

Financial Statements of

**PURE INDUSTRIAL REAL  
ESTATE TRUST**

Years ended December 31, 2010 and 2009



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders

We have audited the accompanying financial statements of Pure Industrial Real Estate Trust, which comprise the balance sheets as at December 31, 2010 and 2009, the statements of earnings and comprehensive income, unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pure Industrial Real Estate Trust as at December 31, 2010 and 2009, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**KPMG LLP - signed**

Chartered Accountants

March 11, 2011  
Vancouver, Canada

# PURE INDUSTRIAL REAL ESTATE TRUST

## Balance Sheets

|  | December 31, 2010     | December 31, 2009    |
|--|-----------------------|----------------------|
| <b>ASSETS</b>                            |                       |                      |
| Income producing properties (note 3)     | \$ 177,666,128        | \$ 63,497,481        |
| Intangible assets (note 4)               | 16,827,567            | 1,988,192            |
| Mortgage reserve fund (note 6)           | 378,422               | 242,568              |
| Prepaid and other expenses (note 5)      | 125,808               | 42,015               |
| Amounts receivable                       | 1,759,935             | 722,585              |
| Cash held in trust (note 7)              | 1,798,184             | –                    |
| Cash                                     | 3,566,352             | 210,118              |
|  | <b>\$ 202,122,396</b> | <b>\$ 66,702,959</b> |
| <b>LIABILITIES</b>                       |                       |                      |
| Mortgages payable (note 8)               | \$ 114,058,092        | \$ 41,061,100        |
| Accounts payable and accrued liabilities | 1,881,148             | 599,957              |
| Bank loans (note 9)                      | 2,839,671             | –                    |
| Demand note (note 15)                    | –                     | 125,000              |
| Rental deposits                          | 757,400               | 204,625              |
| Notes payable (note 10)                  | –                     | 221,810              |
|  | <b>119,536,311</b>    | <b>42,212,492</b>    |
| <b>UNITHOLDERS' EQUITY</b>               |                       |                      |
| Unitholders' equity (note 11)            | 82,586,085            | 24,490,467           |
|  | <b>\$ 202,122,396</b> | <b>\$ 66,702,959</b> |

Subsequent events (note 18)

See accompanying notes to financial statements.

“Douglas R. Scott” Trustee      “Stephen J. Evans” Trustee

# PURE INDUSTRIAL REAL ESTATE TRUST

## Statements of Earnings and Comprehensive Income

| Years ended December 31   | 2010                | 2009                |
|---|---------------------|---------------------|
| <b>REVENUES</b>   |                     |                     |
| Rental and recoveries   | \$ 14,339,273       | \$ 6,711,851        |
| Interest and other  | 83,441              | 36,288              |
|   | <b>14,422,714</b>   | <b>6,748,139</b>    |
| <b>PROPERTY RECOVERABLE OPERATING EXPENSES</b>                  |                     |                     |
| Insurance   | 143,029             | 60,534              |
| Management fees   | 101,011             | 37,500              |
| Recoverable operating costs                                     | 45,693              | 4,430               |
| Property taxes  | 2,308,144           | 1,323,960           |
|   | <b>2,597,877</b>    | <b>1,426,424</b>    |
| <b>EARNINGS BEFORE THE UNDERNOTED</b>                           | <b>11,824,837</b>   | <b>5,321,715</b>    |
| <b>NON-RECOVERABLE EXPENSES</b>                                 |                     |                     |
| Amortization of properties, leasing costs and intangible assets | 3,206,371           | 1,591,306           |
| Mortgage interest   | 4,427,197           | 2,319,447           |
| Mortgage transaction costs                                      | 711,397             | 4,275               |
| General and administrative                                      | 329,524             | 142,082             |
| Interest on bank loans  | 66,038              | 8,996               |
| IFRS  | 29,495              | –                   |
| Unit based compensation   | 259,726             | –                   |
|   | <b>9,029,748</b>    | <b>4,066,106</b>    |
| <b>EARNINGS BEFORE DISPOSITIONS</b>                             | <b>2,795,089</b>    | <b>1,255,609</b>    |
| Gain on disposal of properties                                  | –                   | 135,832             |
| <b>NET EARNINGS AND COMPREHENSIVE INCOME</b>                    | <b>\$ 2,795,089</b> | <b>\$ 1,391,441</b> |
| Basic net earnings per unit                                     |                     |                     |
| Trust units (18,885,290 units / 7,526,263 units)                | \$ 0.141            | \$ 0.176            |
| Subordinated units (278,947 units)                              | 0.501               | 0.249               |
| Diluted net earnings per unit                                   |                     |                     |
| Trust units (18,885,699 units / 7,526,263 units)                | 0.141               | 0.176               |
| Subordinated units (278,947 units)                              | 0.501               | 0.249               |

The weighted average number of trust units outstanding for the year ended December 31, 2010 was 18,885,290 (2009 - 7,526,263).

The weighted average number of subordinated units outstanding for the year ended December 31, 2010 was 278,947 (2009 - 278,947).

See accompanying notes to financial statements.

# PURE INDUSTRIAL REAL ESTATE TRUST

## Statements of Unitholders' Equity

|                                   | Trust Units       |                     | Subordinated Units |                    | Initial Contribution |              | Issuance Costs       | Contributed Surplus | Retained earnings (deficit) | Unitholders' Equity  |
|-----------------------------------|-------------------|---------------------|--------------------|--------------------|----------------------|--------------|----------------------|---------------------|-----------------------------|----------------------|
|                                   | Units             | Equity              | Units              | Equity             | Units                | Equity       |                      |                     |                             |                      |
| Balance, December 31, 2008        | 7,526,263         | \$29,659,799        | 278,947            | \$1,115,788        | 1                    | \$ 10        | \$(3,384,662)        | \$ –                | \$ (1,915,194)              | \$ 25,475,741        |
| Net earnings                      | –                 | –                   | –                  | –                  | –                    | –            | –                    | –                   | 1,391,441                   | 1,391,441            |
| Distributions:                    |                   |                     |                    |                    |                      |              |                      |                     |                             |                      |
| Trust units                       | –                 | –                   | –                  | –                  | –                    | –            | –                    | –                   | (2,257,879)                 | (2,257,879)          |
| Subordinated units                | –                 | –                   | –                  | –                  | –                    | –            | –                    | –                   | (118,836)                   | (118,836)            |
| <b>Balance, December 31, 2009</b> | <b>7,526,263</b>  | <b>\$29,659,799</b> | <b>278,947</b>     | <b>\$1,115,788</b> | <b>1</b>             | <b>\$ 10</b> | <b>\$(3,384,662)</b> | <b>\$ –</b>         | <b>\$ (2,900,468)</b>       | <b>\$ 24,490,467</b> |
| Issuance of units                 | 19,615,000        | 65,932,250          | –                  | –                  | –                    | –            | (4,588,523)          | –                   | –                           | 61,343,727           |
| Compensation expense              | –                 | –                   | –                  | –                  | –                    | –            | –                    | 259,726             | –                           | 259,726              |
| Net earnings                      | –                 | –                   | –                  | –                  | –                    | –            | –                    | –                   | 2,795,089                   | 2,795,089            |
| Distributions:                    |                   |                     |                    |                    |                      |              |                      |                     |                             |                      |
| Trust units                       | –                 | –                   | –                  | –                  | –                    | –            | –                    | –                   | (5,987,779)                 | (5,987,779)          |
| Subordinated units                | –                 | –                   | –                  | –                  | –                    | –            | –                    | –                   | (315,145)                   | (315,145)            |
| <b>Balance, December 31, 2010</b> | <b>27,141,263</b> | <b>\$95,592,049</b> | <b>278,947</b>     | <b>\$1,115,788</b> | <b>1</b>             | <b>\$ 10</b> | <b>\$(7,973,185)</b> | <b>\$ 259,726</b>   | <b>\$ (6,408,303)</b>       | <b>\$ 82,586,085</b> |

See accompanying notes to financial statements.

# PURE INDUSTRIAL REAL ESTATE TRUST

## Statements of Cash Flows

| Years ended December 31   | 2010                 | 2009               |
|---|----------------------|--------------------|
| <b>Cash provided by (used in):</b>  |                      |                    |
| <b>Operations:</b>  |                      |                    |
| Net earnings  | \$ 2,795,089         | \$ 1,391,441       |
| Items not involving cash:   |                      |                    |
| Amortization of deferred leasing costs  | 4,802                | –                  |
| Amortization of discount on mortgage reserve fund                                 | (8,946)              | (12,072)           |
| Amortization of intangible assets   | 789,073              | 297,574            |
| Amortization of income producing properties                                       | 2,412,496            | 1,293,732          |
| Gain on sale of income producing properties                                       | –                    | (135,832)          |
| Unit based compensation   | 259,726              | –                  |
| Changes in non-cash working capital items:  |                      |                    |
| Increase in amounts receivable  | (1,037,350)          | (305,244)          |
| Increase in prepaid expenses  | (46,330)             | (11,737)           |
| Increase in rental deposits   | 144,508              | –                  |
| Increase (decrease) in accounts payable and accrued liabilities                   | 755,104              | (97,172)           |
|   | <b>6,068,172</b>     | <b>2,420,690</b>   |
| <b>Financing:</b>   |                      |                    |
| Mortgages payable proceeds  | 73,065,000           | –                  |
| Mortgages payable repayments  | (2,728,167)          | (1,591,770)        |
| Mortgage reserve funds  | (126,908)            | 440,000            |
| Demand note repayments  | (125,000)            | (100,000)          |
| Proceeds from (repayment of) notes payable  | (221,810)            | 118,836            |
| Advances from bank loans  | 2,839,671            | –                  |
| Leasing commissions   | (42,265)             | –                  |
| Net proceeds from issuance of units   | 61,343,727           | –                  |
| Distributions to unitholders  | (5,776,837)          | (2,376,715)        |
|   | <b>128,227,411</b>   | <b>(3,509,649)</b> |
| <b>Investments:</b>   |                      |                    |
| Acquisition of income producing properties and related intangible assets (note 3) | (129,141,165)        | (16,965)           |
| Cash held in trust  | (1,798,184)          | 441                |
| Proceeds from disposal of income producing properties                             | –                    | 1,176,336          |
| Property disposal costs   | –                    | (79,426)           |
|   | <b>(130,939,349)</b> | <b>1,080,386</b>   |
| <b>Change in cash</b>   | <b>3,356,234</b>     | <b>(8,573)</b>     |
| <b>Cash, beginning of the year</b>  | <b>210,118</b>       | <b>218,691</b>     |
| <b>CASH, END OF THE YEAR</b>  | <b>\$ 3,566,352</b>  | <b>\$ 210,118</b>  |
| Supplemental cash flow information:   |                      |                    |
| Interest paid   | \$ 4,298,862         | \$ 2,336,301       |

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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Non-cash investing and financing activities:

Distributions to unitholders in the amount of \$714,244 were accrued as at December 31, 2010 (2009 - \$188,157) and were paid in January 2011 (2009 – January 2010).

PIRET assumed mortgages in the amount of \$2,660,159 upon the acquisition of Moncton and Paramount and assumed security deposits of \$408,267 upon the acquisitions of the FedEx, Top-Co, Finley, Thornton, Paramount and 310 De Baets buildings during the year ended December 31, 2010.

See accompanying notes to financial statements.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 1. Nature of business and basis of presentation:

Pure Industrial Real Estate Trust (the "Trust" or "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.

PIRET's primary objectives are (a) to generate stable and growing cash distributions from investments in income producing industrial properties in both primary and secondary markets across Canada, (b) to 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.

## 2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies.

### (a) Income producing properties:

Income producing properties are recorded at cost less accumulated amortization. Additions, renewals and betterments are capitalized whereas expenditures for repairs and maintenance are expensed as incurred. The buildings are amortized on a straight-line basis over their estimated useful lives ranging from 20 to 58 years.

### (b) Intangible assets:

Intangible assets are recorded at cost and consist of in-place lease agreements with tenants, and above and below market leases. The value assigned is amortized over the remaining term of the in-place leases.

### (c) Impairment of long-lived assets:

The Trust performs impairment testing on its income producing properties and intangible assets whenever events or changes in circumstances indicate that the carrying value of the assets, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from an asset's use and disposal are less than its carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment charge is included in earnings for the period.

### (d) Offering costs:

Offering costs related to issuance of trust units are charged to unitholders' equity.

### (e) Cash:

Cash consists of cash on hand and cash held at banks.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

### (f) Revenue recognition:

Revenue from leases with contractual increases at specified dates is recognized on a straight-line basis over the lease term. Accordingly, an accrued rent receivable/payable is recorded from the tenants for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant. Included in amounts receivable at December 31, 2009 is \$1,726,331 (2009 - \$692,521) of accrued rent receivable.

Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements.

Interest income is recognized in the period when it is earned.

### (g) Leasing costs:

Leasing costs are comprised of leasing commissions and legal fees, and are amortized on a straight-line basis over the terms of the respective leases.

### (h) Income taxes:

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

### (i) Use of 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. Significant areas requiring the use of estimates include the assessment of impairment of long-lived assets, compensation expense, determination of the useful lives of income producing properties and allocation of purchase prices to the fair value of assets acquired and liabilities assumed. Actual results could differ from those estimates.

### (j) Unit-based compensation:

The Trust accounts for unit based compensation using the fair value method which is described in note 11(e). Under this method, compensation expense for unit based compensation issued is measured at the grant date fair value of the number of units that would vest if the vesting date were to be the balance sheet date, provided that the performance conditions are considered probable of achievement. The unit based compensation expense is recognized over the vesting period.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

### (k) Net earnings per unit:

Basic and diluted net earnings per trust and subordinated unit have been calculated based on 95% of the earnings being allocated to the trust units and 5% allocated to the subordinated units (see note 11), and the respective weighted average number of trust units and subordinated units outstanding.

### (l) Financial instruments:

Financial assets and financial liabilities, including derivatives, are recognized on the balance sheet upon entering into a financial instrument or a financial derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held for trading”, “available for sale”, “held to maturity”, “loans and receivables” or “other financial liabilities”. Transaction costs are expensed as incurred for financial instruments on initial recognition.

Financial assets and financial liabilities designated or classified as “held for trading”, if any, are measured at fair value with changes in those fair values recognized in the determination of net earnings. Financial instruments classified as “held to maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method. “Available for sale” assets are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, if applicable, being recognized in other comprehensive income.

PIRET does not have any financial instruments classified as available for sale or held to maturity.

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that do not meet certain criteria. Changes in fair values of derivative instruments are recognized in net earnings with the exception of derivatives designated in effective cash flow hedges or hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

At December 31, 2010 and 2009, PIRET does not have any derivative instruments and has not entered into any hedging activities.

The Trust has classified its amounts receivable and mortgage reserve fund as “loans and receivables”; and accounts payable and accrued liabilities, mortgages payable, demand note, bank loans and notes payable as “other financial liabilities”, all of which are reflected on the balance sheet at amortized cost using the effective interest method of measurement. Cash and cash held in trust are classified as “held for trading” and are reflected on the balance sheet at fair value.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

### (m) Comprehensive income:

Comprehensive Income consists of net earnings and other comprehensive income (OCI). OCI represents changes in unitholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

### (n) Future changes in accounting policy:

#### (i) International financial reporting standards:

In February 2008, the CICA announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Enterprises will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Trust's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Trust is currently assessing the impact of the transition to IFRS and developing a plan accordingly.

Based upon current IFRS guidance, management has identified major differences between GAAP and IFRS that may impact the Trust's financial results. The main differences identified to date relate to the accounting for investment properties and business combinations; impairment testing for assets; income taxes; classification and measurement of Trust Units; and the effects of the transitional provisions of IFRS for first-time adopters.

# PURE INDUSTRIAL REAL ESTATE TRUST

## Notes to Financial Statements

Years ended December 31, 2010 and 2009

### 3. Income producing properties:

During the year ended December 31, 2010, PIRET acquired seventeen income producing properties and in-place leases for a total purchase price of \$132,209,591 including standard closing costs and adjustments. The total purchase price of \$130,889,849 and acquisition costs of \$1,319,742 for these properties have been allocated to the fair value of assets acquired as follows:

|                   |    |             |
|-------------------|----|-------------|
| Land              | \$ | 32,779,694  |
| Building          |    | 83,801,449  |
| Intangible assets |    | 15,628,448  |
|                   | \$ | 132,209,591 |

| December 31, 2010 | Cost           | Accumulated amortization | Net book value |
|-------------------|----------------|--------------------------|----------------|
| Land              | \$ 58,071,073  | \$ –                     | \$ 58,071,073  |
| Building          | 124,855,582    | 5,274,382                | 119,581,200    |
| Equipment         | 16,965         | 3,110                    | 13,855         |
| Total             | \$ 182,943,620 | \$ 5,277,492             | \$ 177,666,128 |

| December 31, 2009 | Cost          | Accumulated amortization | Net book value |
|-------------------|---------------|--------------------------|----------------|
| Land              | \$ 25,291,379 | \$ –                     | \$ 25,291,379  |
| Building          | 41,054,133    | 2,863,582                | 38,190,551     |
| Equipment         | 16,965        | 1,414                    | 15,551         |
| Total             | \$ 66,362,477 | \$ 2,864,996             | \$ 63,497,481  |

The income producing properties are pledged as security against the mortgages payable and bank loans.

On January 1, 2009, PIRET sold its undivided interest in a small property, located at 509 - 44th Street East, Saskatoon, SK, for \$625,000 less standard closing costs and adjustments. The Trust repaid the mortgage on this property at the same time. On June 1, 2009, PIRET sold its undivided interest in another small property, located at 225 Quebec Street, Regina, SK, for \$558,000 less standard closing costs and adjustments. The Trust repaid the mortgage on this property at the same time. The gain on disposal of these properties is determined as follows:

|   |    |           |
|---|----|-----------|
| Gross proceeds                                  | \$ | 1,183,000 |
| Selling commission and legal fees               |    | (79,426)  |
| Net proceeds                                    |    | 1,103,574 |
| Net book value of income producing properties   |    | 967,742   |
| Gain on disposal of income producing properties | \$ | 135,832   |

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

## 4. Intangible assets:

| December 31, 2010 | Cost          | Accumulated amortization | Net book value |
|-------------------|---------------|--------------------------|----------------|
| Intangible assets | \$ 18,321,456 | \$ 1,493,889             | \$ 16,827,567  |

  

| December 31, 2009 | Cost         | Accumulated amortization | Net book value |
|-------------------|--------------|--------------------------|----------------|
| Intangible assets | \$ 2,693,008 | \$ 704,816               | \$ 1,988,192   |

## 5. Prepaid and other expenses:

| December 31                      | 2010       | 2009      |
|----------------------------------|------------|-----------|
| Prepaid expenses                 | \$ 88,345  | \$ 42,015 |
| Leasing costs                    | 37,463     | —         |
| Total prepaid and other expenses | \$ 125,808 | \$ 42,015 |

## 6. Mortgage reserve fund:

The mortgage reserve fund consists of cash on deposit and 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 a few months and 5.5 years. During 2009, the lenders released a total of \$440,000 from the mortgage reserve fund.

## 7. Cash held in trust:

Cash held in trust consists of refundable deposits, held pursuant to agreements of purchase and sale, which are to be used solely for the acquisition of income producing industrial properties.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

## 8. Mortgages payable:

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| <b><u>Mabe</u></b> — Mortgage with RBC CMBS Group bearing interest at 5.677%, calculated semi-annually, maturing March 2016. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$49,143 commencing September 2007.                                  | <b>\$ 7,952,966</b>  | \$ 8,092,176         |
| <b><u>Team Tube</u></b> — Mortgage with Citizens Bank of Canada bearing interest at 5.48%, calculated semi-annually, maturing April 2011. The mortgage is secured by the income producing properties and is repayable in blended monthly payments of principal and interest of \$87,120 commencing September 2007.                   | <b>12,868,553</b>    | 13,206,740           |
| <b><u>De Baets</u></b> — Mortgage with bclMC bearing interest at 5.50%, calculated semi-annually, maturing September 2011. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$10,633 commencing September 2007.                                    | <b>1,585,146</b>     | 1,625,296            |
| <b><u>Tornado</u></b> — Mortgage with Canadian Western Bank bearing interest at 5.67%, calculated semi-annually, maturing November 2012. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$19,432 commencing December 2007.                       | <b>2,550,153</b>     | 2,636,089            |
| <b><u>Eurospec</u></b> — Mortgage with Great West Life Assurance Company bearing interest at 5.382%, calculated semi-annually, maturing January 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$28,970 commencing February 2008.          | <b>4,509,925</b>     | 4,614,480            |
| <b><u>Shanahan 57th</u></b> — Mortgage with CIBC Bank bearing interest at 5.926%, calculated semi-annually, maturing January 2018. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$33,359 commencing February 2008.                             | <b>4,955,097</b>     | 5,061,912            |
| <b><u>Shanahan portfolio (AB)</u></b> — Mortgages with Canadian Western Bank bearing interest at 5.754%, calculated semi-annually, maturing December 2012. The mortgages are secured by the income producing properties and are repayable in blended monthly payments of principal and interest of \$38,099 commencing January 2008. | <b>4,993,855</b>     | 5,158,535            |

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

## 8. Mortgages payable (continued):

|   | December 31,<br>2010 | December 31,<br>2009 |
|---|----------------------|----------------------|
| <p><b><u>Shanahan portfolio (SK and MB)</u></b> — Mortgages with Canadian Western Bank bearing interest at 6.14%, calculated semi-annually, matured December 2008. The mortgages were secured by the income producing properties and were repayable in blended monthly payments of principal and interest of \$9,776 and were renewed for one year, bearing interest at 6%, commencing January 2009. The mortgages were repaid in full in March 2010.</p> | \$ —                 | \$ 665,872           |
| <p><b><u>Viking</u></b> — Mortgage with Great West Life Assurance Company bearing interest at 5.16%, calculated semi-annually, maturing March 2017. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$31,592 commencing April 2010.</p>  | 4,640,596            | —                    |
| <p><b><u>Transforce</u></b> — Mortgage with Bank of Montreal bearing interest at 4.95%, calculated semi-annually, maturing April 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$136,121 commencing April 2010.</p>  | 20,335,226           | —                    |
| <p><b><u>Moncton</u></b> — Mortgage with First National Financial LP bearing interest at 6.21%, calculated semi-annually, maturing August 2014. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$11,742 commencing April 2010.</p>  | 1,564,341            | —                    |
| <p><b><u>Advance (SK)</u></b> — Mortgage with Canadian Western Bank bearing interest at 4.8%, calculated semi-annually, maturing April 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$55,880 commencing May 2010.</p>   | 8,433,324            | —                    |
| <p><b><u>Advance (AB)</u></b> — Mortgage with Canadian Western Bank bearing interest at 4.8%, calculated semi-annually, maturing April 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$67,430 commencing May 2010.</p>   | 10,206,846           | —                    |
| <p><b><u>Clegg Rd</u></b> — Mortgage with Bank of Montreal bearing interest at 5.51%, calculated semi-annually, maturing June 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$37,880 commencing July 2010.</p>   | 6,140,933            | —                    |

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

## 8. Mortgages payable (continued):

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| <b>Top-Co</b> — Mortgage with Bank of Montreal bearing interest at 5.35%, calculated semi-annually, maturing August 2020. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$57,882 commencing September 2010.       | \$ 9,558,212         | \$ —                 |
| <b>Finley</b> — Mortgage with Manulife Financial bearing interest at 4.16%, calculated semi-annually, maturing December 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$28,875 commencing February 2011.    | 5,400,000            | —                    |
| <b>Matheson</b> — Mortgage with Manulife Financial bearing interest at 4.16%, calculated semi-annually, maturing December 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$11,122 commencing February 2011.  | 2,080,000            | —                    |
| <b>Thornton</b> — Mortgage with CIBC Mortgages Inc. bearing interest at 4.286%, calculated semi-annually, maturing December 2015. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$28,274 commencing January 2011. | 5,220,000            | —                    |
| <b>Paramount</b> — Mortgage with Assurant Life of Canada bearing interest at 5.50%, calculated semi-annually, maturing May 2013. The mortgage is secured by the income producing property and is repayable in blended monthly payments of principal and interest of \$6,844 commencing January 2011.   | 1,062,919            | —                    |
|  | <b>\$114,058,092</b> | <b>\$ 41,061,100</b> |

Principal repayments based on scheduled repayments to be made on the mortgages payable over the next five years and thereafter are as follows:

|            |                       |
|------------|-----------------------|
| 2011       | \$ 17,154,967         |
| 2012       | 9,851,138             |
| 2013       | 3,691,082             |
| 2014       | 4,176,971             |
| 2015       | 55,427,651            |
| Thereafter | 23,756,283            |
|            | <b>\$ 114,058,092</b> |

# PURE INDUSTRIAL REAL ESTATE TRUST

## Notes to Financial Statements

Years ended December 31, 2010 and 2009

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### 8. Mortgages payable (continued):

Mortgages payable are recorded at amortized cost and bear a weighted effective interest rate of 5.17% as at December 31, 2010 (2009 - 5.56%).

### 9. Bank loans:

(a) In April 2010, Canadian Western Bank established a revolving operating line of credit for PIRET in the amount of \$750,000, bearing interest at the lender's prime rate plus 1.75%, with a minimum of 4% per annum. The line of credit is secured by the income producing property at 90 Park Lane, Winnipeg, and is due on demand. As at December 31, 2010, PIRET has drawn down \$546,951.

(b) On July 12, 2010, HSBC established an operating loan for PIRET in the amount of \$4,750,000, bearing interest at the lender's prime rate plus 1.35%. The loan is secured by the income producing property at 8481 Marien Place, Quebec, ("FedEx Building") and is due on demand. PIRET is required to maintain a debt service coverage ratio of not less than 125% at all times. As at December 31, 2010, PIRET had drawn down \$2,292,720 from the operating loan and is in compliance with the financial covenants.

### 10. Notes payable:

PIRET entered into a subordination and support agreement with Sunstone Industrial Investments Inc. ("Sunstone Industrial"). When the target monthly distribution, currently 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 monthly cash advance from Sunstone Industrial to PIRET will not exceed Sunstone Industrial's proportionate share of the monthly cash distribution during the subordination period. The subordinated notes are non-interest bearing and due for repayment at the end of the Subordination Period.

The Subordination Period ended on the earlier of certain income and distribution targets being satisfied, or certain events occurring, being the earliest of:

- (i) the last day of any fiscal year in which PIRET has reported net income before gains or losses on property sales of at least \$0.18 per Unit and paid cash distributions of at least \$0.30 per Unit;
- (ii) August 31, 2010;
- (iii) the day on which a Determination Event occurs, and
- (iv) the day on which the Conversion Rights (see note 4(b) of the prospectus) are exercised.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 10. Notes payable (continued):

The Determination Event means the earliest to occur of the following:

- (i) a period of 10 consecutive trading days during which the Market Capitalization exceeds \$200,000,000;
- (ii) a take-over bid by a person acting at arm's length to Sunstone Industrial (or any affiliate of an associate of or affiliate of Sunstone Industrial or person acting jointly or in concert with Sunstone Industrial) is made for the Units, provided that not less than 51% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or affiliates or associates of the offeror) are taken-up and paid for pursuant to the take-over bid;
- (iii) substantially all of the assets of PIRET are sold or PIRET is liquidated; and,
- (iv) the asset management agreement (see note 15) is terminated by the Trustees for cause.

The Subordination Period ended on August 31, 2010. PIRET repaid \$221,810 to Sunstone Industrial during 2010. As at December 31, 2010, there were no notes payable outstanding. Sunstone Industrial had advanced \$221,810 to PIRET in 2009 pursuant to the subordination and support agreement.

## 11. Unitholders' equity:

- (a) Trust units and subordinated units:

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 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.

The Trust also granted the agents an over-allotment option to purchase up to an additional 712,500 trust units for a period of up to 30 days after closing of the Offering. To the extent additional trust units were issued pursuant to the over-allotment option, Sunstone Industrial agreed to subscribe for its pro rata share of additional subordinated units.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 11. Unitholders' equity (continued):

### (a) Trust units and subordinated units (continued):

Except as set out in the Trust Declaration, no trust unit or subordinated unit has any preference or priority over another.

Upon completion of the offering, 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.

Each trust unit is transferable and, so long as there are subordinated units issued and outstanding, each trust unit represents an equal undivided ownership interest in and to the Unit Percentage Interest of any net assets of the Trust, whether of net earnings, net realized capital gains or other amounts, and in the Unit Percentage Interest of any net assets of the Trust in the event of the termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the Trust.

Pursuant to the subordination and support agreement (note 10), Sunstone Industrial has agreed not to transfer the subordinated units held to others except to its affiliates and associates. Each subordinated unit represents an equal undivided ownership interest in and to the Subordinated Unit Percentage Interest of any net assets of the Trust, whether of net earnings, net realized capital gains or other amounts, and in the Subordinated Unit Percentage Interest of any net assets of the Trust in the event of the termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the Trust.

The unitholders have the right to require the Trust to redeem their trust units on demand at the prices determined and payable in accordance with the Trust Declaration. The Trust will not be required to pay the redemption price by way of a cash payment if the total amount payable by the Trust in any month will exceed the greater of \$20,000 and the amount that is 0.10% of the aggregate subscription price of all Trust units that were outstanding at the end of such month.

On February 25, 2010, PIRET announced the closing of a bought deal private placement for 7.2 million trust units priced at \$3.00 per unit, for total gross proceeds of \$21.6 million.

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

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

On October 20, 2010, PIRET announced the closing of a public offering of 5,865,000 trust units including over-allotment, on a bought deal basis, at a price of \$3.65 per unit for total gross proceeds of \$21,407,250.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 11. Unitholders' equity (continued):

### (b) Conversion rights of subordinated units:

Pursuant to the Trust Declaration, the subordinated unitholders as a class are entitled to convert all but not less than all of their subordinated units into trust units based on the specified ratio. Upon the subordinated unitholders exercising their conversion rights, such subordinated unitholders will own that number of trust units which is equal to the Subordinated Unit Percentage Interest (initially 5%) of all units outstanding after such conversion. Sunstone Industrial did not exercise the conversion rights during the year ended December 31, 2010 or the year ended December 31, 2009.

### (c) Unit rights, warrants and options:

The Trust may create and issue rights, warrants, options or other instruments or securities to subscribe for fully paid trust units which rights, warrants, options, instruments or securities may be exercisable at such subscription price or prices and at such time as the Trustees may determine. As at December 31, 2010 and December 31, 2009, the Trust has not issued any rights, warrants or options.

### (d) Distributions:

The Trust intends to make monthly distributions to unitholders. Distributions are at the discretion of the Trustees of PIRET. All distributions from the Trust will be made 95% to the trust units and 5% to the subordinated units. During the year ended December 31, 2010, the Trust announced cash distributions to trust unitholders of \$0.025 per unit per month for a total of \$5,987,779 (2009 - \$2,257,879). The Trust also announced a cash distribution to subordinated unitholders of \$315,145 (2009 - \$118,836).

### (e) Restricted units:

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

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 11. Unitholders' equity (continued):

(e) Restricted units (continued):

(i) Continued

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

As at December 31, 2008, the Trust had issued a total of 30,000 restricted units and a total of 2,608 distribution restricted units for proceeds of nil.

On March 6, 2009, the Trust issued an additional 52,382 restricted units. As at December 31, 2009, the Trust had issued a total of 82,382 restricted units and a total of 10,788 distribution restricted units for proceeds of nil.

On March 11, 2010, the Trust issued an additional 41,676 restricted units. As at December 31, 2010, the Trust has issued a total of 124,058 restricted units and a total of 20,032 distribution restricted units for proceeds of nil.

(ii) Compensation expense in the amount of \$259,726 is recorded in the statement of earnings and comprehensive income in relation to the restricted units and distribution restricted units issued as at December 31, 2010, as there is sufficient certainty that the performance criteria will be met by the vesting date. The performance criteria specify that the Trust's market capitalization must be no less than \$100,000,000 at the vesting date. As at December 31, 2009, it was not sufficiently certain that the performance criteria would be met and no compensation expense was recorded.

PIRET intends to settle most if not all restricted units and distribution restricted units by issuing trust units from treasury on redemption. Accordingly the instruments are classified as equity and included in unitholders' equity as contributed surplus.

## 12. Capital management:

The Trust defines capital as the aggregate of unitholders' equity and long-term debt. The Trust's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Trust Declaration; complies with existing debt covenants; funds its business strategies; and builds long-term unitholders' value. The Trust's capital structure is approved by its unitholders as related to the Trust 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.

# PURE INDUSTRIAL REAL ESTATE TRUST

## Notes to Financial Statements

Years ended December 31, 2010 and 2009

### 12. Capital management (continued):

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 and its consolidated subsidiaries 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 level is 56% as at December 31, 2010 (2009 - 59%).

The Trust Declaration allows the Trustees, at their discretion, to distribute to the Trust's unitholders in each year all or a portion of the Trust's income for the year, as calculated in accordance with the Income Tax Act after all permitted deductions under the Act have been taken. The board of Trustees also reviews the cash distribution paid to unitholders on a regular basis. The monthly distribution to trust unitholders was \$0.025 per unit for the year ended December 31, 2010 (2009 - \$0.025).

The Trust is in compliance with all investment and debt restrictions pursuant to the Trust Declaration for the year ended December 31, 2010 and for the year ended December 31, 2009.

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

|                     | December 31, 2010 | December 31, 2009 | Change         |
|---------------------|-------------------|-------------------|----------------|
| Capital             |                   |                   |                |
| Mortgages payable   | \$ 114,058,092    | \$ 41,061,100     | \$ 72,996,992  |
| Notes payable       | —                 | 221,810           | (221,810)      |
| Unitholders' equity | 82,586,085        | 24,490,467        | 58,095,618     |
| Total Capital       | \$ 196,644,177    | \$ 65,773,377     | \$ 130,870,800 |

Total capital increased significantly primarily due to the mortgage proceeds from new acquisitions and the issuance of additional trust units related to the private placement and the bought deals, offset by repayment of mortgage principal and distributions to unitholders for the year ended December 31, 2010.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 13. Risk management:

In the normal course of business, the Trust is exposed to a number of risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

### (a) Credit risk and economic dependence:

The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each tenant.

The Trust is exposed to credit risk in the event of non-payment of rent and recoveries by its tenants. This risk is mitigated by obtaining advance deposits and initiating a prompt collection process. The amount of trade receivables at December 31, 2010 was \$5,386 (December 31, 2009 - \$30,064), which included only \$1,399 past due.

The Trust earned approximately 18% (2009 - 21%) of its revenue from a single tenant.

The mortgage reserve fund held by the lenders is recoverable once certain conditions are met, but no later than the maturity of the mortgages. The Trust does not believe that there is any material credit risk associated with the mortgage reserve fund.

### (b) Interest rate 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 interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments. Mortgages payable and the demand loan bear interest at fixed rates; therefore the Trust is not exposed to significant interest rate risk.

### (c) 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.

# PURE INDUSTRIAL REAL ESTATE TRUST

## Notes to Financial Statements

Years ended December 31, 2010 and 2009

### 13. Risk management (continued):

(c) Liquidity risk (continued):

The terms and conditions of outstanding mortgages were as follows:

| MORTGAGES PAYABLE              | Nominal interest rate | Year of maturity | December 31,   | December 31, |
|--------------------------------|-----------------------|------------------|----------------|--------------|
|                                |                       |                  | 2010           | 2009         |
|                                |                       |                  | Carrying value |              |
| Mabe                           | 5.677%                | 2016             | \$ 7,952,966   | \$ 8,092,176 |
| Team Tube                      | 5.480%                | 2011             | 12,868,553     | 13,206,740   |
| 333 De Baets                   | 5.500%                | 2011             | 1,585,146      | 1,625,296    |
| Tornado                        | 5.670%                | 2012             | 2,550,153      | 2,636,089    |
| Eurospec                       | 5.382%                | 2015             | 4,509,925      | 4,614,480    |
| Shanahan - 57th                | 5.926%                | 2018             | 4,955,097      | 5,061,912    |
| Shanahan portfolio - AB        | 5.754%                | 2012             | 4,993,855      | 5,158,535    |
| Shanahan portfolio - SK and MB | 6.000%                | 2009             | —              | 665,872      |
| Viking                         | 5.160%                | 2017             | 4,640,596      | —            |
| Transforce                     | 4.950%                | 2015             | 20,335,226     | —            |
| Moncton                        | 6.210%                | 2014             | 1,564,341      | —            |
| Advance portfolio - SK         | 4.800%                | 2015             | 8,433,324      | —            |
| Advance portfolio - AB         | 4.800%                | 2015             | 10,206,846     | —            |
| Clegg Rd                       | 5.510%                | 2015             | 6,140,933      | —            |
| Top-Co                         | 5.350%                | 2020             | 9,558,212      | —            |
| Finley                         | 4.160%                | 2015             | 5,400,000      | —            |
| Matheson                       | 4.160%                | 2015             | 2,080,000      | —            |
| Thornton                       | 4.286%                | 2015             | 5,220,000      | —            |
| Paramount                      | 5.500%                | 2013             | 1,062,919      | —            |
| Total mortgages payable        |                       |                  | \$114,058,092  | \$41,061,100 |

The carrying value of the mortgages payable is the same as the face value.

### 14. Fair value:

For certain of the Trust's financial instruments, including cash, cash held in trust, amounts receivable, accounts payable and accrued liabilities and, bank loans, the carrying values approximate their fair values due to their short-term nature. The fair values of the mortgage reserve fund and mortgages payable have been calculated based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions, as follows. Discount rates are either provided by lenders or are observable in the open market

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

## 14. Fair value (continued):

|                       | December 31, 2010 |             | December 31, 2009 |            |
|-----------------------|-------------------|-------------|-------------------|------------|
|                       | Carrying Amount   | Fair Value  | Carrying Amount   | Fair Value |
| Mortgage reserve fund | \$ 378,422        | \$ 227,053  | \$ 242,568        | \$ 215,050 |
| Mortgages payable     | 114,058,092       | 112,660,420 | 41,061,100        | 41,164,547 |
| Notes payable         | –                 | –           | 221,810           | 221,810    |

## 15. Related party transactions:

PIRET is related to Sunstone Realty Advisors (2005) Inc. and Sunstone Industrial Investments Inc. by virtue of having officers and directors in common.

(a) On July 1, 2008, the \$225,000 balance payable by PIRET to Sunstone Realty Advisors (2005) Inc. was converted into a demand note, bearing interest at 4.75% per annum. On August 24, 2009, PIRET repaid \$100,000 of the demand note plus all interest accrued to that date. On March 5, 2010, PIRET repaid the remaining outstanding demand note plus all interest accrued to that date.

(b) During 2008, Sunstone Industrial advanced \$49,000 to PIRET to fund working capital requirements in October and November 2008. This amount was included in accounts payable and accrued liabilities at December 31, 2008 and was still outstanding as at December 31, 2009. On March 5, 2010, PIRET repaid the amount in full.

PIRET has entered into an asset management agreement with Sunstone Industrial Advisors Inc. ("Sunstone Management") whereby Sunstone Management will provide asset management, administrative and reporting services to PIRET. In accordance with 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 year ended December 31, 2010, Sunstone Management charged PIRET nil (2009 - nil) pursuant to the Asset Management Agreement.

PIRET is related to a mortgage brokerage firm by virtue of having trustees and directors in common. PIRET paid the firm a mortgage brokerage fee in the amount of \$135,120 for arranging the financing of Viking, Transforce, Advance portfolio and Top-Co during the year ended December 31, 2010. It is in management's opinion that the mortgage brokerage fees are in line with current market rates.

# PURE INDUSTRIAL REAL ESTATE TRUST

Notes to Financial Statements

Years ended December 31, 2010 and 2009

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## 16. Segment disclosures:

The Trust operates in one business segment, being the ownership and operation of a portfolio of income producing industrial properties in Canada. During the year ended December 31, 2010, PIRET held properties located in seven provinces: British Columbia, Alberta, Ontario, Quebec, Manitoba, Saskatchewan and New Brunswick.

## 17. Income taxes:

Pursuant to the declaration of the Trust, the Trustees are required to distribute all taxable income to the unitholders and to deduct such distributions for income tax purposes each year so as to not be liable for income tax under Part I of the Income Tax Act (Canada). Furthermore, the Trust intends to operate in such a manner so as to qualify as a "Mutual Fund Trust" and a "real estate investment trust" pursuant to that act. Consequently, no provision for income taxes is required on income earned by the Trust.

At December 31, 2010, the tax bases exceeded the reported amounts of the Trust's assets and liabilities by roughly \$3 million (2009 - \$1,241,196).

## 18. Subsequent events:

- (a) On January 27, 2011, PIRET announced the closing of a public offering of 8,625,000 trust units including 1,125,000 units from the over-allotment, on a bought deal basis, at a price of \$4.00 per unit, for total gross proceeds of \$34.5 million. PIRET used the net proceeds from the bought deal to fund the acquisition of one income producing industrial property located in the province of British Columbia for a total purchase price of \$40 million.
- (b) The restricted units granted in 2008 and related distribution restricted units vested on February 20, 2011. The Trustees have until December 31, 2011 to redeem those units.