manitoba locations in the Shanahan’s portfolio. The renewed mortgages bear interest at 6% per annum and will mature in December 2009. On January 1, 2009, PIRET paid off the mortgage on 44<sup>th</sup> Street in the amount of \$334,394.

**Mortgage Transaction Costs**

Mortgage transaction costs in the amount of \$nil (2008 – \$25,979) were related to the lender’s legal 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 period ended March 31, 2009, total trust expenses amounted to 3% of rental revenue (for the year ended December 31, 2008 – 3%) and are included in general and administration expenses. PIRET usually has higher legal and filing fees for periods ending March 31 due to the year-end and annual information filing requirements. Trust expenses decreased by 36% during the period ended March 31, 2009 compared with that during the period ended March 31, 2008.

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

Trust expenses	January 1 to March 31, 2009	January 1 to March 31, 2008	January 1 to December 31, 2008
Insurance	13.48%	9.06%	15.88%
Professional fees	14.44%	19.52%	33.39%
Legal and filing fees	66.69%	71.18%	47.51%
Trust expenses of rental revenue	3.03%	4.71%	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 period, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the period to trust unitholders. The Trustees intend to distribute all taxable income to unitholders and to deduct such distribution for Canadian income tax purposes. Therefore, no provision for income taxes is required on income earned by the Trust.

**USE OF PROCEEDS FROM DECEMBER 2007 OFFERING**

Description	Use of Proceeds Projected in Prospectus	Actual Use of Proceeds from IPO
Gross proceeds from issuance of units	\$ 8,170,000	\$ 8,170,000
Gross proceeds from issuance of units under over-allotment option	—	289,799
Gross proceeds from issuance of subordinated units	—	—
Total gross proceeds <sup>(1)</sup>	8,170,000	8,459,799
Offering costs <sup>(2)</sup>	(771,900)	(1,219,509)
Net proceeds	7,398,100	7,240,290
Targeted properties purchase price	29,279,000	29,172,000
Acquisition costs (legal fees)	—	412,290
Mortgages assumed <sup>(3)</sup>	(19,505,000)	(19,675,000)
Net proceeds used in acquisition of targeted properties	9,774,000	9,909,290
Cash available after acquisition of targeted properties	(2,375,900)	(2,669,000)

(1) The total gross proceeds from the offering of units under the prospectus dated December 12, 2007 exceeded the projected gross proceeds by \$289,799 as a result of the Agents exercising the over-allotment option in respect of 76,263 units at a price of \$3.80 per unit.

**USE OF PROCEEDS FROM DECEMBER 2007 OFFERING (continued)**

(2) The actual offering costs exceeded the projected offering costs by \$447,609 as a result of additional sales fees payable to the Agents in respect of the units acquired under the over-allotment option, and additional legal, printing, and due diligence costs associated with the offering under the prospectus and the closing of the over-allotment option.

(3) The amount outstanding under the mortgages of the targeted properties assumed by PIRET upon completion of the acquisition of the targeted properties was \$170,000 more than projected as a result of PIRET negotiating better than expected mortgage terms.

(4) PIRET used the cash on hand in the amount of \$2.5 million and borrowed \$225,000 by way of the demand loan from a related party to complete the acquisition of the targeted properties (please refer to the section titled Related Party Transactions).

The variances noted in notes 1, 2, 3 and 4 above did not impact PIRET's ability to achieve its business objectives and milestones.

**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.

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, 2009, PIRET either announced it would distribute or distributed \$564,470 (from January 1 to December 31, 2008 - \$2,257,879) to trust unitholders and \$29,709 (from January 1 to December 31, 2008 - \$118,836) to subordinated unitholders, which represents 78% (from January 1 to December 31, 2008 - 83%) of DI. The lower payout ratio was due to the gain on disposal of income producing property.

**DISTRIBUTABLE INCOME (continued)**

<b>Three months ended March 31</b>	<b>2009</b>	<b>2008</b>
Cash flow from operations	\$ 577,815	\$ (439,922)
Adjustment:		
Changes in non-cash operating working capital	152,383	1,125,997
Advances (repayment) on subordinated notes	29,709	—
Mortgage transaction costs	—	13,183
<b>Distributable Income</b>	<b>759,907</b>	<b>699,258</b>
Trust units (95% of DI)	<b>721,912</b>	<b>664,295</b>
Subordinated units (5% of DI)	<b>37,995</b>	<b>34,963</b>
<b>Distributions to Unitholders</b>		
Trust units (95% of Distribution)	<b>564,470</b>	564,470
Subordinated units (5% of Distribution)	<b>29,709</b>	29,709
Total distributions paid	<b>594,179</b>	594,179
<b>Total distributions paid as a % of Distributable Income</b>	<b>78.19%</b>	84.97%
Weighted average number of units		
Trust units	<b>7,526,263</b>	7,512,016
Subordinated units	<b>278,947</b>	278,947
Diluted weighted average number of units		
Trust units	<b>7,526,263</b>	7,512,016
Subordinated units	<b>278,947</b>	278,947
Basic DI per unit		
Trust units (95% of DI)	\$ 0.096	\$ 0.088
Subordinated units (5% of DI)	<b>0.136</b>	0.125
Diluted DI per unit		
Trust units (95% of DI)	\$ 0.096	\$ 0.088
Subordinated units (5% of DI)	<b>0.136</b>	0.125
Distributions paid per unit		
Trust units (95% of Distribution)	\$ 0.075	\$ 0.075
Subordinated units (5% of Distribution)	<b>0.107</b>	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 distorts the Trust's quarter-to-quarter distributable cash and payout ratios, as non-cash operating working capital fluctuates.

**STANDARDIZED DISTRIBUTABLE CASH**

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

Three months ended March 31	2009	2008
Distributable income	\$ 759,907	\$ 699,258
Advances on subordinated notes	(29,709)	—
Mortgage transaction costs	—	(13,183)
(Increase) decrease in amounts receivable	(82,977)	3,946
Increase in prepaid expenses	(126,894)	(116,139)
Decrease in rental deposit	—	(2,168)
Increase (decrease) in accounts payable and accrued liabilities	57,488	(1,011,636)
<b>Standardized Distributable Cash</b>	<b>\$ 577,815</b>	<b>\$ (439,922)</b>

**SEGMENTED INFORMATION**

PIRET invests in industrial income producing properties in Canada only. Currently, there are seventeen properties located in six provinces. The following table shows the percentage of rental and recoveries revenue from each province for the period ended March 31, 2009.

	March 31, 2009		March 31, 2008	
	Percentage	Amount	Percentage	Amount
Rental and recoveries income				
Alberta	39.91%	\$ 684,772	38.56%	\$ 666,175
British Columbia	15.81%	271,394	15.51%	267,865
Manitoba	6.29%	108,035	6.28%	108,475
Ontario	14.87%	255,291	15.37%	265,526
Quebec	22.17%	380,541	22.27%	384,703
Saskatchewan	0.95%	16,238	2.01%	34,835
<b>Total</b>	<b>100.00%</b>	<b>\$ 1,716,271</b>	<b>100.00%</b>	<b>\$ 1,727,579</b>

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

	March 31, 2009		December 31, 2008	
	Percentage	Amount	Percentage	Amount
Property net book value				
Alberta	43.36%	\$ 29,123,044	43.08%	\$ 29,308,097
British Columbia	17.46%	11,728,982	17.31%	11,777,071
Manitoba	5.33%	3,582,053	5.28%	3,594,301
Ontario	13.94%	9,360,514	13.84%	9,415,302
Quebec	19.18%	12,878,930	19.05%	12,957,454
Saskatchewan	0.73%	487,578	1.44%	975,531
<b>Total</b>	<b>100.00%</b>	<b>\$ 67,161,101</b>	<b>100.00%</b>	<b>\$ 68,027,756</b>

The decrease of the rental and recoveries and property net book value in Saskatchewan were due to the sale of 44<sup>th</sup> Street in Saskatchewan. There were no significant changes in other provinces.

**FINANCIAL CONDITION**

**Assets**

**Income Producing Properties**

The Trust acquired ten income producing properties on August 22, 2007, with funds from the proceeds of issuance of trust units and the assumption of mortgages from the vendor. On November 19, 2007, PIRET purchased one property with cash and a new mortgage. On December 14, 2007, the Trust acquired one property with cash and a new mortgage. On December 20, 2007, PIRET acquired six properties with the funds from the proceeds of issuance of trust units and new mortgages. On January 1, 2009, PIRET sold one property, which was 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>	

\*The property was sold in January 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 by rent received from each property first.

**Accrued Rent Receivable**

Certain leases call for rental payments that increase over their terms. Accrued rent receivable records the rental revenue from these leases on a straight-line basis, resulting in accruals for rents that are not billable or due until future years. Accrued rent receivable is \$466,463 as at December 31, 2008 (December 31, 2008 - \$391,110).

**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 March 31, 2009, the term for the current mortgage reserve fund is between 3 months and 7.5 years. The amortized cost of the mortgage reserve fund is \$536,126 as at March 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.

*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 60% of the gross book value as at March 31, 2009 (December 31, 2008 – 60%).

**Mortgages Payable**

The Trust assumed \$24 million in mortgages payable from the vendor on the acquisition of ten properties on August 22, 2007. PIRET received new mortgages of \$19,675,000 on the acquisition of an additional eight properties from November to December 2007. PIRET paid off the mortgage on 44<sup>th</sup> Street in January 2009. The mortgages bear interest at a weighted average rate of 5.58% as at March 31, 2009 (December 31, 2008 – 5.54%) and mature between 2009 and 2016.

Future principal mortgage payments are as follows:

Years ending December 31:		
2009 remaining balance	\$	1,684,879
2010		979,577
2011		15,089,721
2012		7,670,683
2013		414,547
Thereafter		16,240,700
	<b>\$</b>	<b>42,080,107</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 March 31, 2009, Sunstone Industrial advanced \$29,709 to PIRET. From January 1 to December 31, 2008, Sunstone Industrial advanced \$79,224 to PIRET. From October to December 2007, Sunstone Industrial advanced \$23,750 to PIRET, the same amount as the distribution to subordinated units for the same period.

**Equity**

Unitholders' equity is \$25,321,014 as at March 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.

Three months ended March 31	2009	2008
Net earnings	\$ 439,452	\$ 298,472
Adjustment:		
Amortization of intangible assets	75,052	79,019
Depreciation of income producing properties	325,289	313,957
Gains on disposition of assets	(103,964)	—
<b>Funds from operations</b>	<b>735,829</b>	<b>691,448</b>
Weighted average number of units		
Trust units	7,526,263	7,512,016
Subordinated units	278,947	278,947
Diluted weighted average number of units		
Trust units	7,526,263	7,512,016
Subordinated units	278,947	278,947
Funds from operations per unit - Basic		
Trust units (95%)	\$ 0.093	\$ 0.087
Subordinated units (5%)	0.132	0.124
Funds from operations per unit - Diluted		
Trust units (95%)	\$ 0.093	\$ 0.087
Subordinated units (5%)	0.132	0.124

**Funds from Operations (continued)**

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

Three months ended March 31	2009	2008
Funds from operations	\$ 735,829	\$ 691,448
Amortization of discount on mortgage reserve fund	(5,631)	(5,373)
(Increase) decrease in amounts receivable	(82,977)	3,946
Increase in prepaid expenses	(126,894)	(116,139)
Decrease in rental deposit	—	(2,168)
Increase (decrease) in accounts payable and accrued liabilities	57,488	(1,011,636)
Cash provided by (used in) operating activities	\$ 577,815	\$ (439,922)

**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 \$594,179 from January 1 to March 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.

Three months ended March 31	2009	2008
Cash provided by operating activities	\$ 577,815	\$ (439,922)
Net earnings	439,452	298,472
Actual cash distribution paid or payable	594,179	594,179
Shortfall of cash provided by operating activities over cash distribution paid	(16,364)	(1,034,101)
Shortfall of net earnings over cash distributions paid	(154,727)	(295,707)

For the year ended December 31, 2008, cash provided by operations was less than cash distributions, which was mainly due to the repayment of advances from related parties in January 2008. In future years, management expects that cash provided by operations will exceed cash distributions. 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.

For the period from January 1 to March 31, 2009, cash provided by operations was less than cash distributions.

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

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

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

## **CAPITAL STRUCTURE**

The Trust defines capital as the aggregate of unitholders' equity and long-term debt. The Trust's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Trust Declaration; complies with existing debt covenants; funds its business strategies; and builds long-term unitholder value. The Trust's capital structure is approved by its unitholders as related to the Trust's Declaration and by its board of trustees through its periodic reviews. Capital adequacy is monitored by the Trust by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants.

The Trust Declaration provides for a maximum indebtedness level of up to 70% of the gross book value. The term "indebtedness" means any obligation of the Trust for borrowed money (including the face amount outstanding under any convertible debentures and any outstanding liabilities of the Trust arising from the issuance of subordinated notes but excluding any premium in respect of indebtedness assumed by the Trust for which the Trust has the benefit of an interest rate subsidy), but excludes trade accounts payable, distributions payable to unitholders, accrued liabilities arising in the ordinary course of business and short-term acquisition credit facilities. The Trust Declaration defines "gross book value" as the book value of the assets of the Trust plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets), the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by the Trust. The Trust's indebtedness is 60% as at March 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 March 31, 2009 (January 1 to December 31, 2008 - \$0.025 per unit per month).

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

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

	March 31, 2009	December 31, 2008	Change
Capital			
Mortgages payable	\$ 42,080,107	\$ 42,652,870	\$ (572,763)
Notes payable	132,683	102,974	29,709
Unitholders' equity	25,321,014	25,475,741	(154,727)
<b>Total Capital</b>	<b>\$ 67,533,804</b>	<b>\$ 68,231,585</b>	<b>\$ (697,781)</b>

The total capital of PIRET decreased slightly due to the repayment of mortgage principal and distributions to trust unitholders, but was offset by the 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 loan, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

**FINANCIAL INSTRUMENTS (continued)**

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.

	<b>March 31, 2009</b>		December 31, 2008	
	<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Mortgage reserve fund	\$ 536,126	\$ 503,696	\$ 670,496	\$ 624,903
Mortgages payable	<b>42,080,107</b>	<b>42,159,644</b>	42,652,870	47,649,360
Notes payable	<b>132,683</b>	<b>132,214</b>	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	<b>March 31, 2009</b>
Basic rent	\$ 1,327,305
Recoveries	<b>388,966</b>
Interest and other income	<b>19,045</b>
Total rental income from properties	<b>1,735,316</b>
Property recoverable operating expenses	<b>362,007</b>
Non-recoverable expenses	<b>1,037,821</b>
Net earnings	<b>439,452</b>
Basic net earnings per unit	
Trust units	<b>0.06</b>
Subordinated units	<b>0.08</b>
Diluted net earnings per unit	
Trust units	<b>0.06</b>
Subordinated units	<b>0.08</b>

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 resulting in a gain of \$103,964. PIRET earned rental revenue from 17 properties instead of 18, which resulted in net operating income decreasing by 1.4% during the period ended March 31, 2009 compared to the period ended March 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 legal and filing fees.

**SUMMARY OF QUARTERLY RESULTS (continued)**

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

Quarter ended	December 31, 2007	September 30, 2007	June 24, 2007 to June 30,
Basic rent	\$ 884,286	\$ 332,173	\$ —
Recoveries	301,196	98,008	—
Interest and other income	25,300	13,251	—
Total rental income from properties	1,210,782	443,432	—
Recoverable operating expenses	321,769	91,934	—
Non-recoverable expenses	960,113	257,034	—
Net earnings (loss)	(71,100)	94,464	—
Basic net earnings per unit			
Trust units	(0.01)	0.02	—
Subordinated units	(0.01)	0.02	—
Diluted net earnings per unit			
Trust units	(0.01)	0.02	—
Subordinated units	(0.01)	0.02	—

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

Non-recoverable expenses were lower in the second quarter of 2008 than in the first quarter because PIRET incurred additional legal and filing fees related to the annual unitholders meeting and annual financial reporting during the first quarter. Thus, net earnings in the second quarter were higher than those in the first quarter of 2008.

During the fourth quarter of 2008, a new tenant with a higher rental rate replaced the old tenant at 9203 – 35 Ave, Edmonton, AB. The in-place lease related intangible asset of the old tenant was amortized in full, which caused the non-recoverable expenses to increase and net income to decrease during the fourth quarter. Overall, there were no significant changes from quarter to quarter.

**SUMMARY OF QUARTERLY RESULTS (continued)**

Quarter ended	<b>March 31, 2009</b>
Total assets	<b>\$ 68,721,380</b>
Total liabilities	<b>43,400,366</b>
Unitholders' equity	<b>25,321,014</b>
Income producing properties	<b>64,934,975</b>
Intangible assets	<b>2,226,126</b>
Mortgages payable	<b>42,080,107</b>

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

Quarter ended	December 31, 2007	September 30, 2007	June 30, 2007
Total assets	\$ 72,077,937	\$ 45,105,548	\$ 10
Total liabilities	45,545,780	25,045,659	—
Unitholders' equity	26,532,157	20,059,889	10
Income producing properties	66,898,934	39,018,659	—
Intangible assets	2,664,756	1,262,557	—
Mortgages payable	43,546,918	23,990,914	—

Total income producing properties and intangible assets decreased in the quarter ended March 31, 2009 due to the sale of 44<sup>th</sup> Street and the amortization on buildings and intangible assets. The Trust replaced the HVAC system at 90 Park Lane at a cost of \$16,965 during the three months ended March 31, 2009. Prepaid expenses increased slightly in the first quarter of 2009 compared with those in the fourth quarter of 2008 due to the payments of property taxes and insurance. Cash increased due to the net proceeds from sales, but was partially offset by the distribution payments to unitholders. During the first quarter of 2009, the lender released \$140,000 from the mortgage reserve fund to PIRET. Total liabilities decreased during the quarter ended March 31, 2009 compared with the liabilities in the prior quarter 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.

## **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, 2008 audited financial statements and to the March 31, 2009 unaudited 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. From January 1 to March 31, 2009, no impairment charge was recorded.

#### **Amortization**

The buildings and equipment are amortized on a straight-line basis over their remaining estimated useful lives. Management is required to allocate a portion of the cost of acquisition of a property to the buildings and to assess the useful lives 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 1582 "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 after 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 is 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.

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

### **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.

As a result, 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 management 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. 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, notes disclosure, financial reporting, and business activities, and is providing additional training to key employees.

## **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:

#### **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.

#### **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.

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

### **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 March 31, 2009, trade receivables in the amount of \$Nil were 30 days past due. The current receivable was only \$1,532 and will be collected during the year.

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

PIRET's properties are single tenant properties. As at March 31, 2009, Team Tube / Encore Metals tenants generated 35% of total rental revenue, the Shanahan's portfolio generated 23% of total rental revenue and Mabe generated 22% 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.

As at March 31, 2009, all of the Trust's tenants are current.

### **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 29% 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.

### **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, 2009.

**RISKS AND UNCERTAINTIES (continued)**

**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:

			March 31, 2009	December 31, 2008
MORTGAGES PAYABLE	Nominal interest rate	Year of maturity	Carrying value	
Mabe	5.677%	2016	\$ 8,191,586	\$ 8,223,806
Team Tube	5.480%	2011	13,446,173	13,527,298
De Baets	5.500%	2011	1,654,043	1,663,369
Tornado	5.670%	2012	2,696,907	2,717,299
Eurospec	5.382%	2015	4,689,332	4,713,627
Shanahan’s 57th	5.926%	2018	5,138,029	5,162,669
Shanahan’s portfolio - AB	5.754%	2012	5,274,958	5,314,027
Shanahan’s portfolio - SK and MB	6.000%	2009	989,079	1,330,775
<b>Total mortgages payable</b>			<b>\$ 42,080,107</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%).

**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 distributions amount being taxable to PIRET (with the result that the amount of cash available for distribution by PIRET would be reduced) and such amount also being included in the income of unitholders for purposes of the Tax Act as taxable dividends.

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

**RELATED PARTY TRANSACTIONS**

PIRET is related to Sunstone Advisors (Canada) Inc., Sunstone Realty Advisors (2005) Inc., Sunstone Realty Advisors (2006) Inc., Sunstone Opportunity Fund (2005) Limited Partnership, Sunstone Opportunity (2007) Realty Trust and Sunstone Industrial Investments Inc. by virtue of having officers and directors in common.

<b>Amounts due to related parties</b>	<b>March 31, 2009</b>
Sunstone Realty Advisors (2006) Inc.	\$ —
Sunstone Realty Advisors (2005) Inc.	225,000
Sunstone Advisors (Canada) Inc.	—
Sunstone Realty Advisors (2007) Inc.	—
Sunstone Industrial Investments Inc.	49,000
<b>Included in accounts payable and accrued liabilities</b>	<b>\$ 49,000</b>
<b>Included in demand loan</b>	<b>\$ 225,000</b>

<b>Amounts due to related parties</b>	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Sunstone Realty Advisors (2006) Inc.	\$ 65,000	\$ —	\$ —	\$ —	\$ 199,785
Sunstone Realty Advisors (2005) Inc.	225,000	225,000	225,000	225,000	225,000
Sunstone Advisors (Canada) Inc.	—	—	—	—	195,000
Sunstone Opportunity (2007) Realty Trust	—	—	—	—	277,500
Sunstone Industrial Investments Inc.	49,000	—	—	—	—
<b>Included in accounts payable and accrued liabilities</b>	<b>\$ 114,000</b>	<b>\$ —</b>	<b>\$ 225,000</b>	<b>\$ 225,000</b>	<b>\$ 897,285</b>
<b>Included in demand note</b>	<b>\$ 225,000</b>	<b>\$ 225,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

<b>Amounts paid by related parties</b>	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
Sunstone Realty Advisors (2006) Inc.	\$ 65,000	\$ —	\$ —	\$ —	\$ 199,785
Sunstone Realty Advisors (2005) Inc.	—	—	—	—	225,000
Sunstone Advisors (Canada) Inc.	—	—	—	—	195,000
Sunstone Opportunity (2007) Realty Trust	—	—	—	—	277,500
Sunstone Industrial Investments Inc.	49,000	—	—	—	—
<b>Total amounts paid by related parties</b>	<b>\$ 114,000</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 897,285</b>

Sunstone Realty Advisors (2006) Inc. paid \$Nil (2007 - \$24,785) in offering costs and \$Nil (2007 - \$175,000) in property acquisition costs on behalf of PIRET. This amount was reimbursed in 2008. Included in accounts payable and accrued liabilities is \$65,000 advanced by Sunstone Realty Advisors (2006) Inc. to fund working capital requirements. The amount, which was non interest-bearing and due on demand, was repaid in January 2009.

Sunstone Realty Advisors (2005) Inc. paid \$Nil (2007 - \$225,000) in property acquisition costs on behalf of PIRET. Commencing July 1, 2008, \$225,000 was evidenced by a demand note, bearing interest at 4.75% per annum. Interest of \$8,008 was included in accounts payable and accrued liabilities.

**RELATED PARTY TRANSACTIONS (continued)**

Sunstone Advisors (Canada) Inc. paid \$Nil (2007 - \$195,000) in property acquisition costs on behalf of PIRET. This amount was reimbursed during 2008.

Sunstone Realty Advisors (2007) Inc. paid \$Nil (2007 - \$277,500) in property acquisition costs on behalf of PIRET. This amount was reimbursed during 2008.

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

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 periods ended March 31, 2009 or December 31, 2008, Sunstone Management did not charge PIRET pursuant to the Asset Management Agreement.

**OUTSTANDING UNIT DATA**

The beneficial interests in the Trust are divided into trust units and subordinated units. The Trust, pursuant to an agency agreement dated August 13, 2007, filed a final prospectus on August 13, 2007 in each of the provinces of Canada in connection with its initial public offering of 4,750,000 trust units at a price of \$4.00 per unit for total gross proceeds of \$19 million (the “Offering”). Sunstone Industrial Investments Inc. (“Sunstone Industrial”) subscribed for 250,000 subordinated units at a price of \$4.00 per unit for total gross proceeds of \$1 million concurrent with the closing of the offering.

On September 20, 2007, the syndicate of agents associated with PIRET’s initial public offering exercised a portion of the over-allotment option granted to them in conjunction with such offering, resulting in the issuance by PIRET of 550,000 additional trust units at a price of \$4.00 per unit for gross proceeds of \$2,200,000. At the same time, Sunstone Industrial purchased 28,947 subordinated units at \$4.00 per unit for additional gross proceeds of \$115,788.

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

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 March 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.

#### OUTSTANDING UNIT DATA (continued)

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 March 31, 2009 the Trust has issued a total of 82,382 restricted units and 3,616 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 March 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

Over the past few months, the global financial and real estate markets have experienced dramatic changes. These changes have resulted in increasing uncertainty as sources of funds are limited, which in turn has resulted in significant constraints on access to capital, tighter lending standards and slower lease commitments from tenants. Notwithstanding these factors, the Trustees believe that the fundamentals in PIRET generally remain strong due to the 100% occupancy rate and diversified tenant base. This is further evidenced by the profitable sale of 509 – 44<sup>th</sup> Street East in Saskatoon on January 1, 2009 and the successful renewal of two mortgages at a better rate than the previous rate. Furthermore, PIRET's low indebtedness ratio provides PIRET with the ability to access debt markets even when these markets are tight and given PIRET's quality of assets, the trust does not anticipate any issues relating to refinancing existing mortgages that are maturing. From January 1 to December 31, 2009, PIRET only has approximately \$1.3 million of mortgages maturing. While having relatively low debt leverage exposure is important in current economic conditions, the quality of current rental revenue available to service the debt and pay distributions to trust unitholders is equally important. Even though 2009 will be challenging, the Trustees believe that PIRET will remain competitive and the new environment could present some exciting opportunities for PIRET.

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

The initial portfolio acquired on August 22, 2007 is comprised of ten properties located in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec, having an aggregate of 469,641 square feet of rentable premises. Each property within the portfolio is currently 100% leased to a single tenant. Based on total square footage, 96% of the leases will expire after 2016. The November and December 2007 acquisitions included eight single tenant properties having an aggregate of 343,638 square feet of rental premises. These acquisitions follow the above criteria, which enables the Trust to meet its objectives for the future. There were no new acquisitions in 2008.

### SUBSEQUENT EVENTS

There were no subsequent events when this analysis was prepared.

### 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).