PURE INDUSTRIAL REAL ESTATE TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended September 30, 2007

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SECTION I

FORWARD-LOOKING DISCLAIMER

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

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

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

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

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

These forward-looking statements are made as of October 26, 2007 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 June 24, 2007. PIRET was established for the purposes of acquiring, owning and operating a diversified portfolio of income producing industrial properties in both primary and secondary markets across Canada. The units of the Trust trade on the TSX Venture Exchange under the symbol "AAR.UN".

PIRET's primary objectives are (a) to generate stable and growing cash distributions on a tax efficient basis from investments in income producing industrial properties in both primary and secondary markets cross Canada, (b) to enhance the value of PIRET's assets and maximize the long-term value of the properties through active management, and (c) to expand its asset base and increase its distributable income through an accretive acquisition program.

On August 22, 2007, PIRET purchased ten properties for total of $40,345,000 plus standard closing costs. The occupancy rate is 100% for all properties and the lease terms are between five and fourteen years.

The geographic diversification of PIRET's portfolio as at September 30, 2007 is outlined below:

Province	Number of buildings	Gross leaseable areas (Sq.ft.)
British Columbia	3	112,783
Alberta	4	129,691
Manitoba	1	32,351
Ontario	1	30,291
Quebec	1	164,525
Total	10	469,641

SECTION II

RESULTS OF OPERATIONS

		June 24, 2007 to September 30, 2007		Three months ended September 30, 2007
REVENUES				
Rental and recoveries	**$**	**430,181**	$	430,181
Interest and other		**13,251**		13,251
		443,432		443,432
RECOVERABLE OPERATING EXPENSES				
Property insurance		**1,153**		1,153
Property management fees		**1,516**		1,516
Property taxes		**89,265**		89,265
		91,934		91,934
EARNINGS BEFORE THE UNDERNOTED		**351,498**		351,498
NON-RECOVERABLE EXPENSES				
Amortization		**93,008**		93,008
Mortgage interest		**143,565**		143,565
General and administrative expenses		**20,461**		20,461
		257,034		257,034
NET EARNINGS and COMPREHENSIVE INCOME	**$**	**94,464**	$	94,464
Basic net earnings per unit (note 7)				
Trust units (5,300,000 units)	**$**	**0.02**	$	0.02
Subordinated units (278,947 units)		**0.02**		0.02
Diluted net earnings per unit				
Trust units (5,300,000 units)	**$**	**0.02**	$	0.02
Subordinated units (278,947 units)		**0.02**		0.02

The major change in the third quarter from the second quarter is due to the acquisition of ten properties in August 2007.

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

RESULTS OF OPERATIONS (continued)

Property Operating Costs

Property operating costs 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. From June 24, 2007 to September 30, 2007, insurance, property taxes, and property management fees represented 1.3%, 97.1%, and 1.6% respectively of total property operating costs.

Interest Income

Interest income was earned on the funds which were received from the equity raised in August and September and have not been fully deployed. Interest income will decrease if the trust acquires more income producing properties.

Mortgage Interest Expense

The increase in mortgage interest expense is due to the acquisition. As at September 30, 2007, the weighted average interest rate on the mortgages is 5.48% per annum and the mortgages mature between 2011 and 2016.

Depreciation of Income Producing Properties

Depreciation of building is charged to income on a straight-line basis over the estimated useful life of the properties, which is from 22 to 40 years. The depreciation of building is $80,895 for the three months ended September 30, 2007. The increase is due to the acquisition of the initial portfolio and will continue to increase as more income producing properties are purchased.

Amortization of Intangible Assets

Amortization of intangible assets is $12,113 for the three months ended September 30, 2007. Intangible assets include the 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 vacant loss. The continued acquisition of properties will result in an increase of this expense in the future.

Trust Expenses

Trust expenses are primarily comprised of directors and officers liability insurance, professional fees, legal fees, filing fees and trustee fees. For the three months ended September 30, 2007, insurance, professional fees and legal and filing fees represented approximately 16%, 38%, and 37% respectively of overall trust expenses. The trust did not pay any trustee fees. For the same period, total trust expenses amounted to 5% of rental income.

Income Taxes

PIRET is subject to tax under Part I of the Income Tax Act on its income for tax purposes for the period, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amounts paid or payable in the period to trust unitholders. The trustees intend to distribute all taxable income to unitholders and to deduct such distribution for Canadian income tax purposes. Therefore, no provision for income taxes is required on income earned by the Trust.

DISTRIBUTABLE INCOME

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

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

DISTRIBUTABLE INCOME (continued)

For the period ended September 30, 2007, PIRET declared it would distribute $175,960 to trust unitholders and $9,261 to subordinated unitholders, which represents 99.73% of distributable income. The distribution to trust unitholders was paid on October 15, 2007.

	June 24, 2007 to September 30, 2007	Three months ended September 30, 2007
Cash flow from operations	**$ 1,067,322**	$ 1,067,322
Adjustment:		
Changes in non-cash operating working capital	**(881,605)**	(881,605)
Capital expenditures	**–**	–
Distributable Income	**185,717**	185,717
Trust units (95%)	**176,430**	176,430
Subordinated units (5%)	**9,287**	9,287
Distributions to Unitholders		
Trust units (95%)	**175,960**	175,960
Subordinated units (5%)	**9,261**	9,261
Total distributions paid	**$ 185,221**	$ 185,221
Total distributions paid as a % of DI	**99.73%**	99.73%
Weighted average number of units		
Trust units	**5,300,000**	5,300,000
Subordinated units	**278,947**	278,947
Diluted weighted average number of units		
Trust units	**5,300,000**	5,300,000
Subordinated units	**278,947**	278,947
Basic DI per unit		
Trust units (95%)	**$ 0.033**	$ 0.033
Subordinated units (5%)	**$ 0.033**	0.033
Diluted DI per unit		
Trust units (95%)	**$ 0.033**	$ 0.033
Subordinated units (5%)	**0.033**	0.033
Distributions paid per unit		
Trust units (95%)	**$ 0.033**	$ 0.033
Subordinated units (5%)	**0.033**	0.033

DISTRIBUTABLE INCOME (continued)

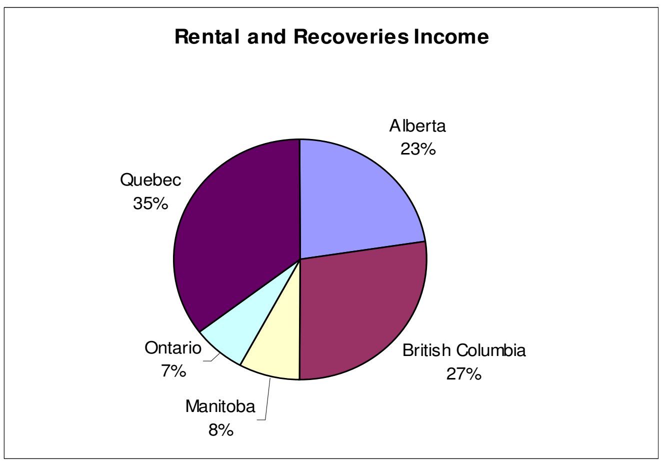
The following is a reconciliation of the Trust's distributable income to standardized distributable cash.

	June 24, 2007 to September 30, 2007	Three months ended September 30, 2007
Distributable income	**$ 185,717**	$ 185,717
(Increase) in receivables	**(55,234)**	(55,234)
(Increase) in prepaid expenses	**(117,906)**	(117,906)
Increase in accounts payable and accrued liabilities and rental deposit	**1,054,745**	1,054,745
Standardized distributable cash	**$ 1,067,322**	$ 1,067,322

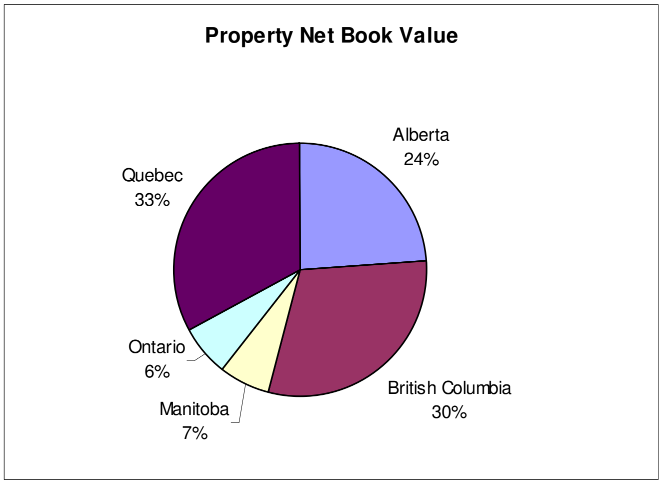
Management believes that the above calculation of Standardized Distributable Cash distorts the Trust's quarter-to-quarter distributable cash and payout ratios, as our non-cash operating working capital fluctuates. The Trustees look beyond quarter-to-quarter fluctuations in working capital when making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

SEGMENTED INFORMATION

PIRET invests in industrial income producing properties in Canada only. Currently, there are ten properties located in five provinces. The following charts show the percentage of rental and recoveries income from each province.



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



FINANCIAL CONDITION

Assets

Income Producing Properties
The Trust acquired ten income producing properties on August 22, 2007 with the funds from the proceeds of issuance of trust units and assumption of mortgages from vendors.

Property	Location	Acquisition Date	Purchase price	Mortgage	Ownership %
Mabe	Montreal, QC	8/22/2007	13,375,000	8,388,233	100%
7470 Vantage Way	Delta, BC	8/22/2007	6,430,000	3,689,893	100%
13325 Comber Way	Surrey, BC	8/22/2007	3,600,000	2,065,881	100%
75 Golden Drive	Coquitlam, BC	8/22/2007	2,000,000	1,147,712	100%
7805 - 51st St	Calgary, AB	8/22/2007	3,250,000	1,865,031	100%
1390 & 1401 - 17th Ave	Calgary, AB	8/22/2007	4,270,000	2,450,364	100%
9203 - 35th Ave	Edmonton, AB	8/22/2007	2,160,000	1,239,528	100%
333 DeBaets St.	Winnipeg, MB	8/22/2007	2,700,000	1,711,024	100%
8055 Esquesing Line	Milton, ON	8/22/2007	2,560,000	1,469,070	100%
Total			**$ 40,345,000**	**$ 24,026,736**	

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.

Mortgages are secured by 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 $26,460 as at September 30, 2007.

Other Assets

Mortgage reserve fund

The mortgage reserve fund was requested by lenders to be retained in escrow either pending expiry of the right to terminate in place leases or to pay for any and all reasonable leasing costs. These funds will be released once certain conditions are met, but no later than the maturity of the mortgages. The term for the current mortgage reserve fund is between 19 months and 8.5 years. The amortized cost of the mortgage reserve fund is $448,313 as at September 30, 2007.

Prepaid expenses
Prepaid expenses are due to prepaid insurance and property taxes.

Liabilities

PIRET's declaration of Trust limits the indebtedness of the Trust to a maximum of 70% of the gross book value of the Trust. The indebtedness is 60% of the gross book value as at September 30, 2007.

Mortgages Payable
The Trust assumed $24 million in mortgages payable from the vendor on the acquisition of ten properties on August 22, 2007. The mortgages bear interest at the weighted average rate of 5.48% as at September 30, 2007 and mature between 2011 and 2016.

Future principal mortgage payments are as follows:

Years ending December 31:		
2007 (for the balance of the year)	$	112,613
2008		463,828
2009		490,262
2010		517,591
2011		14,600,877
Thereafter		7,805,743
	$	**23,990,914**

Equity

Unitholders' Equity
Unitholders' equity is $20,059,889 as at September 30, 2007. The increase is due to the initial public offering of $20 million which was completed on August 22, 2007 and the over allotment of $2.3 million which was exercised by the agents and Sunstone Industrial Investment Inc. on September 20, 2007.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

Funds from Operations (continued)

Funds From Operations		**June 24, 2007 to September 30, 2007**		Three months ended September 30, 2007
Net earnings	**$**	**94,464**	$	94,464
Adjustment:				
Amortization of discount on mortgage reserve fund		**(1,755)**		(1,755)
Amortization of intangible assets		**12,113**		12,113
Depreciation of income producing properties		**80,895**		80,895
Funds from operations		**185,717**		185,717
Weighted average number of units				
Trust units		**5,300,000**		5,300,000
Subordinated units		**278,947**		278,947
Diluted weighted average number of units				
Trust units		**5,300,000**		5,300,000
Subordinated units		**278,947**		278,947
Funds from operation per unit - Basic				
Trust units (95%)	**$**	**0.033**	$	0.033
Subordinated units (5%)		**0.033**		0.033
Funds from operation per unit - Diluted				
Trust units (95%)	**$**	**0.033**	$	0.033
Subordinated units (5%)		**0.033**		0.033

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

		June 24, 2007 to September 30, 2007		Three months ended September 30, 2007
Funds from operations	**$**	**185,717**	$	185,717
(Increase) in receivables		**(55,234)**		(55,234)
(Increase) in prepaid expenses		**(117,906)**		(117,906)
Increase in accounts payable and accrued liabilities and rental deposit		**1,054,745**		1,054,745
Cash provided by operating activities	**$**	**1,067,322**	$	1,067,322

Capital Resources

The cash provided by operating the properties is $1,067,322 for the three moths ended September 30, 2007 and $1,067,332 from June 24, 2007 to September 30, 2007, which represents the primary source of funds to fund total distributions to unitholders of $185,221 from August 22 to September 30, 2007.

Capital Resources (continued)

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

	June 24, 2007 to September 30, 2007	Three months ended September 30, 2007
Cash provided by operating activities	**$ 1,067,322**	$ 1,067,322
Net earnings	**94,464**	94,464
Actual cash distributions paid or payable	**185,221**	185,221
Excess of cash provided by operating activities over cash distribution paid	**882,101**	882,101
Excess (shortfall) of net earnings over cash distributions paid	**(90,757)**	(90,757)

For the period ended September 30, 2007, cash provided by operations exceeded cash distributions, which is management's normal expectation.

Management expects cash distributions to continually exceed net earnings due to non-cash items which are deducted in determining net earnings. Non-cash items such as depreciation and amortization while deducted for net earnings have no impact on cash available to pay distributions.

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.

FINANCIAL INSTRUMENTS

For certain of the Trust's financial instruments, including cash and cash equivalents, cash held in trust, amounts receivable, accounts payable and accrued liabilities, and rental deposits, 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 mortgage reserve fund and mortgages approximate their fair values as at September 30, 2007.

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

OFF-BALANCE SHEET ITEMS

PIRET does not have any off-balance sheet items.

SECTION III

SUMMARY OF QUARTERLY RESULTS

	Three months ended September 30, 2007		June 24, 2007 to June 30, 2007	
Rental income from properties	$	443,432	$	–
Recoverable operating expenses		91,934		–
Non recoverable expenses		257,034		–
Net earnings (loss)		94,464		–
Basic net earnings per unit				
Trust units		0.02		–
Subordinated units		0.02		–
Diluted net earnings per unit				
Trust units		0.02		–
Subordinated units		0.02		–

	September 30, 2007		June 30, 2007	
Total assets	$	45,105,548	$	10
Total liabilities		25,045,659		–
Unitholders' equity		20,059,889		10
Income producing properties		39,018,659		–
Intangible assets		1,262,557		–
Mortgages payable		23,990,914		–

SECTION IV

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. PIRET's significant accounting policies are described in note 2 to the audited financial statements.

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

Impairment of Assets
PIRET is required to write down to fair value any of its income producing properties that have been determined to have been impaired. The analysis involves assumptions of estimated occupancy, rental rates, residual value, and estimated future cash flow from operations over the anticipated holding period. In the event these factors result in a carrying value that exceeds the sum of future undiscounted cash flows from the use of the properties, impairment would be recognized. From June 24 to September 30, 2007, no impairments were recognized.

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

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

FUTURE ACCOUNTING POLICIES CHANGES

On December 1, 2006, CICA issued three new accounting standards: Section 1535 - Capital Disclosure; Section 3862 – Financial Instruments – Disclosures; and Section 3863 – Financial Instruments – Presentation, which will be effective for years beginning on or after October 31, 2007.

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

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

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

SECTION V

RISKS AND UNCERTAINTIES

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

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

Interest Rate and Financial Risk
Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Trust is exposed to financial risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

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

Credit Risk
The Trust is exposed to some credit risk with respect to the collection of rental revenue, but minimizes the risk by checking tenants' credit history and requesting security deposits.

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

Lease Rollover Risk
Lease rollover risk arises from the possibility that PIRET may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management tries to sign long term leases to tenants to minimize lease rollover risk. Currently, the leases which will expire over the next 5 years represent 3.4% of total square footage.

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

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

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

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 a redemption will not be listed on any stock exchange and no established market is expected to develop for such securities. Such securities may be subject to an indefinite "hold period" or other resale restriction under applicable securities laws. PIRET notes and debt securities so issued or distributed may not be qualified investments for deferred income plans. Regulatory approvals will be required in connection with an issuance or distribution of PIRET notes or debt securities in specie to holders of units in connection with the redemption of units. There are no notes or debt securities issued to unitholders as at September 30, 2007.

Tax Risk
PIRET currently qualifies as a real estate investment trust for Canadian income tax purposes. Thus, PIRET is not subject to income tax as long as the Trust distributes all income earned by the Trust to unitholders annually. If PIRET does not qualify or ceases to qualify as a real estate investment trust 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 Realty Advisors (2006) Inc. and Sunstone Opportunity Fund (2005) Limited Partnership by virtue of having officers and directors in common.

Sunstone Realty Advisors (2006) Inc. paid $24,785 in offering costs for PIRET during the period ended September 30, 2007.

Sunstone Opportunity Fund (2005) Limited Partnership paid a September mortgage payment of $46,888 on PIRET's behalf. The amount owing was paid back in the following month.

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 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.

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

As at September 30, 2007, the total number of trust units outstanding was 5,300,000 and the total number of subordinated units outstanding was 278,947.

SECTION VI

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The president assessed, or caused an assessment under his direct supervision of the design of PIRET's internal controls over financial reporting as at September 30, 2007, and based on that assessment determined that PIRET's internal controls over financial reporting were appropriately designed. No changes were made in PIRET's internal control over financial reporting during the three months ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

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

SECTION VII

OUTLOOK

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

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

SUBSEQUENT EVENTS

PIRET announced on October 18, 2007 that it had entered into an agreement to acquire an industrial facility in Calgary. The property, located at 4907 - 32nd Street, in Calgary, Alberta, is situated on 3.23 acres in the Foothills Industrial Park, which is known as the "Golden Triangle", in close proximity to Barlow Trail SE and Deerfoot Trail SE, the city's major north-south transportation links. The total purchase price is $3.9 million plus standard closing costs and adjustments. PIRET anticipates a closing date of November 19th, 2007.

ADDITIONAL INFORMATION

Additional information relating to PIRET is available on SEDAR at www.sedar.com or on PIRET's website at www.piret.ca.