



Condensed Consolidated Interim Financial Statements of

PURE INDUSTRIAL REAL ESTATE TRUST

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

PURE INDUSTRIAL REAL ESTATE TRUST

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

	March 31, 2018	December 31, 2017
<i>(thousands of Canadian dollars)</i>		
ASSETS		
Non-current assets:		
Investment properties (note 3)	\$ 3,209,951	\$ 3,108,059
Loans receivable (note 16)	857	866
	3,210,808	3,108,925
Current assets:		
Amounts receivable and other assets (note 4)	19,253	23,684
Vendor take-back receivable (note 15)	10,125	10,125
Cash held in trust	14,560	23,530
Cash	24,296	33,051
Assets held for sale (note 22)	21,497	21,498
	89,731	111,888
	\$ 3,300,539	\$ 3,220,813
LIABILITIES		
Non-current liabilities:		
Unit based compensation (note 7)	\$ 5,551	\$ 4,696
Mortgages payable and other loans (note 8)	1,170,292	1,116,838
Preferred units of subsidiary (note 9)	161	157
Deferred tax liability (note 20)	15,597	14,604
Rental deposits	8,025	7,490
	1,199,626	1,143,785
Current liabilities:		
Accounts payable and accrued liabilities	46,964	64,249
Unit based compensation – current portion (note 7)	3,226	2,064
Mortgages payable and other loans – current portion (note 8)	122,461	95,082
Rental deposits – current portion	1,229	1,471
Liabilities on assets held for sale (note 22)	7,417	7,259
	181,297	170,125
	1,380,923	1,313,910
EQUITY		
Unitholders' equity	1,908,391	1,895,677
Non-controlling interests	11,225	11,226
	1,919,616	1,906,903
	\$ 3,300,539	\$ 3,220,813

Subsequent events (note 23)

See accompanying notes to the condensed consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Condensed Consolidated Interim Statements of Net Earnings

(Unaudited)

	Three months ended March 31,	
	2018	2017
<i>(thousands of Canadian dollars, except unit and per unit amounts)</i>		
Revenues:		
Rental and recoveries	\$ 62,832	\$ 53,574
Property operating expenses:		
Insurance	331	245
Management fees	1,504	1,310
Operating costs	5,597	4,515
Property taxes	17,671	12,975
	25,103	19,045
Net operating income	37,729	34,529
Other (expenses) income:		
General and administrative (note 10)	(5,678)	(2,315)
Fair value adjustments to investment properties (note 3)	(1,549)	62,108
Fair value adjustments to financial instruments (note 8)	759	(83)
IFRIC 21 fair value adjustment to investment properties (note 3)	6,543	3,788
Loss on disposal of investment properties (note 3)	(292)	(481)
Foreign currency gain/(loss)	19	(867)
	(198)	62,150
Net earnings before net finance expense	37,531	96,679
Finance income (note 11)	182	254
Finance expense (note 11)	(11,746)	(10,718)
Net finance expense	(11,564)	(10,464)
Net earnings before income taxes	25,967	86,215
Income tax expense (note 20)	(840)	(2,110)
Net earnings	\$ 25,127	\$ 84,105
Net earnings attributable to:		
Unitholders	\$ 25,059	\$ 81,028
Non-controlling interests	68	3,077
	\$ 25,127	\$ 84,105
Trust units – Weighted average	305,880,218	245,688,250
Basic net earnings per unit	\$ 0.08	\$ 0.33
Trust units – Diluted weighted average	306,358,594	246,046,311
Diluted net earnings per unit	\$ 0.08	\$ 0.33

See accompanying notes to the condensed consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Condensed Consolidated Interim Statements of Net Comprehensive Income
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Three months ended March 31,	
	2018	2017
Net earnings	\$ 25,127	\$ 84,105
Other comprehensive income/(loss):		
Unrealized foreign currency gain/(loss) on translation of foreign operations, net of tax	11,513	(2,521)
Net comprehensive income	\$ 36,640	\$ 81,584
Net comprehensive income attributable to:		
Unitholders	\$ 36,572	\$ 78,328
Non-controlling interests	68	3,256
	\$ 36,640	\$ 81,584

See accompanying notes to the condensed consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Class A Units	Accumulated Earnings	Accumulated Other Comprehensive Income	Total Unitholders' Equity	Non- Controlling Interests	Total
Equity, December 31, 2017	\$1,451,280	\$ 436,545	\$ 7,852	\$1,895,677	\$ 11,226	\$1,906,903
Net earnings	-	25,059	-	25,059	68	25,127
Other comprehensive income	-	-	11,513	11,513	-	11,513
Distributions	-	(23,858)	-	(23,858)	(69)	(23,927)
Equity, March 31, 2018	\$1,451,280	\$ 437,746	\$ 19,365	\$1,908,391	\$ 11,225	\$1,919,616
Equity, December 31, 2016	\$1,091,323	\$ 227,845	\$ 33,335	\$1,352,503	\$ 26,692	\$1,379,195
Issuance of Class A units, net	216	-	-	216	-	216
Net earnings	-	81,028	-	81,028	3,077	84,105
Other comprehensive (loss)/income	-	-	(2,700)	(2,700)	179	(2,521)
Contributions	-	-	-	-	165	165
Distributions	-	(19,164)	-	(19,164)	(469)	(19,633)
Equity, March 31, 2017	\$1,091,539	\$ 289,709	\$ 30,635	\$1,411,883	\$ 29,644	\$1,441,527

See accompanying notes to the condensed consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

<i>(thousands of Canadian dollars)</i>	Three months ended March 31,	
	2018	2017
Operating activities:		
Net earnings	\$ 25,127	\$ 84,105
Items not involving cash:		
Amortization of leasehold improvements	39	15
Amortization of mark to market mortgage adjustment	(42)	(120)
Amortization of mortgage and bank loan transaction costs	458	583
Loss on disposal of investment properties	292	481
Foreign currency (gain)/loss	(19)	862
Unit based compensation expense (note 7)	2,043	756
Fair value adjustments to investment properties (note 3)	1,549	(62,108)
IFRIC 21 fair value adjustment to investment properties (note 3)	(6,543)	(3,788)
Fair value adjustments to mortgages and financial instruments (note 8)	(1,028)	83
Straight line rent adjustment	(1,531)	(924)
Deferred income tax expense (note 20)	588	1,676
Net change in non-cash working capital (note 21)	(12,940)	5,307
Net finance expense, excluding amortization (note 11)	11,148	10,001
Interest paid	(10,750)	(10,005)
Interest received	182	254
Net cash provided from operating activities	8,573	27,178
Financing activities:		
Mortgage proceeds	48,289	36,350
Mortgages discharged	(6,436)	(42,893)
Repayment of mortgages	(7,742)	(7,772)
Other loan advances, net of repayments	45,991	38,000
Payment of mortgage and loan transaction costs	(51)	(363)
Mortgage reserve funds	-	57
Redemption of restricted units	(26)	(76)
Contributions from non-controlling interests	-	165
Distributions to non-controlling interests	(69)	(408)
Distributions paid to unitholders	(23,858)	(19,164)
Net cash provided from financing activities	56,098	3,896
Investing activities:		
Acquisition of investment properties (note 3)	(73,962)	(51,836)
Additions to property under development and expansions (note 3)	(2,939)	(1,832)
Capital additions to investment properties (note 3)	(2,341)	(2,716)
Additions to land held for future development (note 3)	(40)	(3,899)
Cash held in trust	2,521	(4,054)
Proceeds from disposal of investment properties (note 3)	3,316	75,019
Net cash (used in) provided from investing activities	(73,445)	10,682
Net change in cash	(8,774)	41,756
Effect of foreign currency translation	19	(862)
Cash, beginning of period	33,051	56,945
Cash, end of period	\$ 24,296	\$ 97,839

See accompanying notes to the consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
(Unaudited)

1. Reporting entity:

Pure Industrial Real Estate Trust (the "Trust") is an unincorporated open-ended trust formed under and governed by the laws of the Province of British Columbia and created pursuant to the Declaration of Trust (the "Trust Declaration") dated June 24, 2007, and as amended on November 18, 2010 and restated on May 28, 2015 and on May 10, 2017. The Trust was established for the purposes of acquiring, owning and operating a diversified portfolio of income producing industrial properties. The Trust's head office is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2, Canada.

The Trust's primary objectives are: (a) to generate stable and growing cash distributions from investments in income producing industrial properties in primary markets across Canada and key distribution and logistics markets in the United States (the "U.S."); (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. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the Trust's annual audited consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on May 14, 2018.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2017, except as outlined below in note 2 (e).

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for the following material items in the condensed consolidated interim statements of financial position:

- investment properties are measured at fair value;
- derivative financial instruments are measured at fair value; and
- liabilities for unit based compensation arrangements are measured at fair value.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2(d).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
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2. Basis of presentation (continued):

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Trust's functional currency. The functional currency of the Trust's wholly-owned subsidiary, PIRET U.S.A. Inc. (the "U.S. Subsidiary"), is United States dollars.

(d) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates.

The estimates and judgments that are critical to the determination of the amounts reported are set out in note 2(d) of the Trust's audited consolidated financial statements for the year ended December 31, 2017.

(e) Standards effective January 1, 2018:

On January 1, 2018, the Trust adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

(i) IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

(a) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans, and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value in OCI ("FVOCI") – debt investment; or fair value in profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial liabilities are classified and measured on two categories: amortized cost or FVTPL.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The following table below represents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Trust's financial assets and liabilities. The adoption of the new classification requirements under IFRS 9 did not result in any changes in measurement or the carrying amount of financial assets and liabilities.

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Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
(Unaudited)

2. Basis of presentation (continued):

(e) Standards effective January 1, 2018 (continued):

(i) IFRS 9 Financial Instruments (“IFRS 9”) (continued):

(a) Classification and measurement of financial assets and financial liabilities (continued):

Financial assets/liabilities	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Cash held in trust	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Vendor take-back receivable	Loans and receivables	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Unit based compensation	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Rental deposits	Other financial liabilities	Amortized cost
Other loans	Other financial liabilities	Amortized cost

(b) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

Financial assets measured at amortized cost are assessed at each reporting date to determine the credit risk of the financial asset to apply the relevant impairment requirements. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Trust considers evidence of impairment of financial assets measured at amortized cost at both a specific asset and collective level.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

Except for classification, the impact of adopting IFRS 9 has had no material impact on measurement of the Trust’s financial assets.

(ii) IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers. The new standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. In April 2016, the IASB issued its final amendments to IFRS 15, Clarifications to IFRS 15, Revenue from Contracts with Customers. The amendments do not change underlying principles but clarify application including identifying performance obligations, recognition of revenue from granting a license of intellectual property, principal or agent determination and transition relief to reduce costs and complexity for first application of the new standard. The Trust completed its review of IFRS 15 and the new standard did not have a significant effect on its consolidated financial statements.

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Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
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2. Basis of presentation (continued):

(e) Standards effective January 1, 2018 (continued):

(ii) IFRS 15 Revenue from Contracts with Customers (continued):

The Trust disaggregates its revenue recognized from contracts as follows: rental revenue and recoveries related to tenant leases, and revenues for monthly property and asset management services related to its co-owned properties. For the three months ended March 31, 2018, included in rental revenue and recoveries on the statement of net earnings is \$160 of property and asset management fee revenue. The Trust earns these fees in its Alberta, Ontario and Other operating segments (note 17). The fees are billed each month and collection is prompt, with no amounts past due.

(f) Standards issued but not yet effective:

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases (“IFRS 16”). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The Trust has performed a preliminary review of the impact of IFRS 16 and expects this standard to impact the recognition and measurement of its land leases as well as the Trust’s leased office space. The Trust expects to quantify the impact of IFRS 16 on its consolidated financial statements in 2018.

3. Investment properties:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Income producing properties	\$ 3,168,526	\$ 3,086,075
Properties under development and expansion (b)	26,716	7,677
Land held for future development (c)	14,709	14,307
	\$ 3,209,951	\$ 3,108,059

As at March 31, 2018, the Trust’s 178 investment properties are comprised of 173 income producing properties that are leased to third parties, 3 properties under development and 2 standalone parcels of land held for future development (December 31, 2017 – 176 investment properties comprised of 173 income producing properties, 1 property under development and 2 standalone parcels of land held for future development). Included in investment properties are amounts representing the Trust’s proportionate interest in 19 investment properties (December 31, 2017 – 19 properties).

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Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
(Unaudited)

3. Investment properties (continued):

<i>(thousands of Canadian dollars)</i>	Three months ended March 31, 2018		
	Investment properties	Investment properties held for sale	Total
Balance, beginning of period	\$ 3,108,059	\$ 21,335	\$ 3,129,394
Acquisitions (a)	80,462	-	80,462
Capital additions	2,341	-	2,341
Acquisitions and capital additions; properties under development and expansion (b)	19,039	-	19,039
Land held for future development (c)	40	-	40
Dispositions (d)	(3,608)	-	(3,608)
Straight line rent adjustment	1,531	-	1,531
Fair value adjustment to investment properties (e)	(2,973)	-	(2,973)
Unrealized foreign currency translation gain	21,160	-	21,160
Transfer to properties under development	(16,100)	-	(16,100)
	3,209,951	21,335	3,231,286
IFRIC 21 property tax liability adjustment (f)	(6,543)	-	(6,543)
IFRIC 21 fair value adjustment to investment properties (f)	6,543	-	6,543
Balance, end of period	\$ 3,209,951	\$ 21,335	\$ 3,231,286

<i>(thousands of Canadian dollars)</i>	Year ended December 31, 2017		
	Investment properties	Investment properties held for sale	Total
Balance, beginning of period	\$ 2,320,845	\$ 110,832	\$ 2,431,677
Acquisitions (a)	665,625	-	665,625
Capital additions	13,747	181	13,928
Acquisitions and capital additions; properties under development and expansion (b)	37,242	-	37,242
Land held for future development (c)	12,951	-	12,951
Dispositions (d)	(93,942)	(88,145)	(182,087)
Straight line rent adjustment	3,830	54	3,884
Fair value adjustment to investment properties (e)	187,807	4,913	192,720
Unrealized foreign currency translation loss	(46,546)	-	(46,546)
Transfer from assets held for sale (note 22)	6,500	(6,500)	-
Balance, end of period	3,108,059	21,335	3,129,394
IFRIC 21 property tax liability adjustment (f)	1,895	-	1,895
IFRIC 21 fair value adjustment to investment properties (f)	(1,895)	-	(1,895)
Balance, end of period	\$ 3,108,059	\$ 21,335	\$ 3,129,394

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
(Unaudited)

3. Investment properties (continued):

(a) Acquisitions:

On February 1, 2018, the Trust completed the acquisition of a newly-constructed 287,338 sf property in Montreal, Quebec for a purchase price of \$32,500 plus standard closing costs and adjustments of \$30.

On February 22, 2018, the Trust completed the acquisition of a 12,647 sf building on 38.1 acres of land, and an adjacent 14.2 acres of land located in Acheson, Alberta for a purchase price of \$48,000 plus standard closing costs and adjustments of \$40.

During the three months ended March 31, 2018, the Trust incurred additional closing costs of \$47 associated with prior year acquisitions, and a (\$155) adjustment to development costs recognized in the prior year.

(b) Properties under development and expansion:

<i>(thousands of Canadian dollars)</i>	Three months ended March 31, 2018	Year ended December 31, 2017
Balance, beginning of period	\$ 7,677	\$ 6,006
Acquisitions and additions	2,939	37,242
	10,616	43,248
Transfer to income producing properties	-	(43,062)
Transfer from income producing properties	16,100	7,491
Balance, end of period	\$ 26,716	\$ 7,677

On January 31, 2018, the Trust completed the acquisition of a 14,818 sf industrial property, consisting of two buildings, located adjacent to an existing property of the Trust in Edmonton, Alberta for a purchase price of \$1,900 plus standard closing costs and adjustments of \$50. Upon acquisition, the property was immediately classified as properties under development. The property will be redeveloped to accommodate the expansion and lease extension to a current tenant on the adjacent property. Construction is expected to be substantially complete in Q2-2018 at an estimated cost of \$1,070. As at March 31, 2018, costs incurred amounted to \$226.

On February 1, 2018 the Trust transferred a 150,322 sf property in Scarborough, Ontario with a fair value of \$16,100 from income producing properties to properties under development. As at March 31, 2018, costs incurred to date subsequent to the transfer amounted to \$725 (December 31, 2017 - \$nil). The Trust plans to construct an approximately 300,000 sf industrial warehouse and total costs for the redevelopment are estimated to be approximately \$35,757.

On October 1, 2017 the Trust transferred a 101,133 sf property in Edmonton, Alberta with a fair value of \$7,491, from income producing properties to properties under development. As at March 31, 2018, costs incurred subsequent to the transfer amounted to \$224 (December 31, 2017 - \$186). Total costs for the redevelopment are estimated to be approximately \$2,920.

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Notes to the Condensed Consolidated Interim Financial Statements
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3. Investment properties (continued):

(c) Land held for future development:

On August 18, 2017, the Trust completed the acquisition of 84.7 acres of land located in the Dallas suburb of Wilmer, Texas for a total purchase price of \$8,170 (US\$ 6,460) plus standard closing costs and adjustments of \$619 (US\$ 517). Upon acquisition, the Trust committed to spend \$2,536 (US\$ 2,005) on municipal infrastructure improvements of which the Trust will be responsible for \$1,103 (US\$ 872). For the remainder of the improvements, the Trust entered into a promissory note payable agreement of \$1,433 (US\$ 1,133) with the vendor (note 8(b)(iii)). As the Trust performs municipal infrastructure improvements, the promissory note payable is reduced. As of March 31, 2018, \$153 (US\$ 119) (December 31, 2017 – \$129 (US\$ 103)) has been incurred to date, of which \$67 (US\$ 52) (December 31, 2017 – \$56 (US\$ 45)) represents the Trust's share, \$11 (US\$ 8) of which was incurred during Q1-2018. During the three months ended March 31, 2018, the Trust also incurred development related costs of \$29 (US\$ 23).

(d) Dispositions:

On February 16, 2018, the Trust completed the disposition of one investment property in Vaughan, Ontario, which was not included in assets held for sale as at December 31, 2017 for gross proceeds of \$3,608, less standard closing costs and adjustments of \$292, resulting in net proceeds of \$3,316 and a net loss on disposition of \$292.

(e) Fair value adjustment to investment properties:

The Trust obtains independent appraisals such that substantially all of the properties will be externally appraised over a 4-year period. During the three months ended March 31, 2018, the Trust obtained independent appraisals for 7 (December 31, 2017 – 138) properties representing 3% (December 31, 2017 – 82%) of the fair value of the investment properties at March 31, 2018. The appraisals were performed by accredited independent appraisers with recent experience in the location and category of the investment property being valued. Management reviews each appraisal and ensures that the assumptions used are reasonable and the final fair value amount reflects those assumptions used in the determination of the fair value of the properties.

Management undertakes its own internal valuation process on the remaining investment properties and reviews specific indicators (i.e. market conditions, discount rate changes, etc.) to determine whether a change in fair value has occurred. In arriving at their estimates of fair values, management and the independent appraisers have used their market knowledge and professional judgment and did not rely solely on historical transactional comparisons.

(i) Fair value adjustments to investment properties:

	Three months ended March 31,	
	2018	2017
Standard acquisition costs	\$ (168)	\$ (300)
Valuation (loss)/gain on investment properties	(1,274)	63,332
Straight line rental revenue	(1,531)	(924)
Other	1,424	-
	\$ (1,549)	\$ 62,108

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Notes to the Condensed Consolidated Interim Financial Statements
(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)
(Unaudited)

3. Investment properties (continued):

(e) Fair value adjustment to investment properties (continued):

(ii) Significant valuation assumptions:

The significant assumptions made to determine the fair values of the investment properties are set out below:

	Discount rate (Income approach – discounted cash flow method)	Capitalization rate (Income approach – overall capitalization rate method)	Terminal Rate (Income approach – overall capitalization rate method)	Price per square foot (Direct comparison approach)
March 31, 2018				
Maximum	9.50%	8.25%	8.50%	\$ 479.48
Minimum	4.25%	2.74%	3.75%	\$ 46.79
Weighted average	6.64%	5.77%	6.08%	\$ 177.40
December 31, 2017				
Maximum	9.50%	8.25%	8.50%	\$ 479.48
Minimum	4.25%	2.74%	3.75%	\$ 45.52
Weighted average	6.62%	5.75%	6.06%	\$ 176.83

Investment properties as at March 31, 2018 and December 31, 2017 have been valued using the overall capitalization rate (“OCR”) method, the discounted cash flow method and in certain select cases, using the market comparable method. In applying the OCR method, the stabilized net operating income is capitalized at the appropriate capitalization rate and from this value, estimated future significant capital expenditures impacting the properties have been deducted. In applying the discounted cash flow method, the expected future cash flows are discounted, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income. In applying the market comparable method, a dollar value per square foot, or in case of land, dollar value per acre, is observed for transactions in markets where the Trust holds similar investment properties and extrapolated to estimate the fair value of the investment property.

Fair values are most sensitive to changes in capitalization rates. At March 31, 2018, a 0.25% increase in the weighted average capitalization rate would decrease the fair value of investment properties by \$134,126 (December 31, 2017 - \$131,756) and a 0.25% decrease in the weighted average capitalization rate would increase the fair value of investment properties by \$147,024 (December 31, 2017 – \$144,470).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Condensed Consolidated Interim Financial Statements
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3. Investment properties (continued):

(f) IFRIC 21 adjustments:

IFRIC 21 adjustments remove the Trust's ability to accrue and recognize property taxes on a pro-rata basis throughout the given reporting period. As a result, property taxes are recognized when the obligating event occurs, which falls on various dates throughout the given reporting year for the properties owned and operated. For the three months ended March 31, 2018, the Trust recognized a \$6,543 property tax liability adjustment which decreases the carrying value of investment properties (December 31, 2017 – increases the carrying value of investment properties by \$1,895) and a corresponding fair value gain of \$6,543 (December 31, 2017 – loss of \$1,895), resulting in a net impact of \$nil to the carrying value of investment properties.

4. Amounts receivable and other assets:

Amounts receivable and other assets consist of the following:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Rents and recoveries receivable	\$ 3,251	\$ 2,738
Unbilled recoveries receivable	3,042	1,085
Prepaid mortgage discharges and expenses	8,471	16,801
Other	4,489	3,060
	\$ 19,253	\$ 23,684

Other mainly includes furniture and fixtures, capitalized software costs as well as non-trade receivables owed to the Trust.

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5. Co-ownership interests:

Assets Jointly Controlled	Location	Trust's Ownership	
		March 31, 2018	December 31, 2017
55 Doney Crescent	Vaughan, ON	25%	25%
845 Laurentian Drive	Burlington, ON	25%	25%
5330 South Service Road	Burlington, ON	25%	25%
120 Trillium Drive	Kitchener, ON	25%	25%
365 Passmore Avenue	Scarborough, ON	25%	25%
385 Passmore Avenue	Scarborough, ON	25%	25%
4350 Castleton Road	London, ON	25%	25%
1601 Dickson Street	Montreal, QC	25%	25%
2800 Roxburgh Road	London, ON	25%	25%
28084 & 28234 Acheson Road	Acheson, AB	50%	50%
260032 Range Road 291	Balzac, AB	50%	50%
1436 Chevrier Boulevard	Winnipeg, MB	50%	50%
27750 Acheson Road	Acheson, AB	50%	50%
12155 154th Street	Edmonton, AB	25%	25%
7303 30th Street	Calgary, AB	25%	25%
7403 30th Street	Calgary, AB	25%	25%
11415 168th Street NW	Edmonton, AB	25%	25%
15709 114th Avenue NW	Edmonton, AB	25%	25%
199 Traders Boulevard East	Mississauga, ON	25%	25%

The following amounts represent the Trust's proportionate share of the assets and liabilities of properties under joint control as at March 31, 2018 and December 31, 2017, and the results of operations included in the condensed consolidated statements of net earnings for the three months ended March 31, 2018 and 2017.

	March 31, 2018	December 31, 2017
<i>(thousands of Canadian dollars)</i>		
Non-current assets	\$ 65,386	\$ 64,186
Current assets	1,092	975
Total assets	\$ 66,478	\$ 65,161
Non-current liabilities	19,955	20,273
Current liabilities	2,855	3,239
Total liabilities	22,810	23,512
Unitholders' equity	43,668	41,649
Total liabilities and unitholders' equity	\$ 66,478	\$ 65,161

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5. Co-ownership interests (continued):

<i>(thousands of Canadian dollars)</i>	Three months ended March 31,	
	2018	2017
Revenues	\$ 1,308	\$ 1,097
Expenses	(523)	(541)
Fair value gain to investment properties	1,020	-
Net earnings and comprehensive income	\$ 1,805	\$ 556

6. Class A units:

<i>(thousands of Canadian dollars, except unit amounts)</i>	Class A		Total
	<i>(authorized = unlimited)</i>		
	Units issued and Outstanding	Carrying Value	Carrying Value
Balance, December 31, 2017	305,880,218	\$ 1,451,280	\$ 1,451,280
Balance, March 31, 2018	305,880,218	\$ 1,451,280	\$ 1,451,280
Balance, December 31, 2016	245,680,968	\$ 1,091,323	\$ 1,091,323
Issuance of units	36,404	216	216
Balance, March 31, 2017	245,717,372	\$ 1,091,539	\$ 1,091,539

Refer to the Trust's consolidated financial statements for the year ended December 31, 2017 for a description of the Trust's Class A units.

(a) Issuance of Class A Units:

During the three months ended March 31, 2018, no Class A units were issued.

(b) Short Form Base Shelf Prospectus:

On August 10, 2016, the Trust filed a short form base shelf prospectus, qualifying the Trust to offer and issue Class A units, debt securities, warrants, subscription receipts, or any combination thereof, having an aggregate offering price of up to \$750,000 (or its equivalent in any other currency used to denominate the securities issued at the time of offering) at any time during the 25-month period that the short form base shelf prospectus remains valid. As at March 31, 2018, 86,790,500 Class A units have been issued under the short form base shelf prospectus.

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6. Class A units (continued):

(c) Distributions:

The Trust intends to make monthly distributions to unitholders. Distributions are at the discretion of the Trustees of the Trust.

The Trust announced cash distributions for the three months ended March 31, 2018 and 2017 to Class A unitholders at \$0.026 per Class A unit per month.

Three months ended March 31	Class A units	
<i>(thousands of Canadian dollars, except per unit amounts)</i>	2018	2017
Distributions	\$ 23,858	\$ 19,164
Distributions per weighted average unit	\$ 0.08	\$ 0.08

7. Unit based compensation liabilities:

Unit based compensation liabilities consists of the following:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Restricted unit plan liability (a)	\$ 7,021	\$ 5,458
Incentive unit option plan liability (b)	1,491	1,082
Deferred unit plan liability (c)	265	220
	8,777	6,760
Less current portion	3,226	2,064
Non-current portion	\$ 5,551	\$ 4,696

(a) Restricted unit plan liability:

Refer to the Trust's financial statements for the year ended December 31, 2017 for a description of the Trust's restricted unit plan.

(i) Issuance and redemptions of restricted units:

For the three months ended March 31, 2018, three employees redeemed an aggregate of 3,181 restricted units at a weighted average price of \$8.10 per restricted unit for cash and nil restricted units were redeemed for Class A units. For the three months ended March 31, 2017, three employees redeemed an aggregate of 49,306 restricted units at a weighted average price of \$5.93 per restricted unit, for a combination of cash and Class A units. A total of 36,404 Class A units were issued from treasury at an average price of \$5.92 per Class A unit relating to the redemption of restricted units, while the remaining restricted unit redemptions were settled for cash.

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7. Unit based compensation liabilities (continued):

(a) Restricted unit plan liability (continued):

(ii) Valuation:

The restricted units and deferred units are measured at fair value each reporting period and the change in fair value is recognized as an expense (when the Trust's unit price increases) or gain (when the Trust's unit price decreases) to compensation expense. For the three months ended March 31, 2018, \$1,592 in compensation expense (March 31, 2017 - \$472), was included in general and administrative expenses in the condensed consolidated interim statements of net earnings in relation to the restricted units and distribution restricted units issued as at March 31, 2018.

<i>(thousands of Canadian dollars, except unit amounts)</i>	Restricted Units	Carrying Value
Balance, December 31, 2017	825,567	\$ 5,458
Granting of units	10,336	267
Redemption of units	(3,181)	(26)
Fair value adjustment	-	1,322
Balance, March 31, 2018	832,722	\$ 7,021
Balance, December 31, 2016	682,787	\$ 3,086
Granting of units	139,321	100
Redemption of units	(49,306)	(292)
Fair value adjustment	-	\$ 421
Balance, March 31, 2017	772,802	\$ 3,315

In determining the fair value of the Restricted Unit Plan ("RUP") liability at each reporting period, the Trust's closing unit price is used to value the total restricted units outstanding. In addition, the Trust determines whether the performance factor as defined in the RUP, if applicable, will be met for each grant and the associated distribution restricted units, and uses the following weighted average assumptions in the determination of fair value.

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7. Unit based compensation liabilities (continued):

(a) Restricted unit plan liability (continued):

(ii) Valuation (continued):

	March 31, 2018	December 31, 2017
Annual dividend per unit	\$ 0.312	\$ 0.312
Closing unit price	\$ 8.04	\$ 6.76
Discount rate	25%	25%

Included in compensation expense for the three months ended March 31, 2018 is a \$1,322 fair value adjustment expense (March 31, 2017 - \$421) relating to the restricted units due to the increase in the Trust Unit's price from December 31, 2017 to March 31, 2018.

As at March 31, 2018, the weighted average contractual life of the restricted units was 6.6 months (December 31, 2017 – 8.7 months).

(b) Incentive unit option plan liability

On August 23, 2013, PIRET's Board of Trustees granted options to certain Trustees to purchase in aggregate, 705,000 Class A units under the PIRET Incentive Unit Option Plan. Each option provides the holder with the right for up to 10 years to purchase one Class A unit at an exercise price of \$4.29. Vesting of the options occurs equally over the next ten years. The following table presents the details of the options granted and outstanding as at March 31, 2018:

<i>(thousands of Canadian dollars, except unit amounts and per unit basis)</i>	Number of Unit Options	Exercise Price	Carrying Value
Balance, December 31, 2017	465,000	\$ 4.29	\$ 1,082
Fair value adjustment			409
Balance, March 31, 2018	465,000	\$ 4.29	\$ 1,491
Options exercisable, end of period	186,000	\$ 4.29	
Balance, December 31, 2016	705,000	\$ 4.29	\$ 1,015
Fair value adjustment			213
Balance, March 31, 2017	705,000	\$ 4.29	\$ 1,228
Options exercisable, end of period	211,500	\$ 4.29	

On May 10, 2017, the Board of Trustees approved the accelerated vesting of 168,000 options held by a retired Trustee which had been part of an original grant of 240,000 options. On May 15, 2017, the retired Trustee exercised 240,000 options at the option exercise price of \$4.29 per unit, in exchange for 240,000 Class A units for proceeds of \$1,029.

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7. Unit based compensation liabilities (continued):

(b) Incentive unit option plan liability (continued):

The fair value of the stock option grant was estimated on the date of the grant and is updated at each reporting period using the Black-Scholes options pricing model and is based on the following assumptions:

	March 31, 2018	December 31, 2017
Expected option life (years)	4.89	5.14
Risk-free interest rate	1.75%	1.75%
Dividend yield	3.88%	4.62%
Expected volatility	57.32%	57.69%

Included in compensation expense for the three months ended March 31, 2018 is a \$409 fair value adjustment expense (March 31, 2017 - \$213) relating to the Incentive Unit Option Plan.

(c) Deferred unit plan liability

The Trust has adopted the Deferred Unit Plan (the "DUP") effective as of January 1, 2017. The purpose of the DUP is to promote a greater alignment of interests between the non-executive Trustees and the Unitholders.

Refer to the Trust's financial statements for the year ended December 31, 2017 for a description of the Trust's DUP.

The value of the Deferred Units is recognized as Trustee compensation expense in the period coinciding with the Trustees' service period to which the grants relate. The Deferred Units are measured at fair value each reporting period and the change in fair value is recognized as an expense (when the Trust's unit price increases) or gain (when the Trust's unit price decreases) to compensation expense. For the three months ended March 31, 2018, \$44 in compensation expense (March 31, 2017 - \$69), was included in general and administrative expenses in the condensed consolidated interim statements of net earnings in relation to outstanding Deferred Units as at March 31, 2018.

<i>(thousands of Canadian dollars, except unit amounts)</i>	Deferred Unit Plan Units	Carrying Value
Balance, December 31, 2017	32,512	\$ 220
Granting of units	314	3
Fair value adjustment	-	42
Balance, March 31, 2018	32,826	\$ 265
Balance, December 31, 2016	-	\$ -
Granting of units	11,408	69
Fair value adjustment	-	1
Balance, March 31, 2017	11,408	\$ 70

Included in Trustee compensation expense for the three months ending March 31, 2018 is a \$42 (March 31, 2017 - \$1) fair value adjustment expense.

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8. Mortgages payable and other loans:

The mortgages payable and other loans consist of the following:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Mortgages payable (a), net of unamortized financing costs	\$ 1,059,435	\$ 1,026,029
Other loans (b), net of unamortized financing costs	243,626	195,527
Mortgage interest rate swaps (c)	(3,342)	(2,583)
Mortgage payable on assets held for sale (a) (note 22)	(6,966)	(7,053)
	1,292,753	1,211,920
Less current portion	122,461	95,082
Non-current portion	\$ 1,170,292	\$ 1,116,838

(a) Mortgages payable:

Mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 3.82% (note 8(c)) as at March 31, 2018 (December 31, 2017 – 3.82%).

Mortgages payable are secured by charges on the Trust's investment properties. At March 31, 2018, investment properties with a fair value of \$2,326,134 (December 31, 2017 – \$2,265,256) are pledged as security against the mortgages payable and other loans.

The amount of mortgages payable at March 31, 2018 was \$1,059,435 (December 31, 2017 - \$1,026,029). Included in mortgages payable are the related unamortized financing costs of \$5,120 as at March 31, 2018 (December 31, 2017 - \$5,308), which are amortized over the term of each mortgage, using the effective interest rate method.

Included in mortgages payable as at March 31, 2018 is the mark to market adjustment of \$916 (December 31, 2017 – \$1,227) on seven mortgages (December 31, 2017 – five mortgages), which is being amortized over the remaining term of the related mortgages using the effective interest rate method.

On February 1, 2018, the Trust assumed a mortgage of \$22,807, secured by its newly acquired property in Montreal, Quebec (note 3(a)), with 7.5 years remaining on the term. The annual interest rate is fixed through a swap agreement at 3.48% (note 8(c)).

On February 22, 2018, the Trust assumed two mortgages totaling \$25,482 with 3 years remaining on the terms and with fixed interest rates of 3.47% and 3.75% per annum (weighted average interest rate of 3.53%), secured by its newly acquired investment properties in Acheson, Alberta (note 3(a)). The related unamortized financing costs, included in mortgages payable, are \$13 as at March 31, 2018, which are amortized over the term of the mortgage, using the effective interest rate method. The related unamortized mark to market mortgage adjustments, included in mortgages payable, are \$249 as at March 31, 2018, which are amortized over the term of the mortgage, using the effective interest rate method.

As at March 31, 2018, the Trust classified one mortgage totaling \$6,966 as a liability on assets held for sale (December 31, 2017 – one mortgage totaling \$7,053). As at March 31, 2018, included in the mortgage payable on assets held for sale is the related unamortized financing costs of \$18 (December 31, 2017 - \$19) and related unamortized mark to market adjustments of \$247 (December 31, 2017 - \$263) (note 21).

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8. Mortgages payable and other loans (continued):

(a) Mortgages payable (continued):

Scheduled principal repayments and maturities, as at March 31, 2018, to be made on the mortgages payable over the next five years and thereafter, and the corresponding weighted average effective rates are as follows:

As at March 31					
<i>(thousands of Canadian dollars)</i>	Weighted Average Effective Rate ⁽¹⁾	Scheduled Principal Repayments	Principal Maturities	Total Repayments	
2018	3.57%	\$ 23,752	\$ 49,775	\$ 73,527	
2019	3.84%	30,052	86,692	116,744	
2020	4.15%	26,367	163,063	189,430	
2021	3.70%	22,776	113,397	136,173	
2022	3.85%	16,934	165,785	182,719	
Thereafter	3.73%	37,408	327,638	365,046	
	3.82%	\$ 157,289	\$ 906,350	\$ 1,063,639	
Unamortized mortgage transaction costs				(5,120)	
Unamortized mark to market mortgage adjustment				916	
				\$ 1,059,435	

⁽¹⁾ The Trust entered into fixed interest rate swaps. See note 8(c).

(b) Other loans:

- (i) On January 17, 2017, the Trust entered into an interim construction loan facility of \$22,263 to assist in the financing of the property under development in Richmond, British Columbia. The facility is secured by a leasehold mortgage including general assignment of rents and leases. The loan has a two year term and bears interest at the lender's prime rate plus 0.75% or the lender's banker's acceptance rate of 2.25%.

The loan outstanding as at March 31, 2018 is \$240 (December 31, 2017 - \$240). As at March 31, 2018, the related unamortized financing costs are \$169 (December 31, 2017 - \$220).

- (ii) On April 12, 2017, the Trust entered into an unsecured \$150,000 revolving operating loan facility (the "Unsecured Credit Facility"). The Unsecured Credit Facility has a three-year term and matures on April 12, 2020 and bears interest currently at the lender's prime rate or U.S. base rate plus 70 basis points or at the lender's banker's acceptance rate plus 170 basis points. The Unsecured Credit Facility provides for interest rate declines with improved credit rating levels. The Trust has the option to increase the Unsecured Credit Facility up to an additional \$100,000 for a total facility limit of \$250,000. On November 30, 2017, the agreement was amended and restated to include the U.S. Subsidiary as borrower and to include the equivalent amount in Canadian dollar advances made in U.S. dollars to the total facility limit of \$250,000.

The loan balance outstanding at March 31, 2018 related to US draws is \$72,206 (US\$ 56,000) (December 31, 2017 - \$70,252 (US\$ 56,000)) and \$21,000 related to Canadian draws (December 31, 2017 - \$nil). As at March 31, 2018, the related unamortized financing costs are \$443 (December 31, 2017 - \$483).

- (iii) On August 18, 2017, the Trust acquired land located in Wilmer, Texas. Upon acquisition, the Trust entered into a promissory note payable agreement of \$1,433 (US\$ 1,133) with the vendor. As the Trust performs municipal infrastructure improvements, the promissory note payable is reduced. The promissory note is secured by the newly acquired land located in Wilmer, Texas. The loan has a one-year term and bears no interest.

The promissory note payable is \$1,374 (US\$ 1,065) as at March 31, 2018 (December 31, 2017 - \$1,348 (US\$ 1,074)).

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8. Mortgages payable and other loans (continued):

(b) Other loans (continued):

- (iv) On September 29, 2017, the Trust entered into a \$150,000 unsecured term loan facility (the “Unsecured Term Loan”) and drew \$125,000. The Trust had the option to draw the remaining \$25,000 within six months, otherwise the option would be cancelled. On March 7, 2018, the Trust drew the remaining \$25,000 available on the facility. The Unsecured Term Loan matures on February 28, 2023 and bears interest at levels consistent with entities carrying an investment grade rating and also provides for interest rate declines with improved credit rating levels.

The Unsecured Term Loan balance outstanding at March 31, 2018 was \$150,000 (December 31, 2017 - \$125,000). The related unamortized financing costs are \$583 (December 31, 2017 - \$610).

(c) Mortgage Interest Rate swaps:

The Trust has entered into interest rate swaps on twelve mortgages with an outstanding notional amount of \$171,728 with four Canadian financial institutions to reduce the impact of fluctuating interest rates and to fix the Trust’s interest rates on its long-term debt between 2.76% and 4.33%. As at March 31, 2018, the fair value asset of the mortgage interest rate swaps is \$3,342 (December 31, 2017 – \$2,583).

The net gain (loss) resulting from the change in fair value of these derivative contracts for the three month period ended March 31, 2018 and 2017 are as follows:

<i>(thousands of Canadian dollars)</i>		Fair value asset		Net gain (loss) on derivative contracts	
	March 31,	December 31,	Three months ended March 31		
	2018	2017	2018		2017
\$	3,342	\$ 2,583	\$ 759	\$	(83)

9. Preferred Units of Subsidiary:

During 2015, a wholly owned subsidiary issued 125 preferred units at \$1,384 (US\$ 1,000) per unit for gross proceeds of \$173 (US\$ 125). As at March 31, 2018, the carrying value is \$161 (US\$ 125) (December 31, 2017 - \$157 (US\$ 125)). On consolidation, the preferred units of the wholly owned subsidiary are reflected as a liability of the Trust.

The preferred units are non-voting preferred units. Unitholders holding preferred units are entitled to receive dividends from the wholly owned subsidiary at a per annum rate equal to 12.5% payable on June 30 and December 31 of each year. Unitholders holding preferred units will be allocated such return in priority to any allocations or distributions to all other classes and series of units of the wholly-owned subsidiary. However, after payment of such return to unitholders holding preferred units, preferred unitholders are not otherwise entitled to share in the income of the wholly-owned subsidiary.

The wholly-owned subsidiary may redeem the preferred units at any time, for a price equal to US\$ 1,000 per preferred unit, plus accumulated and unpaid distributions and a redemption premium if the preferred units are redeemed before January 1, 2018. As at March 31, 2018, the wholly-owned subsidiary had no redemptions. The preferred units are no longer subject to a redemption premium.

Due to the fixed distributions and preferred treatment for the preferred units, they meet the definition of a liability. In addition, the Trustees do not expect to redeem any preferred units within the next year. Thus, the preferred units are classified as non-current liabilities.

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10. General and administrative expenses:

General and administrative expenses consist of the following:

<i>(thousands of Canadian dollars)</i>	Three months ended March 31	
	2018	2017
Compensation expense, excluding fair value adjustments	\$ 896	\$ 654
Non-cash fair value compensation expense	1,773	635
Administrative expenses	163	159
Legal and filing fees	119	256
Professional fees	240	262
Technology	96	63
Insurance	23	24
Other expenses	300	262
Special transaction costs (note 23)	2,068	-
	\$ 5,678	\$ 2,315

11. Finance income and finance expenses:

<i>(thousands of Canadian dollars)</i>	Three months ended March 31	
	2018	2017
Finance income		
Interest	\$ 182	\$ 254
Finance expenses		
Mortgage interest	\$ 9,602	\$ 10,034
Other loan interest and fees	1,728	221
Amortization expense on mortgage and other loans	416	463
	\$ 11,746	\$ 10,718

During the three months ended March 31, 2018, interest capitalized to properties under development was \$41 (March 31, 2017 - \$36) and was based on a weighted average interest rate of 6.3% (March 31, 2017 - 6.3%).

12. Fair value of financial instruments:

The fair value of a financial instrument is the estimated amount of consideration that could be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. The fair values of the Trust's assets and liabilities were determined as follows:

(a) Current assets and liabilities:

The carrying amounts for cash, cash held in trust, amounts receivable, loan receivable, vendor take-back receivable, accounts payable and accrued liabilities, rental deposits, and other loans approximate their fair values due to the short-term nature of these items.

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12. Fair value of financial instruments (continued):

(b) Mortgage payable:

The fair values of 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 (Level 2). Discount rates are either provided by lenders or are observable in the open market.

<i>(thousands of Canadian dollars)</i>	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgages payable (including interest rate swaps)	\$ 1,056,093	\$ 1,060,092	\$ 1,023,446	\$ 1,030,860

13. Capital management:

Refer to the Trust's financial statements for the year ended December 31, 2017 for a description of the Trust's capital management policy.

The Trust's indebtedness level, in accordance with the Trust's Declaration, is 39.4% as at March 31, 2018 (December 31, 2017 – 37.8%). The Trust's indebtedness ratio, meaning any obligations of the Trust for borrowed money but excluding trade accounts payable, distribution to unitholders and short-term acquisition credit facilities, relative to the gross book value of the assets of the Trust.

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Mortgages payable and other loans	\$ 1,292,753	\$ 1,211,920
Mortgage payable on assets held for sale (note 22)	6,966	7,053
Total indebtedness	1,299,719	1,218,973
Total assets	\$ 3,300,539	\$ 3,220,813
Indebtedness ratio	39.4%	37.8%

The monthly distribution to Class A Unitholders was \$0.026 per Class A unit for the three months ended March 31, 2018 (December 31, 2017 - \$0.026).

The Trust is in compliance with all investment and debt restrictions pursuant to the Trust Declaration for the three months ended March 31, 2018 and for the year ended December 31, 2017.

On an individual investment property basis, and at the Trust's consolidated level, the Trust is required by some of its lenders to maintain a debt service coverage ratio, ranging from 1.20 to 1.40 on the operating results of the applicable borrowings. As at March 31, 2018, the Trust is in compliance with these covenants.

The capital structure consisted of the following components at March 31, 2018 and December 31, 2017:

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13. Capital management (continued):

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Units based compensation liabilities	\$ 8,777	\$ 6,760
Mortgages payable and other loans	1,292,753	1,211,920
Mortgages payable on assets held for sale (note 22)	6,966	7,053
Class A units	1,451,280	1,451,280
Accumulated earnings	437,746	436,545
Accumulated other comprehensive income	19,365	7,852
Non-controlling interest	11,225	11,226
	\$ 3,228,112	\$ 3,132,636

14. Fair Value Hierarchy:

Fair value measurements recognized in the condensed consolidated interim statements of financial position are categorized in accordance with the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table classifies assets and liabilities measured at fair value according to the three-level hierarchy.

As at March 31, 2018			
<i>(thousands of Canadian dollars)</i>	Level 1	Level 2	Level 3
Investment properties	\$ -	\$ -	\$ 3,209,951
Investment properties held for sale	-	-	21,335
Unit based compensation liabilities	-	8,777	-
Mortgage interest rate swaps asset	-	3,342	-
As at December 31, 2017			
<i>(thousands of Canadian dollars)</i>	Level 1	Level 2	Level 3
Investment properties	\$ -	\$ -	\$ 3,108,059
Investment properties held for sale	-	-	21,335
Unit based compensation liabilities	-	6,760	-
Mortgage interest rate swaps liability	-	2,583	-

There have been no transfers between levels during the period.

As disclosed above, the fair value of the Trust's investment properties is considered to be at Level 3 in the hierarchy, as significant unobservable inputs are required to determine fair value.

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15. 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 and vendor take-back receivable. This risk is mitigated by obtaining advance deposits and initiating a prompt collection process. The amount of rents receivables at March 31, 2018 was \$3,251 (December 31, 2017 - \$2,738), which included \$965 of past due amounts (December 31, 2017 - \$815). The amount of unbilled receivables at March 31, 2018 was \$3,042 (December 31, 2017 - \$1,085).

The Trust is also exposed to credit risk in the event of non-payment of the vendor take-back receivable. This risk is mitigated by the security obtained over the two investment properties sold. The amount of the vendor take-back receivable as at March 31, 2018 was \$10,125 (December 31, 2017 - \$10,125). The vendor take-back receivable bears an interest rate of 4.0% and matured on September 25, 2016. The purchaser exercised their option to extend the term for one additional year and the vendor take-back receivable which matured on September 25, 2017. The purchaser further extended its term by one additional year to mature on September 25, 2018 and the interest rate was amended to 3.45%.

For the three months ended March 31, 2018, the Trust earned approximately 18.2% (December 31, 2017 - 20.0%) of its revenue from a single tenant in Alberta, Ontario, Quebec and the U.S.

(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 bear interest at fixed rates, except for twelve mortgages that are variable but for which the Trust has entered into interest rate swaps to reduce the interest rate exposure (note 8(c)); therefore, the Trust is not exposed to significant interest rate risk.

The Trust's other loans bear interest at floating rates based on the lender's prime rate or at the lender's banker's acceptance rate. Based on the outstanding balance of the other loans at March 31, 2018 of \$243,206 (December 31, 2017 - \$195,252), the impact of a 100 basis points change will increase or decrease the Trust's interest expense or earnings by \$2,432 (December 31, 2017 - \$1,953) annually.

(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 limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Trust were required to liquidate a real property investment, the proceeds to the Trust might be significantly less than the aggregate carrying value of such property.

The Trust diligently monitors the repayment dates of its mortgages. The mortgage due dates range from 2018 to 2032, with a weighted average remaining term of 4.6 years (December 31, 2017 - 4.7 years).

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15. Risk management (continued):

(d) Currency risk:

The Trust is subject to foreign currency fluctuations that may impact its financial position and earnings resulting from the ownership of properties located in the United States and the rental income earned from these properties. In order to mitigate a part of this risk, the Trust's debt related to its U.S. assets is held in U.S. dollars to act as a natural hedge.

16. Related party transactions:

- (a) Key personnel have the authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust's key personnel include the Chief Executive Officer, Chief Financial Officer, Vice Presidents and the Trustees. Salaries, bonuses, trustee fees, and other short-term employee benefits and incentives are accrued when earned and are as follows:

<i>(thousands of Canadian dollars)</i>	Three months ended March 31	
	2018	2017
Salaries, trustee fees, and other		
short-term employee benefits	\$ 958	\$ 766
Unit-based compensation	2,147	755
	\$ 3,105	\$ 1,521

- (b) On December 17, 2013, certain employees of the Trust were granted loans for the purpose of purchasing Class A units of the Trust through the facilities of the TSX. The loans commenced on December 17, 2013 and mature on December 31, 2023.

Two additional loans were advanced to employees during 2014 and mature in 2024. Six additional loans were advanced to employees in 2015 that mature in 2025 and six employee loans were paid back in full.

The loans bear interest on a monthly basis at the Trust's borrowing rate per annum, currently equal to the prime rate of the Canadian Imperial Bank of Commerce plus 1.30%. As security for the obligations of the employees, a unit pledge agreement has been executed with respect to the units owned. As at March 31, 2018, the outstanding balance of the loans were \$857 (December 31, 2017 - \$866).

17. Operating segments:

The Trust has five reportable segments, which are: British Columbia (BC), Alberta (AB), Ontario (ON), the United States of America (U.S.A.) and Other (comprising of less significant markets in Canada). For each of the geographic locations, the Chief Executive Officer reviews operations based on net operating income by geographic location, which is presented below.

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17. Operating segments (continued):

Statement of net operating income

Three months ended March 31, 2018

(thousands of Canadian dollars)

	BC	AB	ON	U.S.A.	Other	Corporate	Total
Revenues							
Rental and recoveries	\$ 8,306	\$ 11,958	\$ 22,472	\$ 15,393	\$ 4,609	\$ 94	\$ 62,832
Property operating expenses:							
Insurance	81	41	107	84	18	-	331
Management fees	178	360	717	175	74	-	1,504
Operating costs	978	1,114	1,729	1,418	358	-	5,597
Property taxes	1,428	1,917	4,132	9,090	1,104	-	17,671
Net operating income	\$ 5,641	\$ 8,526	\$ 15,787	\$ 4,626	\$ 3,055	\$ 94	\$ 37,729

Three months ended March 31, 2017

(thousands of Canadian dollars)

	BC	AB	ON	U.S.A.	Other	Corporate	Total
Revenues							
Rental and recoveries	\$ 7,291	\$ 12,932	\$ 18,041	\$ 11,856	\$ 3,329	\$ 125	\$ 53,574
Property operating expenses:							
Insurance	61	43	94	31	16	-	245
Management fees	161	357	692	20	80	-	1,310
Operating costs	790	921	1,235	1,228	341	-	4,515
Property taxes	1,234	1,944	3,456	5,551	790	-	12,975
Net operating income	\$ 5,045	\$ 9,667	\$ 12,564	\$ 5,026	\$ 2,102	\$ 125	\$ 34,529

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17. Operating segments (continued):

Other information from the Statement of Financial Position

March 31, 2018							
<i>(thousands of Canadian dollars)</i>	BC	AB	ON	U.S.A.	Other	Corporate	Total
Investment properties	\$400,100	\$558,347	\$1,281,568	\$781,377	\$188,559	\$ -	\$3,209,951
Total assets	287,186	387,787	794,666	437,933	111,998	1,280,969	3,300,539
Mortgages payable and other loans	135,446	248,145	332,781	285,160	48,969	242,252	1,292,753
Total liabilities	\$138,885	\$256,485	\$ 352,431	\$311,365	\$ 51,517	\$ 270,240	\$1,380,923
December 31, 2017							
<i>(thousands of Canadian dollars)</i>	BC	AB	ON	U.S.A.	Other	Corporate	Total
Investment properties	\$400,100	\$507,311	\$1,284,430	\$760,188	\$156,030	\$ -	\$3,108,059
Total assets	404,180	530,272	1,309,236	783,160	161,615	32,350	3,220,813
Mortgages payable and other loans	157,130	225,772	334,654	277,447	21,389	195,528	1,211,920
Total liabilities	\$171,704	\$235,993	\$ 371,469	\$260,087	\$ 24,968	\$ 249,689	\$1,313,910

18. Leases:

The Trust has entered into leases on its property portfolio. The commercial property leases typically have lease terms between 3 to 25 years and include renewal options with rental rates according to prevailing market conditions. At March 31, 2018, 63% of the properties' gross leasable area is leased to single tenants (December 31, 2017 - 65%).

Future minimum rental revenues under non-cancellable operating leases are as follows:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Within 1 year	\$ 177,248	\$ 169,714
Years 2 – 5	573,560	561,908
Greater than 5 years	507,739	464,231
	\$ 1,258,547	\$ 1,195,853

19. Commitments:

As at March 31, 2018, the Trust has issued letters of credit in the amount of \$1,663 (December 31, 2017 - \$1,275).

The Trust has twelve investment properties subject to non-cancellable long-term land leases in which the underlying land is owned by a third party and leased to the Trust. Unless the lease term is extended, the land will return to the owner at the expiration of the lease term.

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19. Commitments (continued):

Future minimum lease payments related to the land leases were as follows:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Within 1 year	\$ 9,004	\$ 8,538
Years 2 – 5	47,693	44,708
Greater than 5 years	290,986	281,213
	\$ 347,683	\$ 334,459

For the three months ended March 31, 2018, the Trust recognized land lease expense of \$2,207 (March 31, 2017 - \$1,733) and the remaining term of the Trust's land leases range from 9 to 49 years.

On October 1, 2017 the Trust transferred a 101,133 sf property in Edmonton, Alberta with a fair value of \$7,491, from income producing properties to properties under development. As at March 31, 2018, costs incurred subsequent to the transfer amounted to \$224 (December 31, 2017 - \$186). Total costs for the redevelopment are estimated to be approximately \$2,920.

On July 13, 2017, the Trust acquired a 150,000 sf warehouse located in Scarborough, Ontario. Upon closing the Trust entered into a redevelopment agreement to redevelop the site, with a new state-of-the-art 300,000 sf distribution centre for a total estimated cost of \$19,334. Construction on the redevelopment site commenced in the first quarter of 2018. As of March 31, 2018, \$725 has been incurred to date (December 31, 2017 - \$390).

On August 18, 2017, the Trust acquired 84.7 acres of land located in Wilmer, Texas, as a future development site. Upon acquisition, there was a commitment to spend \$2,536 (US\$ 2,005) on municipal infrastructure improvements of which the Trust will be responsible for \$1,103 (US\$ 872). The Trust entered into a promissory note payable agreement of \$1,433 (US\$ 1,133) with the vendor (note 8(b)(iii)). As the Trust performs municipal infrastructure improvements, the promissory note payable is reduced. As of March 31, 2018, \$153 (US\$ 119) (December 31, 2017 – \$129 (US\$ 103)) has been incurred to date, of which \$67 (US\$ 52) (December 31, 2017 – \$56 (US\$ 45)) represents the Trust 's share, \$11 (US\$ 8) of which was incurred during Q1-2018.

On January 31, 2018 the Trust acquired a 14,818 sf property in Edmonton, Alberta for a purchase price of \$1,900, which was immediately transferred to properties under development. As at March 31, 2018, costs incurred amounted to \$226 (December 31, 2017 - \$nil). Total costs for the redevelopment are estimated to be approximately \$1,070.

20. Income taxes:

For the Canadian and U.S. corporate subsidiaries of the Trust, income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in net profit or loss except to the extent that it relates to business combinations or items recognized directly in equity or in other comprehensive income.

Current income tax expense is based on the results for the period, adjusted for items that are not currently taxable or deductible and for any changes to tax payable or receivable in respect to previous periods. Current tax is calculated using the tax rates enacted or substantively enacted as at the financial position date.

Deferred income tax expense is the tax expected to be payable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial position and the corresponding tax bases used in the computation of taxable income or loss for the period. Deferred tax is calculated based on the tax rates that are expected to be applied in the period of realization or settlement when such temporary differences reverse, based on the laws that have been enacted or substantively enacted as at the financial position date.

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20. Income taxes (continued):

The U.S. Subsidiary made and intends to maintain an election to be taxed as a real estate investment trust (“U.S. REIT”) under the U.S. Internal Revenue Code (the “Code”) and to take the necessary steps to qualify as a U.S. REIT pursuant to the Code. In order for the U.S. Subsidiary to qualify as a U.S. REIT, the U.S. Subsidiary must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its shareholders equal to a minimum of 90% of its U.S. REIT taxable income, computed without regards to a dividends paid deduction and net capital gains.

Management intends to operate the U.S. Subsidiary in such a manner so as to qualify as a U.S. REIT on a continuous basis in the future. However, actual qualification as a U.S. REIT will depend upon meeting, through actual annual and quarterly operating results, the various conditions imposed by the Code. If the U.S. Subsidiary fails to qualify as a U.S. REIT in any taxable year, it will be subject to U.S. federal and state income taxes at regular U.S. corporate rates, including any applicable alternative minimum tax. In addition, the U.S. Subsidiary may not be able to requalify as a U.S. REIT for the four subsequent taxable years.

Even if the U.S. Subsidiary qualifies for taxation as a U.S. REIT, the U.S. Subsidiary may be subject to certain U.S. state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

Management believes the U.S. Subsidiary has met all requirements to be a U.S. REIT and as such generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed as a dividend to its shareholders annually. Such dividends paid by the U.S. Subsidiary to its non-U.S. shareholder are subject to 30% U.S. withholding tax and give rise to current income tax expense.

On December 22, 2017, the President of the United States signed into law the *Tax Cuts and Jobs Act* (“U.S. Tax Reform”). The U.S. Tax Reform reduces the U.S. federal corporate income tax rate from 35% to 21% effective as of January 1, 2018.

For the three months ended March 31, 2018, current income tax expense of \$252 was recognized (March 31, 2017 - \$434).

As of March 31, 2018, a deferred tax liability of \$15,597 (December 31, 2017 – \$14,604) has been recorded and relates primarily to the increased fair value of the investment properties located in the U.S.

21. Supplementary cash flow information:

<i>(thousands of Canadian dollars)</i>	Three months ended March 31,	
	2018	2017
Changes in non-cash working capital:		
(Increase)/decrease in amounts receivable and prepaid expenses	\$ (2,298)	\$ 1,844
Increase/(decrease) in rental deposits	277	(421)
(Decrease)/increase in accounts payable and accrued liabilities	(10,919)	3,884
	\$ (12,940)	\$ 5,307

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22. Assets and liabilities on assets held for sale:

As at March 31, 2018 the Trust's interest in 3 investment properties were classified as held for sale (December 31, 2017 – 3 investment properties).

Management had committed to a plan of sale of the underlying properties and the sales are considered to be highly probable. The assets and liabilities related to the investment properties held for sale as at March 31, 2018 and December 31, 2017 were as follows:

<i>(thousands of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Assets		
Investment properties	\$ 21,335	\$ 21,335
Amounts receivable and other assets	162	163
	\$ 21,497	\$ 21,498
Liabilities		
Mortgages payable	\$ 6,966	\$ 7,053
Accounts payable and accrued liabilities	310	49
Rental deposits	141	157
	\$ 7,417	\$ 7,259

23. Subsequent events:

(a) On January 9, 2018, the Trust announced that it entered into an arrangement agreement with an affiliate of Blackstone Property Partners ("Blackstone"), pursuant to which Blackstone will acquire all of the outstanding trust units of the Trust ("the Transaction") for \$8.10 per unit in cash. The Transaction is structured as a statutory plan of arrangement under the British Columbia Business Corporations Act. Completion of the Transaction, is subject to customary conditions, including approval of at least 66 2/3% of the votes cast by Unitholders at a special meeting of Unitholders, court approval and regulatory approval (Investment Canada Act).

- On February 26, 2018, the Commissioner of Competition issued an Advance Ruling Certificate approving the Transaction.
- On March 23, 2018, at a special meeting of Unitholders, the Transaction was approved by Unitholders where approximately 99.66% of the votes cast were voted in favour of the Transaction.
- On March 29, 2018, the Supreme Court of British Columbia issued a final order approving the plan of arrangement for the Transaction.
- On April 11, 2018, Blackstone received Investment Canada Act approval in connection with the Transaction.

Completion of the Transaction is expected to occur in the second quarter of 2018.

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23. Subsequent events (continued):

- (b) On May 1, 2018, the Trust completed the disposition of the Trust's 50% interest in four investment properties, three located in Alberta and one in Manitoba, to an existing joint venture partner, for gross proceeds of \$23,750. The joint venture paid out four mortgages associated with the sold properties, with the Trust's share totaling \$10,059.
- (c) On May 14, 2018, the Trust completed the disposition of an investment property located in Edmonton, Alberta for gross proceeds of \$2,400. The property was classified as held for sale as at March 31, 2018 and was unencumbered at the time of sale.