



Consolidated Financial Statements of

PURE INDUSTRIAL REAL ESTATE TRUST

Years Ended December 31, 2017 and 2016



Management’s Responsibility for Consolidated Financial Statements

To the Unitholders of Pure Industrial Real Estate Trust (the “Trust”):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Audit Committee of the Board of Trustees of the Trust is responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending to the Board of Trustees to approve the financial information included in the annual report. The Audit Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of the Trust’s external auditors.

KPMG LLP, the independent auditors of the Trust, has been appointed by the Audit Committee to audit the consolidated financial statements and report directly to the Unitholders; their report follows. The external auditors have full and free access to both the Audit Committee and management to discuss their audit findings.

“Kevan Gorrie”

Kevan Gorrie
President & Chief Executive Officer

“Teresa Neto”

Teresa Neto
Chief Financial Officer

March 6, 2018



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Pure Industrial Real Estate Trust

We have audited the accompanying consolidated financial statements of Pure Industrial Real Estate Trust, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of net earnings, net comprehensive income, changes in 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 consolidated financial statements in accordance with International Financial Reporting Standards, 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Pure Industrial Real Estate Trust as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 6, 2018

PURE INDUSTRIAL REAL ESTATE TRUST

Consolidated Statements of Financial Position

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
ASSETS		
Non-current assets:		
Investment properties (note 4)	\$ 3,108,059	\$ 2,320,845
Loans receivable (note 17)	866	904
	3,108,925	2,321,749
Current assets:		
Amounts receivable and other assets (note 5)	23,684	13,807
Vendor take-back receivable (note 16)	10,125	10,125
Cash held in trust	23,530	2,459
Cash	33,051	56,945
Assets held for sale (note 23)	21,498	111,452
	111,888	194,788
	\$ 3,220,813	\$ 2,516,537
LIABILITIES		
Non-current liabilities:		
Unit based compensation (note 8)	\$ 4,696	\$ 2,540
Mortgages payable and other loans (note 9)	1,116,838	957,181
Preferred units of subsidiary (note 10)	157	168
Deferred tax liability (note 21)	14,604	18,199
Rental deposits	7,490	6,991
	1,143,785	985,079
Current liabilities:		
Accounts payable and accrued liabilities	64,249	39,519
Unit based compensation – current portion (note 8)	2,064	1,561
Mortgages payable and other loans – current portion (note 9)	95,082	86,310
Rental deposits – current portion	1,471	1,431
Liabilities on assets held for sale (note 23)	7,259	23,442
	170,125	152,263
	1,313,910	1,137,342
EQUITY		
Unitholders' equity	1,895,677	1,352,503
Non-controlling interests (note 4)	11,226	26,692
	1,906,903	1,379,195
	\$ 3,220,813	\$ 2,516,537

Subsequent events (note 24)

See accompanying notes to the consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Consolidated Statements of Net Earnings

	Years ended December 31	
	2017	2016
<i>(thousands of Canadian dollars, except unit and per unit amounts)</i>		
Revenues:		
Rental and recoveries	\$ 225,485	\$ 186,943
Property operating expenses:		
Insurance	1,201	850
Management fees	5,747	4,929
Operating costs	18,325	16,404
Property taxes	36,208	31,918
	61,481	54,101
Net operating income	164,004	132,842
Other income (expenses):		
General and administrative (note 11)	(10,367)	(7,992)
Fair value adjustments to investment properties (note 4)	192,864	65,734
Fair value adjustments to financial instruments (note 9)	4,440	2,327
IFRIC 21 fair value adjustment to investment properties (note 4)	(1,895)	-
Loss on disposal of investment properties (note 4)	(4,563)	(857)
Foreign currency (loss)/gain	(1,777)	1,104
Other income (note 4)	-	2,617
	178,702	62,933
Net earnings before net finance expense	342,706	195,775
Finance income (note 12)	1,299	884
Finance expense (note 12)	(42,534)	(39,156)
Net finance expense	(41,235)	(38,272)
Net earnings before income taxes	301,471	157,503
Income tax recovery/(expense) (note 21)	501	(4,458)
Net earnings	\$ 301,972	\$ 153,045
Net earnings attributable to:		
Unitholders	\$ 297,527	\$ 147,572
Non-controlling interests (note 4)	4,445	5,473
	\$ 301,972	\$ 153,045
Trust units – Weighted average	278,534,513	211,289,555
Basic net earnings per unit	\$ 1.07	\$ 0.70
Trust units – Diluted weighted average	278,950,216	211,694,135
Diluted net earnings per unit	\$ 1.07	\$ 0.70

See accompanying notes to the consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Consolidated Statements of Net Comprehensive Income

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Net earnings	\$ 301,972	\$ 153,045
Other comprehensive expense:		
Unrealized foreign currency loss on translation of foreign operations, net of tax (note 4)	(26,866)	(7,252)
Net comprehensive income	\$ 275,106	\$ 145,793
Net comprehensive income attributable to:		
Unitholders	\$ 270,672	\$ 139,964
Non-controlling interests (note 4)	4,434	5,829
	\$ 275,106	\$ 145,793

See accompanying notes to the consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Consolidated Statements of Changes in Equity

<i>(thousands of Canadian dollars)</i>	Class A Units	Class B Units	Accumulated Earnings	Accumulated	Total Unitholders' Equity	Non- Controlling Interests	Total
				Other Comprehensive Income			
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 (note 7 (b))	359,957	-	-	-	359,957	-	359,957
Net earnings	-	-	297,527	-	297,527	4,445	301,972
Other comprehensive loss	-	-	-	(26,855)	(26,855)	(11)	(26,866)
Contributions	-	-	-	-	-	165	165
Distributions	-	-	(86,995)	-	(86,995)	(1,434)	(88,429)
Acquisition of non-controlling interests (note 4)	-	-	(1,832)	1,372	(460)	(18,631)	(19,091)
Equity, December 31, 2017	\$1,451,280	\$ -	\$ 436,545	\$ 7,852	\$1,895,677	\$ 11,226	\$1,906,903
Equity, December 31, 2015	\$ 814,054	\$ 1,116	\$ 146,784	\$ 40,943	\$1,002,897	\$ 18,310	\$1,021,207
Issuance of Class A units, net	280,938	-	-	-	280,938	-	280,938
Units acquired ((note 7(d))	(4,785)	-	-	-	(4,785)	-	(4,785)
Re-designation of Class B units	1,116	(1,116)	-	-	-	-	-
Net earnings	-	-	147,572	-	147,572	5,473	153,045
Other comprehensive (loss)/income	-	-	-	(7,608)	(7,608)	356	(7,252)
Contributions	-	-	-	-	-	4,000	4,000
Distributions	-	-	(66,511)	-	(66,511)	(1,447)	(67,958)
Equity, December 31, 2016	\$1,091,323	\$ -	\$ 227,845	\$ 33,335	\$1,352,503	\$ 26,692	\$1,379,195

See accompanying notes to the consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Consolidated Statements of Cash Flows

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Operating activities:		
Net earnings	\$ 301,972	\$ 153,045
Items not involving cash:		
Amortization of discount on mortgage reserve fund	-	(39)
Amortization of leasehold improvements	64	45
Amortization of mark to market mortgage adjustment	(262)	(934)
Amortization of mortgage and bank loan transaction costs	1,688	1,808
Loss on disposal of investment properties	4,563	857
Foreign currency loss/(gain)	1,640	(1,104)
Unit based compensation expense (note 8)	3,676	2,302
Fair value adjustments to investment properties (note 4)	(192,864)	(65,734)
IFRIC 21 fair value adjustment to investment properties (note 4)	1,895	-
Fair value adjustments to financial instruments (note 9)	(4,440)	(2,327)
Straight line rent adjustment	(3,884)	(4,294)
Deferred income tax expense (note 21)	(2,309)	3,195
Net change in non-cash working capital (note 22)	(4,271)	9,273
Net finance expense, excluding amortization (note 12)	39,809	37,398
Interest paid	(40,895)	(37,855)
Interest received	1,299	884
Net cash provided from operating activities	107,681	96,520
Financing activities:		
Mortgage proceeds	93,235	257,651
Mortgages discharged	(82,322)	(40,317)
Repayment of mortgages	(30,502)	(30,111)
Prepayment of mortgage discharges	(8,124)	-
Bank loan advances, net of repayments	196,840	(143,688)
Payment of mortgage and loan transaction costs	(2,439)	(1,376)
Mortgage reserve funds	57	921
Redemption of restricted units	(96)	(561)
Purchase of Class A units for cancellation	-	(4,785)
Proceeds from Issuance of Class A Units	359,957	280,938
Contributions from non-controlling interests	165	4,000
Distributions to non-controlling interests	(1,365)	(1,447)
Distributions paid to unitholders	(86,995)	(66,511)
Net cash provided from financing activities	438,411	254,714
Investing activities:		
Acquisition of investment properties (note 4)	(665,625)	(289,738)
Additions to property under development and expansions (note 4)	(12,846)	(42,568)
Capital additions to investment properties (note 4)	(13,884)	(12,049)
Additions to land held for future development (note 4)	(12,323)	-
Acquisition of non-controlling interests	(20,121)	-
Cash held in trust	(21,071)	(419)
Proceeds from disposal of investment properties (note 4)	177,524	36,115
Net cash used in investing activities	(568,346)	(308,659)
Net change in cash	(22,254)	42,575
Effect of foreign currency translation	(1,640)	1,104
Cash, beginning of year	56,945	13,266
Cash, end of year	\$ 33,051	\$ 56,945

See accompanying notes to the consolidated financial statements.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

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 financial statements were authorized for issue by the Board of Trustees on March 6, 2018.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for the following material items in the consolidated 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).

(c) Functional and presentation currency:

These consolidated 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 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.

(i) Judgments

In the process of applying the Trust’s accounting policies, management has made the following critical judgments:

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

(i) Judgments (continued):

a. Asset acquisitions:

The Trust acquires investment properties in its normal course of business. At the time of acquisition, the Trust considers whether or not the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g. maintenance, cleaning, security, bookkeeping, etc.).

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition, including transaction costs, is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

All acquisitions of investment properties to date by the Trust have been determined to be asset acquisitions.

b. Lease contracts:

The Trust enters into property leases on its investment property portfolio. The Trust makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and the Trust is lessor, are operating or finance leases. The Trust assesses each lease separately and has determined that all of its leases of investment properties are operating leases.

c. Joint Arrangements:

The Trust's accounting policy relating to joint arrangements is described in note 3(t). Judgment is applied in determining whether joint arrangements constitute a joint venture or a joint operation.

(ii) Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant areas of estimation include the following:

a. Unit based compensation expense:

The Trust's unit based compensation expense consists of units granted under its Restricted Unit Plan, units granted under its Deferred Unit Plan, and options granted under its Incentive Unit Option Plan. The units granted are measured at fair value each reporting period and recognized as a general and administrative expense over the vesting period. Fair value of the restricted units and deferred units is estimated, taking into account the closing price of the Trust's units, expected forfeitures and the performance factor as defined in the Restricted Unit Plan, as applicable and fair value of the incentive unit options is estimated using the Black-Scholes option pricing model (note 8).

b. Valuation of investment properties:

The fair value of the investment properties is determined by management using recognized valuation techniques.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (i.e. tenant profiles, future revenue streams and overall repair and condition of the property), discount rates applicable to those assets' cash flows, price per square foot and capitalization rates. These estimates are based on market conditions existing at the reporting date.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

2. Basis of presentation (continued):

(e) Standards issued but not yet effective:

(i) IFRS 9 Financial instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (“IFRS 9 (2014)”). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Trust completed its review of IFRS 9 (2014) and does not expect this standard to have a significant effect on its consolidated financial statements.

(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 will supersede IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. 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 does not expect this standard to have a significant effect on its consolidated financial statements.

(iii) 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. Significant accounting policies:

(a) Investment property acquisitions:

Where property is acquired, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a property or a business combination. The basis of the judgment is set out in note 2(d).

(b) Investment properties:

(i) Initial recognition

Investment properties comprise property held to earn rental revenue or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal, engineering, environmental and appraisal services, and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

(b) Investment properties (continued):

(ii) Subsequent to initial recognition

Subsequent to initial recognition, investment properties are measured at fair value with any change therein recognized in income. The Trust defines fair value to be the value a third party is willing to pay, in an arm's length transaction, for an investment property. Therefore, the fair value of a recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recognized on the investment property.

(iii) Capital additions

Capital additions to investment properties are capitalized to the carrying amount of investment properties when incurred and then considered in the fair value adjustment of the investment properties at the next reporting date.

(iv) Property under development

The cost of property under development includes direct development expenditures, third party management fees, initial leasing fees, consulting and legal fees, property taxes, and borrowing costs directly attributable to properties under development. Borrowing costs associated with direct expenditures on properties under development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The Trust considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

(v) Land held for future development

The cost of land held for future development includes carrying costs, consulting and legal fees directly attributable to land held for future development.

(vi) Fair value

The Trust includes the straight line rent receivable in the fair value of investment property instead of recognizing it as a separate asset.

As set out in note 4, in arriving at their estimates of market values, management will determine whether a property in its portfolio of investment properties requires an independent appraisal. If an independent appraisal is not required, management will determine the market value of the investment property using the approaches described below. Management uses the appraisals, their market knowledge and professional judgment and does not rely solely on historical transactional comparisons.

The following approaches, either individually or in combination, are used by management, together with the appraisers, in their determination of the fair value of the investment properties:

- The "Income Approach" derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

(b) Investment properties (continued):

(vi) Fair value (continued)

- The “Direct Comparison Approach” involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each independent appraisal and ensures that the assumptions used by the appraisers are reasonable and that the final fair value amount reflects those assumptions used in the various approaches above.

The significant assumptions used by management in estimating the fair value of investment property are set out in note 4.

(vii) Dispositions

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of net earnings and net comprehensive income in the year of retirement or disposal.

Gains or losses on the disposition of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

(c) Assets held for sale:

Investment properties are transferred to assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the investment property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property, and its sale must be highly probable. Management must be committed to a plan to sell the asset and an active effort to locate a buyer, and the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale is expected to be consummated within one year from the reporting date. Investment properties classified as assets held for sale are measured at fair value.

(d) Revenue recognition:

Rental revenue is recognized in income on a straight-line basis over the lease term subject to collectability being reasonably assured.

Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

(e) Finance income and finance expense:

Finance income consists of interest and other income, which is recognized in the period in which it is earned.

Finance expense consists of mortgage interest, amortization of the mark to market mortgage adjustment, amortization of mortgage transaction costs, and interest expense on loans. Finance expenses are recognized in the period in which they are incurred.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

(f) Cash:

Cash consists of cash held at banks.

(g) 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 related investment properties, and cash held as collateral for outstanding letters of credit.

(h) Leases:

Leases are classified according to the substance of the transaction to determine whether substantially all the risks and benefits of ownership in the investment property has been transferred. All tenant leases where the Trust is the lessor in the leasing arrangement have been determined to be operating leases.

(i) Leasing costs:

Leasing costs are comprised of leasing commissions and legal fees. They are capitalized to the carrying amount of investment properties when incurred and then considered in the fair value adjustment of the investment properties at the next reporting date.

(j) Income taxes:

The Income Tax Act (Canada) (the "Tax Act") levies tax on certain trusts and partnerships that are "specified investment flow-through entities" ("SIFTs") in defined circumstances, with an exemption for entities that qualify as "real estate investment trusts" ("REITs"). A trust that meets prescribed conditions for REITs under the Tax Act is not subject to the tax on SIFTs. The Trust's management has determined that the Trust met all the prescribed conditions to qualify as a REIT and as a mutual fund trust ("MFT") under the Tax Act throughout the year. The Trust also intends to continue to operate in a manner so as to qualify as a REIT and as a MFT under the Tax Act.

The Trust has paid or intends to make payable all of its taxable income for the taxation year to unitholders and to deduct such distributions for income tax purposes and shall continue to do so for the foreseeable future. Canadian income tax obligations relating to distributions by the Trust are the obligations of the unitholders.

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 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 U.S. Subsidiary to its shareholders are subject to 30% withholding tax in the U.S. and give rise to current income tax expense.

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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

(j) Income taxes (continued):

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 earnings 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 year, adjusted for items that are not currently taxable or deductible and for any changes to tax payable or receivable in respect to previous years. 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 year. Deferred tax is calculated based on the tax rates that are expected to be applied in the year 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.

(k) Unit based compensation:

The Trust uses the fair value method of accounting for its Restricted Unit Plan, Incentive Unit Option Plan and Deferred Unit Plan. For cash-settled unit based payment transactions, a liability is recognized and measured initially at fair value, and in the case of the Unit Option Plan, by applying an option pricing model. The liability is remeasured to fair value at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period.

(l) Segment reporting:

The Trust operates industrial investment properties in the primary markets in Canada and in key distribution and logistics markets in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the chief operating decision-maker, determined to be the Chief Executive Officer.

(m) Net earnings per unit:

Basic net earnings per unit has been calculated based on earnings and the weighted average number of units outstanding.

Diluted net earnings per unit has been calculated by adjusting the weighted-average number of units by the number of vested units outstanding under the Trust's unit based compensation plans.

(n) Fair value:

Fair value measurements recognized in the statement 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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

(o) Financial instruments:

(i) Non-derivative financial assets and liabilities:

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Trust's designation of such instruments.

The Trust classifies its financial instruments as follows:

Cash	Loans and receivables
Cash held in trust	Loans and receivables
Amounts receivable	Loans and receivables
Loans receivable	Loans and receivables
Vendor take-back receivable	Loans and receivables
Mortgages payable	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Rental deposits	Other financial liabilities
Other loans	Other financial liabilities

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

The Trust has the following non-derivative other financial liabilities: mortgages payable and other loans, accounts payable and accrued liabilities, and rental deposits, which are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are accounted for at amortized cost, using the effective interest rate method.

(ii) Derivative financial assets and liabilities:

The Trust holds derivative financial instruments to hedge its interest rate risk exposures. Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in net income as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the end of the reporting period. Any resulting gain or loss is recognized in net earnings immediately unless the derivative is designated as a hedging instrument. None of the Trust's derivative instruments are accounted for as hedges.

(iii) Impairment of financial assets:

At each reporting date, the Trust assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in impairment expense.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

(p) Provisions:

Provisions are recognized by the Trust when: i) the Trust has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount can be reasonably estimated. If the time value of money is material, provisions are discounted using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as a finance cost.

(q) Consolidated statements:

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The consolidated financial statements incorporate the financial statements of the Trust and its consolidated subsidiaries, over which the Trust has control. Control occurs when the Trust: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Trust obtains control over the subsidiary and ceases when the Trust loses control of the subsidiary. Financial statements of the subsidiary are prepared using accounting policies and reporting periods consistent with the Trust. All intercompany transactions and balances between the Trust and its subsidiaries are eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. Their share of net earnings and net comprehensive income (loss) is recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

(r) Levies:

The Trust recognizes a liability for a levy when the activity that triggers payment occurs, as identified by the relevant legislation.

(s) The effects of changes in foreign exchange rates:

Translation of foreign currency transactions:

Each entity within the consolidated group records transactions using its functional currency, being the currency of the primary economic environment in which it operates. Foreign currency transactions are translated into the functional currency of the respective entity using the prevailing exchange rates at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the respective functional currency of each entity using the prevailing exchange rates at the period end date. Foreign currency gains and losses arising from the settlement of foreign currency transactions are recognized in earnings, except for intercompany loans to foreign operations for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

3. Significant accounting policies (continued):

- (s) The effects of changes in foreign exchange rates (continued):

Translation of foreign operations:

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange in effect at the period end date. Revenues and expenses are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. Foreign currency translation gains and losses are recognized in other comprehensive income. Upon disposal of a foreign operation, the cumulative exchange differences relating to that foreign operation that have been recognized in other comprehensive income and equity, are reclassified into earnings.

- (t) Joint arrangements:

The Trust accounts for its joint arrangements as either joint operations or joint ventures. A joint operation is an arrangement where the Trust jointly owns an investment property with another party and has rights to the assets, and obligations for the liabilities, relating to the arrangement. The Trust accounts for joint operations by recording its proportionate share of the assets, liabilities, revenues, expenses and cash flows in its financial statements.

A joint venture is an arrangement where the Trust jointly owns an investment property with another party and has rights to the net assets of the arrangements. This occurs when the joint arrangement is operated under a separate entity, such as a partnership, with separation maintained. The Trust accounts for joint ventures using the equity method of accounting.

4. Investment properties:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Income producing properties	\$ 3,086,075	\$ 2,314,085
Properties under development and expansion (b)	7,677	6,006
Land held for future development (c)	14,307	754
	\$ 3,108,059	\$ 2,320,845

As at December 31, 2017, the Trust's 176 investment properties are comprised of 173 income producing properties that are leased to third parties, 1 property under development and 2 standalone parcels of land held for future development (2016 – 164 investment properties comprised of 162 income producing properties, 1 property under development and 1 parcel of land held for future development). Included in investment properties are amounts representing the Trust's proportionate interest in 19 investment properties (2016 – 13 properties). One property was consolidated at 100% with an associated non-controlling interest (2016 – one property). As at December 31, 2016, an additional three properties were consolidated at 100% with an associated non-controlling interest of 49% (note 4 (a)).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. Investment properties (continued):

<i>(thousands of Canadian dollars)</i>	Year ended December 31, 2017		
	Investment properties	Investment properties held for sale	Total
Balance, beginning of year	\$ 2,320,845	\$ 110,832	\$ 2,431,677
Acquisitions (a)	665,625	-	665,625
Capital additions	13,747	181	13,928
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 23)	6,500	(6,500)	-
	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 year	\$ 3,108,059	\$ 21,335	\$ 3,129,394

<i>(thousands of Canadian dollars)</i>	Year ended December 31, 2016		
	Investment properties	Investment properties held for sale	Total
Balance, beginning of year	\$ 2,065,635	\$ -	\$ 2,065,635
Acquisitions (a)	290,714	-	290,714
Capital additions	12,049	-	12,049
Capital additions, properties under development and expansion (b)	42,568	-	42,568
Dispositions (d)	(36,972)	-	(36,972)
Straight line rent adjustment	4,294	-	4,294
Fair value adjustment to investment properties	65,734	-	65,734
Unrealized foreign currency translation loss	(12,345)	-	(12,345)
Transfer to assets held for sale (note 23)	(110,832)	110,832	-
Balance, end of year	\$ 2,320,845	\$ 110,832	\$ 2,431,677

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. Investment properties (continued):

(a) Acquisitions:

On February 1, 2017, the Trust completed the acquisition of one investment property in Atlanta, Georgia, an 800,000 square foot ("sf") cross dock distribution centre, for a total purchase price of \$51,535 (US\$ 39,500) plus standard closing costs and adjustments of \$305 (US\$ 234).

On April 4, 2017, the Trust completed the acquisition of the Cedar Port Distribution Centre, consisting of two newly-constructed buildings comprising a total of 996,482 sf in Houston, Texas for \$85,249 (US\$ 63,500) plus standard closing costs and adjustments of \$158 (US\$ 121).

On February 19, 2015, the Trust acquired a 51% controlling interest in PIRET NC Property Limited Partnership ("NCLP"), a subsidiary which held a portfolio of three income producing investment properties. The Trust consolidated this subsidiary and recognized a 49% non-controlling interest. On June 13, 2017, the Trust acquired the remaining interest in NCLP for a purchase price of \$20,121 (US\$ 15,200) comprising mainly of the portfolio's income producing properties of \$39,884 (US\$ 29,498) less mortgage of \$19,280 (US\$ 14,259). Standard closing costs and adjustments were \$74 (US\$ 57). As a result of the acquisition, the Trust derecognized \$18,631 (US\$ 13,845) of non-controlling interest. Included in the non-controlling interest was \$1,372 of accumulative other comprehensive income which was reattributed to the Trust upon acquisition. The Trust recorded a reduction in accumulated earnings of \$1,832 (US\$ 1,355) representing the differential between purchase price and the non-controlling interest derecognized.

On June 14, 2017, the Trust completed the acquisition of the Dalport Trade Centre, a 758,922 sf distribution centre located in the Dallas suburb of Wilmer, Texas for a purchase price of \$55,478 (US\$ 42,000) plus standard closing costs and adjustments of \$201 (US\$ 154).

On July 13, 2017, the Trust completed the acquisition of a 150,000 sf warehouse located in Scarborough, Ontario for a purchase price of \$16,100 plus standard closing costs and adjustments of \$682. Upon closing, the Trust entered into a development agreement to redevelop the site, with a new state-of-the-art 300,000 sf distribution centre for a total estimated cost of \$35,434, including the land and existing warehouse. Construction on the redevelopment is expected to commence in the second quarter of 2018.

On August 17, 2017, the Trust completed the acquisition of a 764,182 sf distribution centre located in Brampton, Ontario for a purchase price of \$101,000 plus land transfer tax, standard closing costs and adjustments of \$2,153.

On August 18, 2017, the Trust completed the acquisition of a 471,051 sf distribution centre located in Vaughan, Ontario for a purchase price of \$75,800 plus land transfer tax, standard closing costs and adjustments of \$1,568.

On August 30, 2017, the Trust completed the acquisition of a 190,000 sf industrial asset and an adjacent 4.5 acre parcel of land located in Pickering, Ontario for a combined purchase price of \$23,962 plus land transfer tax, standard closing costs and adjustment of \$558.

On September 7, 2017, the Trust completed the acquisition of a 268,226 sf distribution centre located in Richmond, British Columbia for a purchase price of \$32,600 plus standard closing costs and adjustment of \$123.

On September 18, 2017, the Trust completed the acquisition of a 59,615 sf industrial asset located in Montreal, Quebec for \$13,100 plus standard closing costs and adjustment of \$349.

On September 29, 2017, the Trust completed the acquisitions of three industrial assets totaling 404,008 sf, two located in Mississauga, Ontario and one located in Montreal, Quebec for an aggregate purchase price of \$122,600 plus land transfer taxes, standard closing costs and adjustments of \$2,862.

On December 8, 2017, the Trust completed the acquisition of a 301,500 sf distribution centre located in Fort Worth, Texas for a purchase price of \$32,150 (US\$ 25,000) plus standard closing costs and adjustments of \$96 (US\$ 74).

On December 14, 2017, the Trust completed the acquisition of a 760,256 sf distribution centre located in McDonough, Georgia for a purchase price of \$46,738 (US\$ 36,500) plus standard closing costs and adjustments of \$184 (US\$ 141).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. Investment properties (continued):

(a) Acquisitions (continued):

On January 8, 2016, the Trust acquired a 25% joint interest in an investment property located in Ontario and subsequently entered into a co-ownership agreement with a third party to own and operate the property. The Trust acquired the interest in the investment property for a total purchase price of \$1,650, plus standard closing costs and adjustments of \$39 (note 6).

On April 25, 2016, The Trust acquired an investment property located in Quebec for a total purchase price of \$6,675, plus standard closing costs and adjustments of \$262.

On November 1, 2016, the Trust acquired a portfolio of eight investment properties in Alberta ("Alberta Properties") for a total purchase price of \$171,080, plus standard closing costs and adjustments of \$558.

On November 14, 2016, the Trust acquired a portfolio of six investment properties in Atlanta, Georgia and Charlotte, North Carolina ("Southeastern U.S. Properties") for \$109,755 (US\$ 81,000), plus standard closing costs and adjustments of \$695 (US\$ 513).

(b) Properties under development and expansion:

<i>(thousands of Canadian dollars)</i>	Years ended December 31,	
	2017	2016
Balance, beginning of year	\$ 6,006	\$ 141,681
Acquisitions and additions	37,242	42,568
Fair value adjustment to properties under development	-	11,119
Unrealized foreign currency translation loss	-	(1,099)
	43,248	194,269
Transfer to income producing properties	(43,062)	(188,263)
Transfer from income producing properties	7,491	-
Balance, end of year	\$ 7,677	\$ 6,006

On August 26, 2016, the Trust acquired the rights to a 51-year ground lease in Richmond, British Columbia for the construction of a new building of 330,299 sf. The construction project was completed in Q4-2017 and total costs incurred to December 31, 2017 amounted to \$43,062 (2016 – \$6,006). As at December 31, 2017, the property was transferred to income producing properties. The Trust funded the development with existing working capital.

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 December 31, 2017, costs incurred subsequent to the transfer amounted to \$186 (2016 - \$nil). Total costs for the redevelopment are estimated to be approximately \$2,920.

On February 9, 2015, the Trust acquired 60 acres of development land in Vaughan, Ontario for \$44,354 for the construction of a state-of-the-art build to suit distribution and sorting facility that will serve the Greater Toronto Area ("GTA"). The building, now completed, comprises approximately 422,000 square feet in respect of which the tenant has entered into a binding fifteen-year lease. Costs incurred for the completed construction amounted to approximately \$128,745 and was transferred to income producing properties on April 15, 2016. The acquisition and development of the property was financed with cash of \$21,750 and the remainder by way of a construction loan secured by the property.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. Investment properties (continued):

(b) Properties under development and expansion (continued):

Upon completion of the property, the developer acquired a net interest in the completed property of \$4,000 and is entitled to receive an income stream thereon at a rate of 6.85% per annum. In the event of disposition of the property, the developer is entitled to a share of the proceeds equal to its invested capital plus 9.7% of the sales price in excess of \$128,745. At any time after two years following completion of the property, the Trust has the right to purchase the developer's interest in the property on similar terms based on the estimated fair value of the property at the time the option is exercised. The invested capital, the entitlement to income and the entitlement to share in the increase in fair value of the property have been reflected in the Trust's consolidated financial statements as increases in the non-controlling interests.

On June 8, 2015, the Trust entered into an agreement with a tenant to expand the property in Barrington, New Jersey. The tenant previously occupied approximately 196,000 square feet and the development was to comprise an additional 56,000 square feet. As at April 15, 2016, the Trust has completed this property under expansion and it was transferred into income producing properties. Total cost of construction, including capitalized interest, amounted to approximately \$11,818 (US\$ 9,100). The expansion was funded with the Trust's existing working capital.

On March 31, 2016, the Trust entered into an agreement with a tenant to expand the property in Woodstock, Ontario. The tenant previously occupied 126,505 square feet and the development was to comprise an additional 43,760 square feet. As at October 1, 2016, the Trust has completed this property under expansion and transferred the property into income producing properties. Total cost of construction was approximately \$3,500 (2015 - \$nil). The Trust funded the expansion with existing working capital.

On August 16, 2016, the Trust entered into an agreement with a tenant for a parking site expansion in San Antonio, Texas. The expansion was completed on October 31, 2016 and was transferred into income producing properties. Total cost of construction was approximately \$2,600 (US\$ 1,950).

(c) Land held for future development:

On March 8, 2017, the Trust completed the acquisition of land adjacent to an existing property in San Antonio, Texas for a total purchase price of \$3,719 (US\$ 2,754) plus standard closing costs and adjustments of \$387 (US\$ 293).

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 9(b)(v)). As the Trust performs municipal infrastructure improvements, the promissory note payable is reduced. As of December 31, 2017, \$129 (US\$103) has been incurred to date, of which \$56 (US\$ 45) represents the Trust's share.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. Investment properties (continued):

(d) Dispositions:

During the year ended December 31, 2017, the Trust completed the disposition of 17 investment properties, 12 of which were included in assets held for sale as at December 31, 2016 for gross proceeds of \$134,787, less standard closing costs and adjustments of \$4,472, resulting in net proceeds of \$130,315 and a net loss on disposition of \$4,472.

On March 14, 2017, the Trust sold a 75% interest in five investment properties, four located in Alberta and one in Ontario, to an existing joint-venture partner, for gross proceeds of \$47,300, less standard closing costs and adjustments of \$91, resulting in a net loss on disposition of \$91. The joint-venture partner assumed its proportionate share of the outstanding mortgage payable at the transaction date for four of the five properties totaling \$17,772 and the Trust received net proceeds of \$29,437.

During the year ended December 31, 2016, the Trust sold its interest in 8 investment properties located in Alberta and Ontario for gross proceeds of \$38,650, less standard closing costs and adjustments of \$2,535, resulting in net proceeds of \$36,115 and a net loss on disposition of \$857. The Trust paid out \$7,869 of mortgages relating to the sold properties. The net cash proceeds were used to pay down existing operating lines, and for funding of property acquisitions and other general Trust purposes.

(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 year ended December 31, 2017, the Trust obtained independent appraisals for 138 (2016 – 100) properties representing 82% (2016 – 41%) of the fair value of the investment properties at December 31, 2017. Appraisals were obtained during the year ended December 31, 2017 for 125 investment properties owned at December 31, 2016 and for the 13 investment properties acquired during the year. 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.

On March 20, 2016, an investment property located in Edmonton, AB, with a fair value of \$8,510 was damaged by fire. The Trust filed a claim for reimbursement with its insurance company. For the year ended December 31, 2016, a fair value decrease of \$2,617 has been recorded to account for the estimated costs of restoring the investment property to its original condition. As at December 31, 2016, the Trust has fully restored the property to its original condition and other income of \$2,617 has been recognized comprising the insurance proceeds earned as a result of the fire.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. Investment properties (continued):

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

(i) Fair value adjustments to investment properties:

	Years ended December 31,	
	2017	2016
Standard acquisition costs	\$ (9,313)	\$ (1,573)
Valuation gain on investment properties	205,917	71,601
Straight line rental revenue	(3,884)	(4,294)
Other	144	-
	\$ 192,864	\$ 65,734

(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)
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
December 31, 2016				
Maximum	9.50%	8.00%	8.50%	\$ 446.35
Minimum	5.00%	4.00%	4.50%	\$ 45.48
Weighted average	7.19%	6.19%	6.57%	\$ 164.96

Investment properties as at December 31, 2017 and December 31, 2016 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 December 31, 2017, a 0.25% increase in the weighted average capitalization rate would decrease the fair value of investment properties by \$131,756 (2016 - \$90,980) and a 0.25% decrease in the weighted average capitalization rate would increase the fair value of investment properties by \$144,470 (2016 – \$98,873).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

4. 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 year ended December 31, 2017, the Trust recognized a \$1,895 (2016 - \$nil) property tax liability adjustment which increases the carrying value of investment properties and a corresponding fair value loss of \$1,895 (2016 - \$nil), resulting in a net impact of \$nil to the carrying value of investment properties.

5. Amounts receivable and other assets:

Amounts receivable and other assets consist of the following:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Rents and recoveries receivable	\$ 2,738	\$ 2,382
Unbilled recoveries receivable	1,085	1,758
Prepaid mortgage discharges and expenses	16,801	7,092
Other	3,060	2,575
	\$ 23,684	\$ 13,807

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

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

6. Co-ownership Interests:

On March 14, 2017, the Trust sold a 75% interest in five industrial properties, located in Alberta and Ontario, to an existing joint venture partner and amended and restated its co-ownership agreement with the purchaser/joint venture partner to own and operate the properties. The five investment properties, are subject to joint control based on the requirement that the co-owners make joint decisions with regards to the operating, financing and investing activities of the investment properties. This co-ownership has been classified as a joint operation and, accordingly, the Trust recognizes its proportionate share of the assets, liabilities, revenue and expenses of the properties in the consolidated financial statements. The Trust provides, through its property management entity, property management, asset management and leasing services to the properties and earns fees of 2.5% - 3.5% of operating costs for property management services and 0.25% of the investment property fair value for asset management services.

Assets Jointly Controlled	Location	Trust's Ownership	
		December 31, 2017	December 31, 2016
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 ⁽¹⁾	Acheson, AB	50%	50%
260032 Range Road 291	Balzac, AB	50%	50%
1436 Chevrier Boulevard	Winnipeg, MB	50%	50%
27750 Acheson Road ⁽²⁾	Acheson, AB	50%	50%
12155 154th Street	Edmonton, AB	25%	100%
7303 30th Street	Calgary, AB	25%	100%
7403 30th Street	Calgary, AB	25%	100%
11415 168th Street NW	Edmonton, AB	25%	100%
15709 114th Avenue NW	Edmonton, AB	25%	100%
199 Traders Boulevard East	Mississauga, ON	25%	100%

⁽¹⁾ Previous municipal address – 34-38 53016 Highway 60

⁽²⁾ Previous municipal address – 30 53016 Highway 60

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

6. Co-ownership Interests (continued):

The following amounts represent the Trust's proportionate share of the assets and liabilities of properties under joint control as at December 31, 2017 and December 31, 2016, and the results of operations included in the consolidated statements of net earnings for the years ended December 31, 2017 and 2016.

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Non-current assets	\$ 64,186	\$ 47,278
Current assets	975	977
Total assets	\$ 65,161	\$ 48,255
Non-current liabilities	20,273	12,103
Current liabilities	3,239	7,157
Total liabilities	23,512	19,260
Unitholders' equity	41,649	28,995
Total liabilities and unitholders' equity	\$ 65,161	\$ 48,255

<i>(thousands of Canadian dollars)</i>	Years ended December 31,	
	2017	2016
Revenues	\$ 5,200	\$ 4,181
Expenses	(2,082)	(1,963)
Fair value gain to investment properties	1,127	1,162
Net earnings and comprehensive income	\$ 4,245	\$ 3,380

7. Class A units and Class B units:

(a) Class A units and Class B units:

<i>(thousands of Canadian dollars, except unit amounts)</i>	Class A		Class B		Total
	<i>(authorized = unlimited)</i>		<i>(authorized = unlimited)</i>		
	Units issued and Outstanding	Carrying Value	Units issued and Outstanding	Carrying Value	Carrying Value
Balance, December 31, 2016	245,680,968	\$ 1,091,323	-	\$ -	\$ 1,091,323
Issuance of units	60,199,250	359,957	-	-	359,957
Balance, December 31, 2017	305,880,218	\$ 1,451,280	-	\$ -	\$ 1,451,280
Balance, December 31, 2015	187,697,386	\$ 814,054	278,947	\$ 1,116	\$ 815,170
Issuance of units	56,562,464	280,938	-	-	280,938
Re-designation of Class B units	2,535,118	1,116	(278,947)	(1,116)	-
Units acquired through					
Normal Course Issuer Bid	(1,114,000)	(4,785)	-	-	(4,785)
Balance, December 31, 2016	245,680,968	\$ 1,091,323	-	\$ -	\$ 1,091,323

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

7. Class A units and Class B units (continued):

(a) Class A units and Class B units (continued):

The beneficial interests in the Trust are divided into Class A units and Class B 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 Class A unit for total gross proceeds of \$19,000 (the "Offering").

Sunstone Industrial Advisors Inc. ("Sunstone Industrial") subscribed for 250,000 Class B units at a price of \$4.00 per Class B unit for total gross proceeds of \$1,000 concurrent with the closing of the Offering.

Except as set out in the Trust Declaration, no Class A units or Class B units has any preference or priority over another.

Upon completion of the Offering, holders of the Class A units shared in a 95% equity interest (the "Class A Unit Percentage Interest") in all distributions and all net assets of the Trust and Sunstone Industrial, as the holder of the Class B units, shared in a 5% equity interest (the "Class B Unit Percentage Interest") in all distributions and all net assets of the Trust at that time. On May 31, 2011, a Determination Event as defined in the Declaration of Trust occurred, as a result of the Trust's market capitalization exceeding \$200,000 for a period of 10 consecutive trading days. Upon the occurrence of the Determination Event, the number of Class A units into which the Class B units could be re-designated was fixed at 2,535,118 and the Class B Unit Percentage Interest was determined to correspond with the re-designation rights. As a result, the 278,947 Class B units were equivalent in economic and all other respects to 2,535,118 Class A units at that time.

On December 23, 2016, the Trust received notice from the holders of the Class B units (the "Class B Unitholders"), whereby the Class B Unitholders elected to exercise their rights pursuant to the Trust Declaration in order to re-designate all of the 278,947 Class B Units outstanding at that time into 2,535,118 Class A Units. The Trust issued 2,535,118 Class A Units in respect of the re-designation of the 278,947 Class B Units. As a result, there have been no Class B units outstanding since that date.

Each Class A unit is transferable and each Class A unit represents an equal undivided ownership interest in any net assets of the Trust, whether of net earnings, net realized capital gains or other amounts, and 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 Class A 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 \$50 and the amount that is 0.10% of the aggregate subscription price of all Class A units that were outstanding at the end of such month.

(b) Issuance of Class A Units:

(i) During the year ended December 31, 2017, four employees redeemed their vested restricted units for 44,250 Class A units at an average price of \$6.04. The restricted units had been accrued as a liability and the redemption of the restricted units reduces the liability and increases the total Class A units outstanding and the corresponding carrying value by \$267.

(ii) On April 5, 2017, the Trust completed an equity offering for 23,977,500 Class A units priced at \$6.00 per unit, which includes the full over-allotment option for 3,127,500 Class A units, for total gross proceeds of \$143,865. The Trust incurred \$6,194 of unit issuance costs.

(iii) On May 15, 2017, 240,000 options were exercised in exchange for 240,000 Class A units. The options had been accrued as a liability and the exercise of the options reduces the liability and increases the total Class A units outstanding and the corresponding carrying value by \$1,732.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

7. Class A units and Class B units (continued):

(b) Issuance of Class A Units (continued):

- (iv) On August 3, 2017, the Trust completed an equity offering for 35,937,500 Class A units priced at \$6.40 per unit, which includes the full over-allotment option for 4,687,500 Class A units, for total gross proceeds of \$230,000. The Trust incurred \$9,713 of unit issuance costs.
- (v) For the year ended December 31, 2016, three employees redeemed their vested restricted units for 16,964 Class A units at an average price of \$4.99. The restricted units had been accrued as a liability and the redemption of the restricted units reduces the liability and increases the total Class A units outstanding and the corresponding carrying value by \$84.
- (vi) On June 15, 2016, the Trust completed an equity offering for 29,670,000 Class A units priced at \$5.05 per unit, which includes the full over-allotment option for 3,870,000 Class A units, for total gross proceeds of \$149,834.
- (vii) On October 13, 2016, the Trust completed an equity offering for 26,875,500 Class A units priced at \$5.35 per unit, which includes the full over-allotment option for 3,505,500 Class A units, for total gross proceeds of \$143,784.
- (viii) On December 23, 2016, the Trust issued 2,535,118 Class A units in respect of the re-designation of the 278,947 Class B units, pursuant to the Trust Declaration (see note 7(a)).
- (ix) During the year ended December 31, 2016, the Trust incurred \$12,642 of unit issuance costs.

(c) Short Form Base Shelf Prospectus:

On June 12, 2014, 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. The base shelf prospectus expired on July 12, 2016 and 68,425,000 Class A units had been issued during the 25-month period.

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 December 31, 2017, 86,790,500 Class A units have been issued under the short form base shelf prospectus.

(d) Normal Course Issuer Bid ("NCIB"):

On December 17, 2014, the Trust announced its intention to purchase, by way of a NCIB, for cancellation purposes, up to 5,000,000 Class A units in total, representing approximately 2.64% of the Trust's then outstanding Class A units. Purchases were to be made on the open market through the facilities of the Toronto Stock Exchange ("TSX"), Alpha or alternate trading systems in Canada at market prices prevailing at the time of purchase and took place over a 12-month period beginning on December 19, 2014 and ending on December 18, 2015. The daily purchase restriction for the Class A units was 133,623 units, which represented 25% of the average daily trading volume of the Trust's Class A units on the TSX for the six months ended November 30, 2014.

On December 14, 2015, the Trust renewed its NCIB and announced its intention to purchase, for cancellation purposes, up to 5,000,000 Class A units in total, representing approximately 2.70% of the Trust's then outstanding Class A units. Purchases will be made on the open market through the facilities of the TSX, Alpha or alternate trading systems in Canada at market prices prevailing at the time of purchase and took place over a 12-month period beginning on December 21, 2015 and ending on December 20, 2016. The daily purchase restriction for the Class A units is 78,739 units, which represents 25% of the average daily trading volume of the Trust's Class A units on the TSX for the six months ended November 30, 2015.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

7. Class A units and Class B units (continued):

(d) Normal Course Issuer Bid (“NCIB”) (continued):

On January 11, 2016, the TSX accepted the Trust’s entry into an automatic securities purchase plan (“ASPP”) with a broker in order to facilitate repurchases of its Class A units under its previously announced NCIB pursuant to the policies of the TSX and applicable securities laws.

The Trust believes that the purchase of Class A units may from time to time be an appropriate use of available resources and benefit remaining unitholders by increasing their proportionate equity interest in the Trust.

During the year ended December 31, 2017, the Trust did not purchase and cancel Class A units under the NCIB. During the year ended December 31, 2016, the Trust purchased and cancelled 1,114,000 Class A units under the NCIB at an average cost of \$4.28 per Class A unit plus commission costs of \$14 for a total cost of \$4,785.

(e) Re-designation of Class B units:

On December 23, 2016, the Class B unitholders exercised their re-designation rights pursuant to the Trust Declaration and the Trust issued 2,535,118 Class A units in respect of the re-designation of the 278,947 Class B units. As a result, there have been no Class B units outstanding since that date.

Due to the re-designation of Class B units and their former equivalence to Class A units, disclosure of Class B earnings per share for the year ended December 31, 2016 would not provide meaningful information.

Accordingly, Class B earnings per share for that period is not disclosed and Class A earnings per share is prepared on the basis that Class B units have been re-designated at that time.

(f) Distributions:

The Trust intends to make monthly distributions to unitholders. Distributions are at the discretion of the Trustees of the Trust. See subsequent events note 24.

The Trust announced cash distributions for the year ended December 31, 2017 and 2016 to Class A unitholders at \$0.026 per Class A unit per month.

Years ended December 31	Class A units		Class B units	
	2017	2016	2017	2016
<i>(thousands of Canadian dollars, except per unit amounts)</i>				
Distributions	\$ 86,995	\$ 65,786	\$ -	\$ 725
Distributions per weighted average unit	\$ 0.31	\$ 0.31	\$ -	\$ 2.66

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

8. Unit based compensation liabilities:

Unit based compensation liabilities consists of the following:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Restricted unit plan liability (a)	\$ 5,458	\$ 3,086
Incentive unit option plan liability (b)	1,082	1,015
Deferred unit plan liability (c)	220	-
	6,760	4,101
Less current portion	2,064	1,561
Non-current portion	\$ 4,696	\$ 2,540

(a) Restricted unit plan liability:

The Trust has an approved Restricted Unit Plan (the "RUP"). The RUP 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 (as defined in the RUP) of the units on the payment date, either by way of a cash payment or by the Trust acquiring Class A units in the open market, or from treasury, and distributing them to the participant, at the Trust's option. As distributions are paid on Class A 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 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. On November 18, 2010, the RUP was amended to permit the Trust to issue to each participant one Class A 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 RUP remain unchanged. The RUP was further amended on May 15, 2015 to reflect the addition of "performance factor" provisions and to introduce limitations on the number of restricted units issuable to insiders, among other amendments.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

8. Unit based compensation liabilities (continued):

(a) Restricted unit plan liability (continued):

(i) Issuance and redemptions of restricted units:

For the year ended December 31, 2017, nine employees redeemed an aggregate of 60,186 restricted units at a weighted average price of \$6.04 per restricted unit, for a combination of cash and Class A units. A total of 44,250 Class A units were issued from treasury at an average price of \$6.04 per Class A unit relating to the redemption of restricted units, while the remaining restricted unit redemptions were settled for cash.

For the year ended December 31, 2016, five employees redeemed an aggregate of 166,783 restricted units at a weighted average price of \$5.41 per restricted unit, for a combination of cash and Class A units. A total of 16,964 Class A units were issued from treasury at an average price of \$4.99 per Class A unit relating to the redemption of 16,964 restricted units, while the remaining restricted unit redemptions were settled for cash.

(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 year ended December 31, 2017, \$2,695 in compensation expense (2016 - \$1,811), was included in general and administrative expenses in the consolidated statements of net earnings in relation to the restricted units and distribution restricted units issued as at December 31, 2017.

<i>(thousands of Canadian dollars, except unit amounts)</i>	Restricted Units	Carrying Value
Balance, December 31, 2016	682,787	\$ 3,086
Granting of units	204,456	1,185
Extinguished	(1,490)	(10)
Redemption of units	(60,186)	(363)
Fair value adjustment	-	1,560
Balance, December 31, 2017	825,567	\$ 5,458
Balance, December 31, 2015	648,929	\$ 2,182
Granting of units	260,636	244
Extinguished	(59,995)	(55)
Redemption of units	(166,783)	(655)
Fair value adjustment	-	1,370
Balance, December 31, 2016	682,787	\$ 3,086

In determining the fair value of the 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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

8. Unit based compensation liabilities (continued):

(a) Restricted unit plan liability (continued):

(ii) Valuation (continued):

	December 31, 2017	December 31, 2016
Annual dividend per unit	\$ 0.312	\$ 0.312
Closing unit price	\$ 6.76	\$ 5.59
Discount rate	25%	25%

Included in compensation expense for the year ended December 31, 2017 is a \$1,560 fair value adjustment expense (2016 - \$1,370) relating to the restricted units due to the increase in the Trust Unit's price from December 31, 2016 to December 31, 2017.

As at December 31, 2017, the weighted average contractual life of the restricted units was 8.7 months (2016 – 12.4 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 December 31, 2017:

<i>(thousands of Canadian dollars, except unit amounts and per unit basis)</i>	Number of Unit Options	Exercise Price	Carrying Value
Balance, December 31, 2016	705,000	\$ 4.29	\$ 1,015
Option units exercised	(240,000)		(703)
Fair value adjustment			770
Balance, December 31, 2017	465,000	\$ 4.29	\$ 1,082
Options exercisable, end of year	186,000	\$ 4.29	
Balance, December 31, 2015	705,000	\$ 4.29	\$ 525
Fair value adjustment			490
Balance, December 31, 2016	705,000	\$ 4.29	\$ 1,015
Options exercisable, end of year	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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

8. 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:

	December 31, 2017	December 31, 2016
Expected option life (years)	5.14	6.14
Risk-free interest rate	1.75%	0.76%
Dividend yield	4.62%	5.58%
Expected volatility	57.69%	60.52%

Included in compensation expense for the year ended December 31, 2017 is a \$770 fair value adjustment expense (2016 - \$490) 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.

Each Eligible Person, defined as on the applicable date, a non-executive Trustee, may, subject to the conditions of the DUP, elect to be a participant thereunder. A participant may elect to be paid up to 25% (the "Elected Percentage") of his or her annual board retainer (such product being referred to as the "Elected Amount"), in the form of deferred units ("Deferred Units") in lieu of cash, provided that the Trust shall match the Elected Amount for each participant annually in the form of Deferred Units having a value on each Award Date, defined as being the last business day of each calendar quarter, equal to the Market Value, as defined in the DUP. Under the DUP, one Deferred Unit shall be equivalent in value to one Unit. The number of Deferred Units (including fractional Deferred Units) to be credited to a participant as of any particular Award Date pursuant to the DUP are to be calculated by dividing: (i) the amount calculated by multiplying the dollar amount of the participant's Elected Amount by two and dividing that product by four; by (ii) the Market Value of a Unit on the Award Date. As distributions are paid on Class A units, additional Deferred Units will be credited to the participants in an amount determined by dividing the dollar amount of the distributions payable by the Market Value per unit on the date of the distribution. The Deferred Units credited to a participant's Deferred Unit account shall vest immediately and be redeemable by the participant following an event, including disability, retirement or death, causing the participant to be no longer an Eligible Person (the "Termination Date"). The Deferred Units credited to a participant's Deferred Unit account may be redeemed in whole or in part during the period commencing six months after the Termination Date and ending on December 1 of the second calendar year following the participant's Termination.

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 year ended December 31, 2017, \$220 in compensation expense (2016 - \$nil), was included in general and administrative expenses in the consolidated statements of net earnings in relation to the Deferred Units granted as at December 31, 2017.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

8. Unit based compensation liabilities (continued):

(c) Deferred unit plan liability (continued):

<i>(thousands of Canadian dollars, except unit amounts)</i>	Deferred Unit Plan Units	Carrying Value
Balance, December 31, 2016	-	\$ -
Granting of units	32,512	210
Fair value adjustment	-	10
Balance, December 31, 2017	32,512	\$ 220

Included in Trustee compensation expense is a \$10 (2016 - \$nil) fair value adjustment expense.

9. Mortgages payable and other loans:

The mortgages payable and other loans consist of the following:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Mortgages payable (a), net of unamortized financing costs	\$ 1,026,029	\$ 1,063,549
Other loans (b), net of unamortized financing costs	195,527	(206)
Mortgage interest rate swaps (c)	(2,583)	1,857
Mortgage payable on assets held for sale (a) (note 23)	(7,053)	(21,709)
	1,211,920	1,043,491
Less current portion	95,082	86,310
Non-current portion	\$ 1,116,838	\$ 957,181

(a) Mortgages payable:

Mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 3.82% (see note 9(c)) as at December 31, 2017 (2016 – 3.88%).

Mortgages payable are secured by charges on the Trust's investment properties. At December 31, 2017, investment properties with a fair value of \$2,265,256 (2016 – \$2,259,866) are pledged as security against the mortgages payable and other loans.

The amount of mortgages payable at December 31, 2017 was \$1,026,029 (2016 - \$1,063,549). Included in mortgages payable are the related unamortized financing costs of \$5,308 as at December 31, 2017 (2016 - \$5,646), which are amortized over the term of each mortgage, using the effective interest rate method.

Included in mortgages payable as at December 31, 2017 is the mark to market adjustment of \$1,227 (2016 – \$1,465) on five mortgages (2016 – seven mortgages), which is being amortized over the remaining term of the related mortgages using the effective interest rate method.

On February 1, 2017, the Trust entered into a new mortgage of \$11,200, secured by a property in Vaughan, Ontario. The mortgage has a five-year term and bears interest at 3.15%. The related unamortized financing costs, included in mortgages payable, is \$69 as at December 31, 2017, which are amortized over the term of the mortgage, using the effective interest rate method.

On February 6, 2017, the Trust entered into a new mortgage loan of \$25,062 (US\$ 19,150), secured by its newly acquired Atlanta, Georgia property (note 4 (a)). The mortgage has an eight-year term and bears interest at 3.82%.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

9. Mortgages payable and other loans (continued):

(a) Mortgages payable (continued):

The related unamortized financing costs, included in mortgages payable is \$217 as at December 31, 2017, which are amortized over the term of the mortgage, using the effective interest rate method.

On March 6, 2017, the Trust entered into two new mortgage loans totaling \$6,475, representing the Trust's proportionate share, secured by two Alberta properties. Proceeds of the mortgages were used to pay-out in full the outstanding principal of the previous existing mortgage of \$6,475. The new mortgages have ten-year terms and bear interest at 3.75% per annum. The Trust entered into mortgage interest rate swaps on the two mortgages (note 9 (c)) to fix the interest rate over the mortgages' terms. The related unamortized financing costs, included in mortgages payable is \$14 as at December 31, 2017, which are amortized over the terms of the mortgages, using the effective interest rate method.

On March 14, 2017, the Trust entered into an agreement to sell a 75% interest in five properties, located in Alberta and Ontario, to an existing joint venture partner (note 6). As part of the sale, the proportionate share of four mortgages totaling \$17,772 was assumed by the joint venture partner.

On April 7, 2017, the Trust entered into a new mortgage loan of \$42,194 (US\$ 31,500), secured by its two newly acquired Houston, Texas properties (note 4 (a)). The mortgage has a ten-year term and bears interest at 3.88%. The related unamortized financing costs, included in mortgages payable is \$337 as at December 31, 2017, which are amortized over the term of the mortgage, using the effective interest rate method.

On November 14, 2016 the Trust entered into a mortgage loan of \$54,379 (US\$ 40,500), secured by six newly acquired Southeastern U.S. properties ("the existing mortgage"). On September 28, 2017, the Trust substituted two secured assets on the existing mortgage for security over the Dalport Trade Centre, previously acquired on June 14, 2017. As a result of the substitution, the Trust received supplemental funding of \$14,691 (US\$ \$11,800) ("the supplemental mortgage"). The supplemental mortgage has a seven-year term and bears interest at 3.56%. All other terms and conditions of the existing mortgage remain unchanged and apply to the supplemental mortgage. The supplemental mortgage's unamortized financing costs included in mortgages payable is \$218 as at December 31, 2017, which are amortized over the term of the mortgage, using the effective interest rate method.

As at December 31, 2017, the Trust classified one mortgage totaling \$7,053 as a liability on an asset held for sale (2016 – four mortgages totaling \$21,709). As at December 31, 2017, included in the mortgage payable on assets held for sale is the related unamortized financing costs of \$19 (2016 - \$63) and related unamortized mark to market adjustments of \$263 (2016 – \$331) (see note 23).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

9. Mortgages payable and other loans (continued):

(a) Mortgages payable (continued):

Scheduled principal repayments and maturities, as at December 31, 2017, 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 December 31				
<i>(thousands of Canadian dollars)</i>	Weighted Average Effective Rate ⁽¹⁾	Scheduled Principal Repayments	Principal Maturities	Total Repayments
2018	3.72%	\$ 29,647	\$ 64,375	\$ 94,022
2019	3.84%	27,725	86,692	114,417
2020	4.21%	24,028	145,122	169,150
2021	3.68%	21,411	109,298	130,709
2022	3.81%	15,620	163,061	178,681
Thereafter	3.74%	34,024	309,107	343,131
	3.82%	\$ 152,455	\$ 877,655	\$ 1,030,110
Unamortized mortgage transaction costs				(5,308)
Unamortized mark to market mortgage adjustment				1,227
				\$ 1,026,029

⁽¹⁾The Trust entered into fixed interest rate swaps. See note 9(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 (note 4(b)). 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 December 31, 2017 is \$240. As at December 31, 2017, the related unamortized financing costs are \$220.

- (ii) The Trust had a demand operating bank loan with a borrowing limit of \$750. The loan was secured by an investment property and bore interest at a rate of prime plus 1.75%. On April 20, 2017, \$nil had been drawn on this loan (2016 - \$nil) and the loan was fully discharged.

- (iii) On December 10, 2014, the Trust entered into a \$90,000 revolving operating loan facility secured by a portfolio of 19 properties. Effective December 29, 2015, the revolving operating loan was amended, restated and increased to a \$110,000 facility, secured by a portfolio of 22 properties at that time. The loan bore interest at the lender's prime rate plus 0.75% or at the lender's banker's acceptance rate plus 1.75%, and was scheduled to mature on December 29, 2017. On April 12, 2017, concurrent with the closing of the Unsecured Credit Facility (note 9 (b)(iv)), the Trust terminated its \$110,000 secured revolving operating loan facility and recognized in finance expense the related unamortized financing costs of \$153 (2016 - \$206).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

9. Mortgages payable and other loans (continued):

(b) Other loans (continued):

- (iv) 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 December 31, 2017 is \$70,252 (US\$ 56,000). As at December 31, 2017, the related unamortized financing costs are \$483.

- (v) On August 18, 2017, the Trust acquired land located in Wilmer, Texas (note 4(c)). 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 \$1,348 (US\$ 1,074) as at December 31, 2017.

- (vi) 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 has the option to draw the remaining \$25,000 within six months, otherwise the option will be cancelled. 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 December 31, 2017 was \$125,000. As at December 31, 2017, the related unamortized financing costs are \$610.

(c) Mortgage interest rate swaps:

The Trust has entered into interest rate swaps on eleven mortgages with a notional amount of \$150,368 with three 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 December 31, 2017, the fair value asset of the mortgage interest rate swaps is \$2,583 (2016 – fair value liability \$1,857). The net gain resulting from the change in fair value of these derivative contracts for the years ended December 31, 2017 and 2016 are as follows:

<i>(thousands of Canadian dollars)</i>	Fair value (asset)/liability		Net gain on derivative contracts	
	December 31, 2017	December 31, 2016	Years ended December 31	
			2017	2016
	\$ (2,583)	\$ 1,857	\$ 4,440	\$ 2,327

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

10. 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 December 31, 2017, the carrying value is \$157 (US\$ 125) (2016 - \$168 (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, 2017. As at December 31, 2017, 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.

11. General and administrative expenses:

General and administrative expenses consist of the following:

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Compensation expense, excluding fair value adjustments	\$ 3,734	\$ 2,841
Non-cash fair value compensation expense	2,340	1,860
Administrative expenses	621	532
Legal and filing fees	691	596
Professional fees	1,126	1,296
Technology	261	334
Insurance	81	80
Other expenses	1,013	453
Special transaction costs (note 24)	500	-
	\$ 10,367	\$ 7,992

For the year ended December 31, 2016 included in compensation expense is an expense of \$691 relating to incremental severance costs.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

12. Finance income and finance expenses:

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Finance income		
Interest	\$ 1,299	\$ 884
Finance expenses		
Mortgage interest	\$ 39,316	\$ 36,658
Bank loan interest and fees	1,792	1,624
Amortization expense on mortgage and other loans	1,426	874
	\$ 42,534	\$ 39,156

During the year ended December 31, 2017, interest capitalized to properties under development was \$83 (2016 - \$870) and was based on a weighted average interest rate of 6.3% (2016 – 3.2%).

13. 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.

(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>	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgages payable (including interest rate swaps)	\$ 1,023,446	\$ 1,030,860	\$ 1,065,406	\$ 1,082,490

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

14. Capital management:

The Trust defines capital as the aggregate of unitholders' equity and long-term debt. The term "long-term debt" means any financial liabilities of the Trust beyond one year from the balance sheet date. 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 Trust Declaration and debt covenants.

The Trust Declaration provides for a maximum indebtedness level of up to 70% of the gross book value. The term "indebtedness" means any obligation of the Trust for borrowed money (including the face amount outstanding under any convertible debentures and any outstanding liabilities of the Trust arising from the issuance of subordinated notes but excluding any premium in respect of indebtedness assumed by the Trust for which the Trust has the benefit of an interest rate subsidy), but excludes trade accounts payable, distributions payable to unitholders, accrued liabilities arising in the ordinary course of business and short-term acquisition credit facilities. The Trust Declaration defines "gross book value" as the book value of the assets of the Trust and its subsidiaries plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets), if applicable, 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, in accordance with the Trust's Declaration, is 37.8% as at December 31, 2017 (2016 – 42.3%).

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Mortgages payable and other loans	\$ 1,211,920	\$ 1,043,491
Mortgage payable on assets held for sale (note 23)	7,053	21,709
Total indebtedness	1,218,973	1,065,200
Total assets	\$ 3,220,813	\$ 2,516,537
Indebtedness ratio	37.8%	42.3%

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 Tax Act have been taken. The Board of Trustees also reviews the cash distribution paid to unitholders on a regular basis. The monthly distribution to Class A Unitholders was \$0.026 per Class A unit for the year ended December 31, 2017 (2016 - \$0.026).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

14. Capital management (continued):

The Trust is in compliance with all investment and debt restrictions pursuant to the Trust Declaration for the year ended December 31, 2017 and for the year ended December 31, 2016.

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 December 31, 2017, the Trust is in compliance with these covenants.

The capital structure consisted of the following components at December 31, 2017 and December 31, 2016:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Units based compensation liabilities	\$ 6,760	\$ 4,101
Mortgages payable and other loans	1,211,920	1,043,491
Mortgages payable on assets held for sale (note 23)	7,053	21,709
Class A units	1,451,280	1,091,323
Accumulated earnings	436,545	227,845
Accumulated other comprehensive income	7,852	33,335
Non-controlling interest	11,226	26,692
	\$ 3,132,636	\$ 2,448,496

15. Fair Value Hierarchy:

Fair value measurements recognized in the Consolidated 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.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

15. Fair Value Hierarchy (continued):

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

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 asset	-	2,583	-

As at December 31, 2016			
<i>(thousands of Canadian dollars)</i>	Level 1	Level 2	Level 3
Investment properties	\$ -	\$ -	\$ 2,320,845
Investment properties held for sale	-	-	110,832
Unit based compensation liabilities	-	4,101	-
Mortgage interest rate swaps liability	-	1,857	-

There have been no transfers between levels for the years ended December 31, 2017 or 2016.

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.

16. 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 December 31, 2017 was \$2,738 (2016 - \$2,382), which included \$815 of past due amounts (2016 - \$289). The amount of unbilled receivables at December 31, 2017 was \$1,085 (2016 - \$1,758).

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 December 31, 2017 was \$10,125 (2016 - \$10,125). The vendor take-back receivable bore 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 year ended December 31, 2017, the Trust earned approximately 20.0% (2016 - 22.2%) of its revenue from a single tenant in Alberta, Ontario, Quebec and the U.S.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

16. Risk management (continued):

(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 eleven mortgages that are variable but for which the Trust has entered into interest rate swaps to reduce the interest rate exposure (note 9(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 interest bearing loans as at December 31, 2017 of \$195,252 (2016 - \$nil) the impact of a 100 basis points change will increase or decrease the Trust's interest expense or earnings by \$1,953 (2016 - \$nil) 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 4.7 years (2016 – 5.0 years).

(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.

17. 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>	Years ended December 31	
	2017	2016
Salaries, trustee fees, and other		
short-term employee benefits	\$ 3,461	\$ 3,377
Unit-based compensation	3,539	2,175
	\$ 7,000	\$ 5,552

Included in salaries, bonuses, trustee fees, and other short-term employee benefits and incentives is an expense recognized for the year ended December 31, 2016 of \$691 relating to incremental severance costs (see note 11).

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

17. Related party transactions (continued):

- (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 five 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 December 31, 2017, the outstanding balance of the loans were \$866 (2016 - \$904).

- (c) In November 2017, the Trust paid \$56 to a company controlled by one of the Trustees of the Trust, representing a mortgage placement fee in respect to the closing of construction financing regarding the Trust's development property in Richmond, BC (note 9(b)(i)).

18. 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.

Statement of net operating income

Year ended December 31, 2017 (thousands of Canadian dollars)	BC	AB	ON	U.S.A.	Other	Corporate	Total
Revenues							
Rental and recoveries	\$ 28,427	\$ 47,309	\$ 78,959	\$ 56,472	\$ 13,695	\$ 623	\$ 225,485
Property operating expenses:							
Insurance	279	179	440	240	63	-	1,201
Management fees	623	1,366	2,869	584	305	-	5,747
Operating costs	2,856	3,627	5,112	5,366	1,364	-	18,325
Property taxes	4,547	7,242	14,063	7,230	3,126	-	36,208
Net operating income	\$ 20,122	\$ 34,895	\$ 56,475	\$ 43,052	\$ 8,837	\$ 623	\$ 164,004

Year ended December 31, 2016 (thousands of Canadian dollars)	BC	AB	ON	U.S.A.	Other	Corporate	Total
Revenues							
Rental and recoveries	\$ 28,175	\$ 39,064	\$ 68,460	\$ 37,786	\$ 13,016	\$ 442	\$ 186,943
Property operating expenses:							
Insurance	255	140	348	56	51	-	850
Management fees	609	1,035	2,765	212	308	-	4,929
Operating costs	2,710	2,144	5,421	4,941	1,188	-	16,404
Property taxes	4,672	5,691	13,015	5,611	2,929	-	31,918
Net operating income	\$ 19,929	\$ 30,054	\$ 46,911	\$ 26,966	\$ 8,540	\$ 442	\$ 132,842

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

18. Operating segments (continued):

Other information from the Statement of Financial Position

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

December 31, 2016							
<i>(thousands of Canadian dollars)</i>	BC	AB	ON	U.S.A.	Other	Corporate	Total
Investment properties	\$306,612	\$558,981	\$ 823,148	\$515,822	\$116,282	\$ -	\$2,320,845
Total assets	355,295	599,225	864,509	532,695	132,788	32,025	2,516,537
Mortgages payable and other loans	160,427	272,444	360,286	218,969	31,365	-	1,043,491
Total liabilities	\$186,447	\$284,696	\$ 394,823	\$232,299	\$ 34,800	\$ 4,277	\$1,137,342

19. Leases:

The Trust has entered into leases on the 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 December 31, 2017, 65% of the properties' gross leasable area is leased to single tenants (2016 - 68%).

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

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Within 1 year	\$ 169,714	\$ 151,523
Years 2 – 5	561,908	479,057
Greater than 5 years	464,231	442,748
	\$ 1,195,853	\$ 1,073,328

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

20. Commitments:

As at December 31, 2017, the Trust has issued letters of credit in the amount of \$1,275 (2016 - \$1,280).

The Trust has ten 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

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

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Within 1 year	\$ 8,538	\$ 7,520
Years 2 – 5	44,708	32,266
Greater than 5 years	281,213	269,744
	\$ 334,459	\$ 309,530

For the year ended December 31, 2017, the Trust recognized land lease expense of \$7,410 (2016 - \$6,767) and the remaining term of the Trusts' land leases range from 9 to 49 years.

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. As of December 31, 2017, \$390 has been incurred to date. Construction on the redevelopment site is expected to commence in the second quarter of 2018.

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 (note 9(b)(v)) agreement of \$1,433 (US\$ 1,133) with the vendor. As the Trust performs municipal infrastructure improvements, the promissory note payable is reduced. As of December 31, 2017, \$129 (US\$103) has been incurred to date, of which \$56 (US\$ 45) represents the Trust 's share.

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

21. Income taxes:

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 of \$1,808 (2016 – \$1,263).

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.

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Income tax computed at the Canadian statutory rate of nil	\$ -	\$ -
Current income tax expense	1,808	1,263
Deferred income tax (recovery)/expense	(2,309)	3,195
	\$ (501)	\$ 4,458

The tax effects of temporary differences that give rise to deferred tax liabilities are presented below:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Deferred tax liabilities:		
Investment properties	\$ 14,604	\$ 18,199

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Deferred income tax (recovery)/expense included in net earnings	\$ (2,309)	\$ 3,195
Deferred income tax effect included in other comprehensive income	(1,286)	(404)
	\$ (3,595)	\$ 2,791

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

22. Supplementary cash flow information:

<i>(thousands of Canadian dollars)</i>	Years ended December 31	
	2017	2016
Changes in non-cash working capital:		
Increase in amounts receivable and prepaid expenses	\$ (1,379)	\$ (4,948)
Increase in rental deposits	257	1,527
(Decrease)/increase in accounts payable and accrued liabilities	(3,149)	12,694
	\$ (4,271)	\$ 9,273

23. Assets and liabilities on assets held for sale:

As at December 31, 2017 the Trust's interest in 3 investment properties were classified as held for sale (2016 – 16 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 December 31, 2017 and December 31, 2016 were as follows:

<i>(thousands of Canadian dollars)</i>	December 31, 2017	December 31, 2016
Assets		
Investment properties	\$ 21,335	\$ 110,832
Amounts receivable and prepaid expense	163	620
	\$ 21,498	\$ 111,452
Liabilities		
Mortgages payable	\$ 7,053	\$ 21,709
Accounts payable and accrued liabilities	49	1,294
Rental deposits	157	439
	\$ 7,259	\$ 23,442

PURE INDUSTRIAL REAL ESTATE TRUST

Notes to the Consolidated Financial Statements

(amounts expressed in thousands of Canadian dollars, except units and per unit amounts)

24. 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, which is expected to occur in the second quarter of 2018, 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 scheduled for March 23, 2018, court approval and regulatory approval (Investment Canada Act). On February 26, 2018, the Commissioner of Competition issued an Advance Ruling Certificate approving the Transaction.
- (b) On January 31, 2018, the Trust completed an acquisition of an industrial property, consisting of two buildings, located adjacent to an existing property of the Trust in Edmonton, Alberta for \$1,900. 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 \$1,500.
- (c) On February 1, 2018, the Trust completed the acquisition of a newly-constructed, 287,338 sf property in Montreal, Quebec for gross proceeds of \$32,500. The Trust assumed a mortgage in the amount \$22,807 with 7.5 years remaining on the term. The annual interest rate is fixed through a swap agreement at 3.48%.
- (d) On February 16, 2018, the Trust completed the disposition of an investment property located in Vaughan, Ontario for gross proceeds of \$3,608. The property was not classified as held for sale as at December 31, 2017.
- (e) 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 \$48,000. The Trust assumed two loans totaling \$25,507 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%).