



Consolidated Financial Statements
December 31, 2007 and 2006



SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS

100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
Business: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

March 19, 2008

AUDITORS' REPORT

**To the Unitholders of
Whiterock Real Estate Investment Trust:**

We have audited the consolidated balance sheets of Whiterock Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of income (loss) and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

**WHITEROCK REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS**

		December 31,	
	Note	2007	2006
Assets			
Income properties	3	\$ 314,128,715	\$ 339,543,719
Deferred charges	4	15,137,436	17,599,205
Intangible assets	5	17,117,794	22,844,369
		346,383,945	379,987,293
Other assets	6	4,496,522	9,685,146
Cash		4,152,370	9,298,240
Future income tax assets	20	140,000	-
		\$ 355,172,837	\$ 398,970,679
Liabilities and Equity			
Mortgages payable and acquisition facility	7	\$ 224,598,967	\$ 250,885,884
Accounts payable and accrued liabilities	8	12,204,780	18,938,601
Convertible debentures	9	43,507,560	48,893,755
		280,311,307	318,718,240
Unitholders' Equity		74,861,530	80,252,439
		\$ 355,172,837	\$ 398,970,679

See accompanying notes to the consolidated financial statements

Approved by the Board of Trustees:

“Jason Underwood”
Trustee

“Paul Simcox”
Trustee

WHITEROCK REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME

		Year ended December 31,	
	Note	2007	2006
Revenue			
Income property rentals	13	\$ 48,348,911	\$ 28,337,434
Interest income		504,978	654,865
		48,853,889	28,992,299
Expenses			
Property operating costs		19,079,309	10,107,925
Interest	14	16,859,466	11,752,248
General and administrative expenses	15	2,201,395	2,611,678
Amortization	16	11,666,297	6,906,219
		49,806,467	31,378,070
Income (loss) before the undernoted		(952,578)	(2,385,771)
Asset management and management services contracts	17	-	(3,703,112)
Strategic alternatives costs	18	(2,229,290)	-
Loss on debenture redemption	19	-	(690,838)
Future income taxes	20	140,000	-
Income (loss) from continuing operations		(3,041,868)	(6,779,721)
Income from discontinued operations	21	341,808	308,453
Gain on disposition of property	21	3,514,785	-
Net income (loss) and comprehensive income		\$ 814,725	\$ (6,471,268)
Basic net income (loss) per unit			
	22		
Continuing operations		\$ (0.30)	\$ (0.98)
Discontinued operations		\$ 0.38	\$ 0.04
Net income per unit		\$ 0.08	\$ (0.94)
Diluted net income (loss) per unit			
	22		
Continuing operations		\$ (0.30)	\$ (0.98)
Discontinued operations		\$ 0.38	\$ 0.04
Net income per unit		\$ 0.08	\$ (0.94)

See accompanying notes to the consolidated financial statements

WHITEROCK REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

		Year ended December 31,	
	Note	2007	2006
Units			
	10		
Balance, beginning of year		\$ 94,226,033	\$ 39,401,889
Issuance of units		5,438,307	58,370,050
Value associated with unit options exercised		83,355	64,506
Value associated with warrants exercised		5,220	70,180
Value associated with unit options expired		76,873	-
Unit issue costs		(258,010)	(3,680,592)
Balance, end of year		99,571,778	94,226,033
Unit Options			
	11		
Balance, beginning of year		840,738	499,299
Value associated with unit options exercised		(83,355)	(64,506)
Value associated with unit options vested		107,128	440,470
Value associated with unit options cancelled/expired		(108,299)	(34,525)
Balance, end of year		756,212	840,738
Warrants			
	12		
Balance, beginning of year		320,020	75,400
Value associated with warrants issued		-	314,800
Value associated with warrants exercised		(5,220)	(70,180)
Balance, end of year		314,800	320,020
Equity Component of Convertible Debentures			
	9		
Balance, beginning of year		2,335,991	1,019,747
Equity component of convertible debentures issued		-	1,547,129
Equity component of convertible debentures converted		(203,366)	(13,806)
Equity component of convertible debentures redeemed		-	(217,079)
Balance, end of year		2,132,625	2,335,991
Cumulative Earnings and Accumulated Comprehensive Earnings			
Balance, beginning of year		(7,509,446)	(660,953)
Convertible debenture redemption	19	-	(377,225)
Transition amount to conform to new accounting policy	2	65,150	-
Net income (loss)		814,725	(6,471,268)
Balance, end of year		(6,629,571)	(7,509,446)
Cumulative Distributions to Unitholders			
Balance, beginning of year		(9,960,897)	(2,117,347)
Distributions to unitholders (cash and units)		(11,323,417)	(7,843,550)
Balance, end of year		(21,284,314)	(9,960,897)
Total Unitholders' Equity		\$ 74,861,530	\$ 80,252,439
Units Issued and Outstanding	10	10,385,274	9,869,877

See accompanying notes to the consolidated financial statements

WHITEROCK REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,	
		2007	2006
Cash provided by (used in) operating activities			
Income (loss) from continuing operations		\$ (3,041,868)	\$ (6,779,721)
Items not affecting cash			
Amortization	16	11,666,297	6,906,219
Deferred finance cost amortization			
- mortgages payable		221,767	199,761
- acquisition facility		499,642	181,574
- convertible debentures		519,929	459,589
Implicit interest rate in excess of coupon rate - convertible debentures		398,967	215,969
Loss on debenture redemption		-	690,838
Non-cash compensation expense	15	75,702	162,595
Non-cash management services fees	15	-	710,948
Non-cash asset management and management services contracts	17	-	3,500,000
Deferred revenue		(36,843)	(39,414)
Future income taxes		(140,000)	-
Accrued rental revenue recognized on a straight line basis		(1,384,481)	(652,534)
Above and below market lease amortization		(1,341,086)	(1,331,054)
		7,438,026	4,224,770
Changes in non-cash operating items		(1,407,865)	4,080,035
		6,030,161	8,304,805
Cash provided by (used in) financing activities			
Mortgage principal instalment payments		(2,731,232)	(1,656,672)
Mortgage principal repayments on maturity		(10,663,400)	-
Mortgage financing proceeds (net of transaction costs)		13,169,034	13,512,847
Convertible debenture financing proceeds (net of transaction costs)		-	33,396,960
Redemption of convertible debentures		-	(8,775,000)
Draw on acquisition facility (net of transaction costs)		4,174,044	38,349,989
Repayment of acquisition facility		(7,800,000)	(35,000,000)
Issuance of units	10	362,625	49,355,087
Mortgage financing costs		-	-
Acquisition facility financing costs		-	-
Convertible debenture issue costs		-	-
Unit issue costs		(22,315)	(3,382,401)
Distributions to unitholders		(10,782,405)	(7,483,099)
		(14,293,649)	78,317,711
Cash provided by (used in) investing activities			
Income properties acquired	3	(14,795,781)	(83,913,682)
Payment of purchase price holdback	3	(503,538)	(2,574,918)
Leasing costs and capital expenditures		(1,183,389)	(4,379,218)
Furniture and equipment		(50,981)	(261,812)
		(16,533,689)	(91,129,630)
Change in cash - Continuing operations		(24,797,177)	(4,507,114)
Change in cash - Discontinued operations	21	19,651,307	(15,476,369)
Cash, beginning of year		9,298,240	29,281,723
Cash, end of year		\$ 4,152,370	\$ 9,298,240
Supplementary cash flow information			
Cash interest paid	14	\$ 15,946,363	\$ 10,856,939

See accompanying notes to the consolidated financial statements

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

1. Organization and Basis of Presentation

Whiterock Real Estate Investment Trust (“Whiterock” or “the Trust”) is an open-ended real estate investment trust which was created under a Declaration of Trust on May 17, 2005. The Company’s accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles. The Company’s significant accounting policies are as follows:

2. Significant Accounting Policies

Principles of consolidation

These financial statements reflect the operations of Whiterock, its wholly-owned trust, WR Trust and its wholly-owned subsidiaries (together the “Trust”). The Trust engages in the strategic acquisition, ownership and management of income-producing office, industrial and retail properties in select markets across Canada.

Income properties

Income properties are stated at cost less accumulated amortization. If events or circumstances indicate that the carrying value of an income property may be impaired, a recoverability analysis is performed based on the estimated undiscounted cash flows to be generated from the income property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income property is written down to its estimated fair value and an impairment loss is recognized.

In accordance with Canadian generally accepted accounting principles, the purchase price of properties is allocated to land, buildings and improvements, deferred leasing costs, and intangibles, including lease origination costs associated with in-place leases, the value of above and below market leases, and the value of tenant relationships. Allocations of the purchase price are generally based on the following criteria:

- Land is recorded at estimated fair value.
- Buildings and improvements are recorded at replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age.
- Deferred leasing costs, including tenant improvements, are recorded at estimates of prevailing tenant allowances.
- Lease origination costs are determined based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.
- Values ascribed to above and below market in-place leases are determined based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.
- Tenant relationship values are determined based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew.
- The fair value of debt assumed on acquisition is determined by reference to market interest rates.
- Any differences between the estimated fair values of the acquired assets and assumed liabilities and the cost of the acquired property are allocated on a pro rata basis to building and improvements, lease origination costs and tenant relationship values.

WHITEROCK REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Deferred charges

Tenant inducements on acquisitions associated with in-place leases related to income property acquisitions are included in deferred charges. Deferred charges also include leasing costs.

Intangible assets and liabilities

Lease origination costs, costs related to tenant relationships and the value of above or below market leases are included in intangible assets and accounts payable and accrued liabilities.

Convertible debentures

The Trust's convertible debentures are classified into their debt and equity components. The equity component represents the estimated value of the conversion rights of the holders.

Unit options and warrants

The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. Compensation expense for option based compensation awards is recognized when unit options are granted over the vesting periods. The fair values of unit options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model. On the exercise of unit options, consideration received and the accumulated unit options amount relating thereto is credited to units. Awards of unit options and warrants related to private placements or public offerings of units are treated as unit issue costs.

Revenue recognition

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. Recoveries from tenants for property operating costs are recognized as revenue during the period in which the applicable costs are incurred.

Amortization

Buildings and improvements are amortized on a straight-line basis over their estimated useful lives, not to exceed 40 years. Tenant inducements and leasing expenses are deferred and amortized on a straight-line basis over the term of the respective leases. Lease origination costs, costs related to tenant relationships and the value of above or below market leases are amortized over the remaining term of the associated tenant leases. Furniture and equipment is amortized on a straight-line basis over five years.

Financing costs

Costs incurred in connection with mortgage, facilities, and convertible debenture financings are measured at amortized cost using the effective interest method and are offset against the related mortgage, facilities or convertible debenture.

Distributions

The Trust makes distributions on its units equal to or greater than the amounts under the Declaration of Trust. As per the Declaration of Trust, the Trust shall distribute in each taxation year an amount equal to the greater of: (i) 85% of its Distributable Income for such taxation year; and (ii) an amount of net income and net realized capital gains of the Trust for such taxation year as is necessary to ensure that the Trust will not be subject to tax on its net income and net capital gains under Part I of the Tax Act. Distributions in the amount of \$11,323,417 in 2007 (2006 - \$7,843,550) exceeds both of these criteria. Distributable Income is defined as net income determined in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization and excluding any gains or losses on the disposition of any asset. Interest expense on convertible debentures for purposes of determining distributable income is calculated based on the actual interest payable on debentures.

WHITEROCK REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Income taxes

The Trust currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. In accordance with the terms of the Declaration of the Trust, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act (Canada). Accordingly, the Trust does not require a provision for current income taxes payable.

Future income taxes are recorded using the liability method. Under this method, the Trust determines its future tax asset or liability based on its temporary differences, the periods over which these differences are expected to reverse and the enacted tax rates expected to apply in the periods the temporary differences are expected to reverse (Note 20).

Net income per unit

Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options and warrants is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding unit options and warrants are used to purchase units of Whiterock at the average market price for the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates, and as adjustments become necessary, the adjustments are reported in earnings in the period in which the adjustments become known.

Variable Interest Entities

CICA Accounting Guideline 15 Consolidation of Variable Interest Entities requires an assessment of whether control of an entity exists through financial interests other than voting control, and if so, to consolidate the entity in the financial results. Whiterock has reviewed its interests, specifically its co-ownerships, and has determined that they do not qualify as variable interests, and as a result are proportionately consolidated in the financial statements.

Changes to Significant Accounting Policies

The CICA has issued three new standards: Comprehensive Income – Handbook Section 1530; Financial Instruments, Recognition and Measurement – Handbook Section 3855; and Hedges – Handbook Section 3865, which were adopted by the Trust on January 1, 2007.

(i) Comprehensive income, CICA Handbook Section 1530

This standard provides for new disclosure of Other Comprehensive Income (“OCI”), to be included in the consolidated financial statements. OCI generally includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Trust’s consolidated financial statements includes a consolidated statement of income (loss) and comprehensive income while the cumulative amount and accumulated other comprehensive income (“AOCI”), is disclosed in the statement of unitholders’ equity.

(ii) Financial instruments – recognition and measurement, CICA Handbook Section 3855

This standard provides guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

WHITEROCK REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are required to be recognized in OCI.

The standard permits the Trust to designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855.

The standard specifically excludes Section 3065, Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract.

Upon adoption of the new standard, the Trust designated cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Mortgages payable, convertible debentures, facilities, and accounts payable, net of transaction costs, have been classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(iii) Hedges, CICA Handbook Section 3865

This standard specifies the criteria under which hedge accounting is applied and how hedge accounting should be executed for each of the permitted hedging strategies including fair value hedges and cash flow hedges.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard is offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI. The ineffective portion as defined by the standard is recognized in net income. The amounts recognized in AOCI are reclassified to net income in those periods in which net income is affected by the variability in the cash flows of the hedged item.

(iv) Impact of adopting CICA Handbook Sections 1530, 3855 and 3865

In accordance with the transitional provisions of the respective standards, these changes were adopted retroactively without restatement effective January 1, 2007. The impact of these changes in accounting policies was to change the method of amortization of the deferred financing costs to the effective interest rate method from straight-line, which increased cumulative earnings and accumulated comprehensive earnings by \$65,150; and to reclassify deferred financing costs of \$5,007,203 from other assets to net against the relevant host contract within the liability portion of the consolidated balance sheet.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Future Changes to Significant Accounting Policies

Three new CICA Handbook sections will be effective for the Trust's 2008 fiscal year: Capital Disclosures, Section 1535; Financial Instruments – Disclosures, Section 3862; and Financial Instruments – Presentation, Section 3863.

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital. Sections 3862 and 3863 replace CICA Handbook Section 3861. The new sections revise and enhance disclosure requirements regarding the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Trust is currently evaluating the potential impact of these new standards on the consolidated financial statements for 2008.

3. Income Properties

	December 31,	
	2007	2006
Land	\$ 48,685,937	\$ 43,934,455
Buildings and improvements	276,802,909	256,050,374
	325,488,846	299,984,829
Accumulated amortization	(11,360,131)	(4,666,019)
	314,128,715	295,318,810
Discontinued operations (Note 21)	-	44,224,909
	\$ 314,128,715	\$ 339,543,719

During the year ended December 31, 2007, the Trust acquired an interest in two office properties for \$5.2 million including closing costs, financed in part by \$3.3 million of fixed rate mortgages, with the balance paid in cash. The Trust also acquired an industrial property for \$14.0 million including closing costs, financed in part by a \$7.5 million floating rate mortgage, with the balance paid in cash and one retail centre for \$6.6 million including closing costs, which was financed in part by a \$4.2 million draw on the Trust's acquisition facility, with the balance paid in cash. In addition, the Trust acquired land in St. Hyacinthe, Quebec for \$0.2 million in cash, which was leased for 18 years to an existing tenant of the Trust.

In April 2007, the Trust disposed of its 50% interest in three office properties for gross proceeds of \$51.8 million, less mortgages assumed by the purchaser totaling \$31.6 million, resulting in a gain of \$3.5 million (Note 21). Proceeds from the sales were used to repay the entire \$7.8 million outstanding on the Trust's acquisition facility (Note 7).

During the year ended December 31, 2006, the Trust acquired an interest in seven office properties for \$142.6 million including closing costs, financed in part by \$84.4 million of fixed rate mortgages, \$26.6 million drawn on the acquisition facility (Note 7), and \$2.5 million in LP Class B units. Five retail centres were also acquired for \$38.4 million including closing costs, and were financed in part by \$21.0 million of fixed rate mortgages. In addition, the Trust acquired six industrial properties for \$26.4 million including closing costs, financed in part by \$13.1 million of fixed rate mortgages.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The net assets acquired (continuing operations) and consideration provided at the time of acquisition were as follows:

	Year ended December 31,	
	2007	2006
Income properties		
- Land	\$ 4,751,482	\$ 26,950,826
- Building and improvements	20,181,072	159,631,651
Deferred charges		
- Tenant inducements	818,441	7,544,586
Intangible assets		
- Lease origination costs	544,193	8,894,751
- Tenant relationships	333,275	5,650,297
- Above market rents	-	1,394,043
Accounts payable and accrued liabilities		
- Below market rents	(529,144)	(2,679,573)
	\$ 26,099,319	\$ 207,386,581
Consideration provided:		
Mortgage financing		
- New mortgages	\$ 10,800,000	\$ 67,112,000
- Assumed mortgages	-	51,285,981
LP Class B units issued	-	2,500,000
Purchase price holdback	503,538	2,574,918
Cash and acquisition facilities	14,795,781	83,913,682
	\$ 26,099,319	\$ 207,386,581

4. Deferred Charges

	December 31,	
	2007	2006
Tenant inducements on acquisitions	\$ 13,820,671	\$ 13,002,230
Leasing costs	4,772,968	4,114,386
	18,593,639	17,116,616
Accumulated amortization		
Tenant inducements on acquisitions	(2,998,464)	(1,184,976)
Leasing costs	(457,739)	(124,461)
	(3,456,203)	(1,309,437)
	15,137,436	15,807,179
Discontinued operations (Note 21)	-	1,792,026
	\$ 15,137,436	\$ 17,599,205

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

5. Intangible Assets

	December 31,	
	2007	2006
Lease origination costs	\$ 12,692,254	\$ 12,148,061
Tenant relationships	7,908,318	7,575,043
Above market rents on acquisitions	1,565,218	1,565,218
	22,165,790	21,288,322
Accumulated amortization		
Lease origination costs	(2,670,200)	(971,660)
Tenant relationships	(1,688,827)	(613,039)
Above market rents on acquisitions	(688,969)	(158,997)
	(5,047,996)	(1,743,696)
	17,117,794	19,544,626
Discontinued operations (Note 21)	-	3,299,743
	\$ 17,117,794	\$ 22,844,369

6. Other Assets

	December 31,	
	2007	2006
Prepaid expenses and other assets	\$ 1,717,159	\$ 2,700,031
Properties under option	10,787	339,048
Amounts receivable	689,826	627,837
Straight line rent receivable	2,078,750	694,269
Deferred financing costs (Note 2(iv))	-	5,631,616
	4,496,522	9,992,801
Deferred financing costs - Accumulated amortization (Note 2(iv))	-	(863,483)
	4,496,522	9,129,318
Discontinued operations (Note 21)	-	555,828
	\$ 4,496,522	\$ 9,685,146

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

7. Mortgages Payable and Facilities

Mortgages payable and facilities are secured by income properties.

	December 31,	
	2007	2006
Mortgage liability - continuing	\$ 226,332,982	\$ 215,497,614
Mortgage liability - discontinued	-	31,788,270
Mortgage deferred financing fees	(2,016,987)	-
Accumulated amortization	398,254	-
Mortgage liability - net of deferred financing costs	224,714,249	247,285,884
Acquisition and credit facilities	-	3,600,000
Acquisition and credit facilities deferred financing fees	(860,766)	-
Accumulated amortization	745,484	-
Acquisition and credit facilities - net of deferred financing fees	(115,282)	3,600,000
	\$ 224,598,967	\$ 250,885,884

Effective January 1, 2007, Mortgages Payable and Facilities are presented net of deferred financing costs (Note 2(iv)).

The fixed and floating components of the mortgages are as follows:

	December 31,	
	2007	2006
Fixed rate	\$ 218,832,982	\$ 204,616,689
Floating rate	7,500,000	10,880,925
	226,332,982	215,497,614
Discontinued operations - Fixed rate	-	31,788,270
	\$ 226,332,982	\$ 247,285,884

Fixed rate financing bears interest at a weighted average fixed rate of 5.4% (2006 – 5.4%), excluding mortgages relating to discontinued operations. Floating rate financing bears interest at rates determined by reference to the prime rate plus 25 basis points (2006 – 225 basis points).

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Principal repayments of mortgages payable outstanding as of December 31, 2007 are as follows:

	Scheduled Amortization	Balloon Payments	Total
2008	\$ 2,942,722	\$ 12,000,000	\$ 14,942,722
2009	3,115,890	-	3,115,890
2010	3,337,414	12,716,598	16,054,012
2011	3,910,109	-	3,910,109
2012	4,853,331	12,045,982	16,899,313
2013	4,746,109	2,930,702	7,676,811
Thereafter	23,187,212	140,546,913	163,734,125
	\$ 46,092,787	\$ 180,240,195	\$ 226,332,982

Acquisition Facility

On April 28, 2006, Whiterock entered into an 8.5% revolving \$23.5 million acquisition facility with a third party provider, maturing in May 2008. Effective July 31, 2006, the maximum amount available to be drawn under the facility was increased to \$45 million. As consideration for the facility, as amended, Whiterock issued 125,000 warrants with a \$13.76 exercise price and 90,500 warrants with a \$14.20 exercise price (Note 12), with a term of 5 years. At December 31, 2007, all warrants are exercisable.

In addition, Whiterock issued at the time of the initial draw under the facility, as additional compensation, 9,811 units to the lender, and issued an additional 9,811 units when cumulative draws under the facility totaled \$15 million.

The Trust has guaranteed that the gross proceeds received by the lender from the units and warrants will at least equal \$450,000 in certain circumstances, including upon disposition of the units and warrants and on termination of the agreement. The total gross proceeds receivable by the lender from the units based on the December 31, 2007 closing unit price of \$10.00 is \$196,220, resulting in a possible additional guarantee payment of \$253,780, in return for which the warrants would be cancelled. As at December 31, 2007, the value of the warrants, which was recorded as a deferred finance cost at the inception of the acquisition facility, has been fully expensed.

On April 13, 2007, the acquisition facility was repaid in full. As at December 31, 2007, no amount was outstanding under the acquisition facility.

Credit Facility

On December 18, 2007, the Trust entered into a \$5 million revolving line of credit at a floating rate determined by reference to the prime rate plus 50 basis points. As at December 31, 2007, no amount was outstanding under the credit facility.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

8. Accounts Payable and Accrued Liabilities

	December 31,	
	2007	2006
Below market rents on acquisitions	\$ 10,699,732	\$ 10,175,273
Accrued acquisition and management services fees (Note 17)	-	687,782
Accrued mortgage, acquisition facility, and debenture interest	1,224,830	1,433,523
Security deposits	400,782	431,621
Distributions payable	-	19,201
Other accounts payable and accrued liabilities	3,488,537	5,634,515
	15,813,881	18,381,915
Accumulated Amortization		
Below market rents on acquisitions	(3,609,101)	(1,742,728)
	12,204,780	16,639,187
Discontinued operations (Note 21)	-	2,299,414
	\$ 12,204,780	\$ 18,938,601

9. Convertible Debentures

As at December 31, 2007, the Trust has four series of convertible debentures outstanding.

	Principal (\$)	Interest rate	Conversion Price	Interest Payable	Maturity Date
Series A	9,309,000	8.0%	\$10.20 per unit	semi-annually	June 28, 2010
Series C	2,677,000	9.0%	\$12.00 per unit	quarterly	December 21, 2010
Series D	10,000,000	7.5%	\$15.00 per unit	semi-annually	July 31, 2011
Series E	25,000,000	6.3%	\$13.75 per unit	semi-annually	December 31, 2011

The convertible debentures were allocated into their liability and equity components on the date of issuance as follows:

	Series A	Series B	Series C	Series D	Series E	Total
Liability	\$ 12,328,078	\$ 8,769,115	\$ 2,883,060	\$ 9,564,256	\$ 23,888,615	\$ 57,433,124
Equity	671,922	230,885	116,940	435,744	1,111,385	2,566,876
Principal on issuance	13,000,000	9,000,000	3,000,000	10,000,000	25,000,000	60,000,000
Conversion of debentures	-	(900,000)	-	-	-	(900,000)
Redemption of debentures	-	(8,100,000)	-	-	-	(8,100,000)
Principal -						
December 31, 2006	13,000,000	-	3,000,000	10,000,000	25,000,000	51,000,000
Conversion of debentures	(3,691,000)	-	(323,000)	-	-	(4,014,000)
Principal -						
December 31, 2007	\$ 9,309,000	\$ -	\$ 2,677,000	\$ 10,000,000	\$ 25,000,000	\$ 46,986,000

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The accretion of the liability component of the convertible debentures, which increases the liability component from the initial allocation on the date of issuance, is included in interest expense.

	Series A	Series B	Series C	Series D	Series E	Total
Liability -						
December 31, 2005	\$ 12,383,116	\$ 8,772,416	\$ 2,883,612	\$ -	\$ -	\$ 24,039,144
Issuance of debentures	-	-	-	9,564,256	23,888,615	33,452,871
Implicit interest rate in excess of coupon rate	115,501	41,813	18,458	27,463	12,734	215,969
Conversion of debentures	-	(888,531)	-	-	-	(888,531)
Redemption of debentures	-	(7,925,698)	-	-	-	(7,925,698)
Liability -						
December 31, 2006	12,498,617	-	2,902,070	9,591,719	23,901,349	48,893,755
Implicit interest rate in excess of coupon rate	115,190	-	18,945	75,692	189,140	398,967
Conversion of debentures	(3,569,771)	-	(312,456)	-	-	(3,882,227)
Liability -						
December 31, 2007	9,044,036	-	2,608,559	9,667,411	24,090,489	45,410,495
Deferred financing fees	(1,044,776)	-	(185,065)	(240,458)	(1,338,461)	(2,808,760)
Deferred financing fees - Accumulated amortization	542,406	-	60,520	57,760	245,139	905,825
Balance -						
December 31, 2007	\$ 8,541,666	\$ -	\$ 2,484,014	\$ 9,484,713	\$ 22,997,167	\$ 43,507,560

Series A

On June 28, 2005, the Trust issued 8% redeemable subordinated unsecured convertible debentures in the amount of \$13,000,000 with interest payable semi-annually and which mature on June 28, 2010. The debentures are convertible at the request of the holder after June 28, 2007, subject to certain terms and conditions at a conversion price per unit of \$10.20.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from June 29, 2007 and until June 28, 2009, providing that the 20-day weighted average trading price of the units is at least \$15.30 and, after June 28, 2009, providing that the 20-day weighted average trading price is at least \$12.75.

In 2007, \$3,691,000 of debentures (2006 – nil) were converted into 361,857 units. Subsequent to December 31, 2007, \$253,000 of debentures were converted into 24,803 units (Note 26).

Series C

On December 21, 2005, the Trust issued 9% redeemable subordinated unsecured convertible debentures in the amount of \$3,000,000 with interest payable quarterly and which mature on December 21, 2010. The debentures are convertible at the request of the holder after December 21, 2006, subject to certain terms and conditions at a conversion price per unit of \$12.00.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from December 21, 2006 and until June 21, 2008, providing that the 20-day weighted average trading price of the units is at least \$13.00 and, after June 21, 2008, providing that the 20-day weighted average trading price is at least \$14.00.

In 2007, \$323,000 of debentures (2006 – nil) were converted into 26,914 units.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Series D

On August 14, 2006, the Trust issued 7.5% redeemable subordinated unsecured convertible debentures in the amount of \$10,000,000 with interest payable semi-annually and which mature on July 31, 2011. The debentures are convertible at the request of the holder after July 31, 2007, subject to certain terms and conditions at a conversion price per unit of \$15.00.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from July 31, 2009 and until July 14, 2010, providing that the 20-day weighted average trading price of the units is at least \$18.75 and, after July 14, 2010, at their principal amount.

Series E

On December 8, 2006, the Trust issued 6.3% redeemable subordinated unsecured convertible debentures in the amount of \$25,000,000 with interest payable semi-annually and which mature on December 31, 2011. The debentures are convertible at the request of the holder, subject to certain terms and conditions at a conversion price per unit of \$13.75.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from December 31, 2009 and prior to December 31, 2010, providing that the 20-day weighted average trading price of the units is at least \$17.19 and, after December 30, 2010, at their principal amount.

10. Units

	Note	2007		2006	
		Units	\$	Units	\$
Issued and outstanding, January 1		9,869,877	\$ 94,226,033	5,164,472	\$ 39,401,889
Units Issued					
Private placement		-	-	2,579,662	33,535,612
Public offering		-	-	1,261,000	15,005,900
Settlement of accrued					
management services fees	17	34,708	449,077	407,347	4,982,176
LP Class B units issued					
on acquisition	3	-	-	205,354	2,500,000
Conversion of Series A Debentures		361,857	3,760,545	-	-
Conversion of Series B Debentures		-	-	75,000	902,337
Conversion of Series C Debentures		26,914	325,048	-	-
Exercise of warrants	12	5,625	30,375	75,625	408,375
Exercise of unit options	11	40,875	332,250	52,363	405,200
Distribution reinvestment plan		45,418	541,012	29,432	360,451
Financing fees paid in units		-	-	19,622	269,999
Value associated with unit options exercised			83,355		64,506
Value associated with options expired			76,873		-
Value associated with warrants exercised			5,220		70,180
Unit issue costs			(258,010)		(3,680,592)
Issued and outstanding,					
December 31		10,385,274	\$ 99,571,778	9,869,877	\$ 94,226,033

Effective August 21, 2006, the Trust consolidated its issued and outstanding units on the basis of one post-consolidation unit for every four pre-consolidation units. All references to units, unit options, and warrants in these financial statements, including per unit values, have been adjusted to a post-consolidation basis.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

LP Class B Units

LP Class B units, which were issued in 2006 by Whiterock Limited Partnership, a subsidiary of Whiterock, together with the accompanying Special Trust Units, had economic and voting rights equivalent in all material respects to the units and could only be converted into units of the Trust.

During the three months ended March 31, 2007, all of the remaining 205,354 LP Class B units were converted to units of the Trust.

Distribution Reinvestment and Unit Purchase Plan

In April 2006, the Trust established a Distribution Reinvestment Plan ("DRIP") which allows unitholders, subject to certain terms and conditions, to elect to have cash distributions from the Trust reinvested in additional units. Units purchased through reinvestment of distributions are purchased at 96% of the Average Market Price of the units for the 10 trading days preceding the distribution payment date.

11. Unit Options

The Trust may grant unit options to the Trustees, senior officers, investor relations consultants and technical consultants to the Trust. The maximum number of units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding units. The Trustees set the exercise price at the time that a unit option is granted under the plan, which exercise price shall not be less than the 5 day weighted average market price of the units as determined under the policies of the Exchange. The unit options have a maximum term of five years from the date of grant and vest over a period of up to two years.

	2007		2006	
	Unit Options	Weighted Average Exercise Price	Unit Options	Weighted Average Exercise Price
Outstanding, January 1,	645,250	\$10.68	423,238	\$8.88
Granted	65,000	\$10.88	293,750	\$12.78
Exercised	(40,875)	\$8.13	(52,363)	\$7.73
Expired	(62,813)	\$12.75	-	-
Cancelled	(29,687)	\$11.34	(19,375)	\$11.59
Outstanding, December 31	576,875	\$10.62	645,250	\$10.68
Options vested, end of year	563,750	\$10.61	557,750	\$10.70
Weighted average remaining life (years)	3.2		4.0	

The fair value associated with the unit options issued during the year ended December 31, 2007 and 2006 was calculated using the Black-Scholes model for option valuation, assuming a weighted average volatility of 25% (2006 – 26%) on the underlying units, the term to expiry of 5 years, an annual dividend of \$1.12, and the five year weighted average risk free interest rate (the five year Canada bond rate at the date of grant).

Subsequent to December 31, 2007, 25,000 unit options were granted.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

12. Warrants

	2007		2006	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, January 1,	221,125	\$13.73	81,250	\$5.40
Issued	-	-	215,500	\$13.94
Exercised	(5,625)	\$5.40	(75,625)	\$5.40
Outstanding, December 31	215,500	\$13.94	221,125	\$13.73
Warrants exercisable, end of year	215,500	\$13.94	221,125	\$13.73
Weighted average remaining life (years)	3.5		4.3	

The fair value associated with the warrants issued during the year ended December 31, 2007 and 2006 was calculated using the Black-Scholes model for option valuation, assuming a weighted average volatility of 25% (2006 – 31%) on the underlying units, the term to expiry of 5 years, an annual dividend of \$1.12, and the five year weighted average risk free interest rate (the five year Canada bond rate at the date of grant).

As of December 31, 2007, all of the outstanding warrants are held by the third party provider of the acquisition facility (Note 7).

13. Income Property Rentals

	Year ended December 31,	
	2007	2006
Revenue from tenant leases	\$ 45,623,344	\$ 26,353,846
Accrued rental revenue recognized on a straight-line basis	1,384,481	652,534
Above and below market lease amortization	1,341,086	1,331,054
	\$ 48,348,911	\$ 28,337,434

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

14. Interest

	Year ended December 31,	
	2007	2006
Mortgage interest expense	\$ 11,843,168	\$ 7,868,278
Acquisition facility interest expense	599,826	1,023,237
Debenture interest expense	4,416,472	2,860,733
Interest expense - continuing operations	16,859,466	11,752,248
Interest expense		
- discontinued operations (Note 21)	526,453	1,209,028
Deferred finance cost amortization:		
mortgages payable	(221,767)	(199,761)
mortgages payable		
- discontinued operations (Note 21)	(7,944)	(20,834)
acquisition facility	(499,642)	(181,574)
convertible debentures	(519,929)	(459,589)
Implicit interest rate in excess of coupon rate - convertible debentures	(398,967)	(215,969)
Change in accrued interest	208,693	(1,026,610)
Cash interest paid	\$ 15,946,363	\$ 10,856,939

15. General and Administrative Expenses

	Year ended December 31,	
	2007	2006
Salaries and wages	\$ 1,260,687	\$ 1,057,971
Asset management and management services fees (Note 17)	-	710,948
	1,260,687	1,768,919
Non-cash compensation expense	75,702	162,595
Trustee fees	134,507	54,417
Legal, audit and regulatory	252,216	160,053
Office rent	84,218	63,211
Insurance	61,679	44,435
Other general and administrative	106,761	197,238
	1,975,770	2,450,868
Costs related to properties not acquired	106,482	82,891
Office relocation costs	38,543	-
Recruiting costs	80,600	77,919
	\$ 2,201,395	\$ 2,611,678

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

16. Amortization

	Year ended December 31,	
	2007	2006
Building and improvements	\$ 6,694,112	\$ 4,188,313
Deferred charges		
- tenant inducements on acquisition	1,813,488	1,083,223
- leasing costs	323,465	117,575
Intangible assets		
- lease origination	1,698,540	907,459
- tenant relationships	1,075,788	573,511
Furniture and fixtures	60,904	36,138
Amortization expense	\$ 11,666,297	\$ 6,906,219

17. Asset Management and Management Services Contracts

	Year ended December 31,	
	2007	2006
Acquisition of Agreements - LP Class C units	\$ -	\$ 3,500,000
Third party transaction costs	-	203,112
	\$ -	\$ 3,703,112

In June 2005, the Trust entered into exclusive agreements (the "Agreements") with Whiterock Real Estate Capital Inc. ("Whiterock Capital") to provide the services of two officers of the Trust (the "Officers"). The two Officers are Trustees of the Trust and principals of Whiterock Capital. Under these Agreements, Whiterock Capital earned acquisition fees equal to 0.5% of the cost of property acquired, as defined, and an annual advisory fee, equal to 0.3% of the adjusted cost base, as defined, of Whiterock's assets. The Agreements had a five year term.

On December 12, 2006, the Trust issued, through its subsidiary Whiterock Limited Partnership ("Whiterock LP") 286,671 LP Class C units valued at \$3.5 million to a company controlled by the Officers in connection with the internalization of the management function and the acquisition of the Agreements, and the Officers became employees of a subsidiary of the Trust.

By their terms, the LP Class C units were automatically converted into LP Class B units of Whiterock LP on a one-for-one basis, following approval at the special meeting of unitholders held on December 28, 2006. On December 29, 2006, 286,671 of the LP Class B units were then exchanged on a one-for-one basis for units of the Trust.

Subsequent to Whiterock LP's acquisition of the Agreements, the agreements were cancelled.

For the year ended December 31, 2006, \$0.7 million was expensed under these agreements in general and administrative expenses and \$1.2 million was recorded as an acquisition cost of income properties. There were no related costs incurred in 2007.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

On January 3, 2007, the Trust issued 34,708 units valued at \$449,077 and paid \$238,705 cash to settle the remaining outstanding fees accrued as of December 31, 2006 in accordance with the original terms of the agreements.

18. Strategic Alternatives Costs

On January 16, 2007, Whiterock announced that it had commenced a process to review its strategic alternatives and to solicit proposals to acquire or merge with Whiterock (the "Process"), in an effort to continue to enhance its unit value.

The Board of Trustees of Whiterock established a Special Committee of Independent Trustees to advise the Board. Whiterock also retained Canaccord Adams and BMO Capital Markets to act as co-financial advisors to manage the process.

On January 29, 2007, Whiterock announced that, in connection with its previously announced Sale Process, its Board of Trustees had adopted a unitholder rights plan (the "Plan"), which was effective immediately, and on June 28, 2007 unitholders ratified the Plan.

The Plan operates to prevent an attempt to acquire control of Whiterock other than by means of an offer made to all unitholders that is a "Permitted Bid" as defined in the Plan. Under the Plan, those bids that meet certain requirements intended to protect the interests of unitholders are considered to be "Permitted Bids." A Permitted Bid must be made by way of a take-over bid circular prepared in compliance with applicable securities laws, remain open for 60 days, be made to all unitholders, and satisfy certain other conditions.

On July 18, 2007, Whiterock announced that it had completed the Process, and determined that having management continue to operate the business is the best means to build and deliver value to unitholders. As a result, the Special Committee of Trustees was disbanded. Whiterock expensed \$2.2 million of costs, primarily for legal, special committee and due diligence costs relating to the process, in the year ended December 31, 2007.

19. Loss on Debenture Redemption

	Year ended December 31,	
	2007	2006
Impairment of convertible debenture deferred financing fees	\$ -	\$ 435,840
Loss on early redemption of debenture liability	-	254,998
	\$ -	\$ 690,838

During the year ended December 31, 2006, the Trust redeemed \$8.1 million outstanding principal amount of its Series B Debentures. The debentures were redeemed at \$0.7 million in excess of their face value. The premium paid on the early redemption of the liability component of the Series B Debentures totaled \$0.3 million, and the premium paid on the early redemption of the equity component of the Series B Debentures totaled \$0.4 million. The premium on the early redemption of the equity component was reflected as a direct charge to equity on the consolidated statement of unitholders' equity. The redemption also confirmed the impairment of deferred financing costs incurred at the time of original issuance of the Series B Debentures, in the amount of \$0.4 million. As a result, a total of \$0.7 million was charged to income as a loss on debenture redemption.

WHITEROCK REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

20. Income Taxes

The Trust currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by the Trust and distributed annually to unitholders was not, and would not be, subject to taxation in the Trust, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of the Trust's distributions was treated as an exemption from taxation as the Trust distributed and was committed to continue distributing all of its taxable income to its unitholders. Accordingly, the Trust did not previously record a provision for income taxes, or future income tax assets or liabilities, in respect of the Trust or its wholly owned subsidiary trust.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT"), received royal assent (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership and trust, such as an income trust and real estate investment trusts which do not meet certain conditions. The Trust is currently a SIFT, as discussed below.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax. In fiscal 2006 and 2007, all of the Trust's distributions were classed as returns of capital for tax purposes.

A SIFT that was publicly listed before November 1, 2006 (an "Existing Trust") will become subject to the tax on certain distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. The Trust has not exceeded such limits.

Under the SIFT Rules, the new taxation regime will not apply to a trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, the Trust does not meet the REIT Conditions and, therefore is a SIFT. Accordingly, without further action, commencing in 2011 the Trust will become subject to tax on distributions of certain income. The Trust intends to take the necessary steps to qualify for the REIT conditions prior to 2011.

Due to the SIFT Rules, in 2007 the Trust commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those of its subsidiary trust, that are expected to reverse in or after 2011. Future income tax assets and liabilities are recorded using substantively enacted tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT Rules resulted in the Trust including a future income tax asset of \$140,000 in the consolidated balance sheet at December 31, 2007, with a corresponding future income tax recovery of \$140,000 reflected in consolidated income.

The October 30, 2007, Canadian Federal Economic Statement announced several general corporate income tax rate reductions. Legislation for such rate reductions, which apply to the computation of SIFT tax, received Royal Assent on December 14, 2007. Consequently, in accounting for the Trust's future income taxes, the impact of these tax rate reductions from 31.5% to 29.5% for 2011 and 28.0% for 2012 and later have been applied in the periods that such temporary differences are expected to reverse.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The tax effect of temporary differences that give rise to significant portions of the future income tax assets are as follows:

	Year ended December 31,	
	2007	2006
Future income tax asset:		
Income producing property	\$ (847,000)	\$ -
Deferred costs	1,553,000	-
Straight line rent receivable	(582,000)	-
Other assets and receivables	16,000	-
Net future income tax asset	\$ 140,000	\$ -

21. Discontinued Operations

On April 10, 2007, Whiterock completed a sale to the existing co-owners through the exercise of buy-sell provisions in its co-ownership agreement, which were initiated by Whiterock, of its 50% undivided, non-managed interest in three Quebec City office properties, being 410 Charest, 750 Charest, and 880-930 Ste-Foy. The sale, for \$51.8 million, less mortgages assumed of \$31.6 million resulted in a gain on disposition of \$3.5 million. These properties were acquired in May 2006. The operating results for these properties have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475:

	Year ended December 31,	
	2007	2006
Revenue		
Income property rentals	\$ 2,169,863	\$ 4,567,872
Interest income	17,563	4,223
	2,187,426	4,572,095
Expenses		
Property operating costs	1,110,597	2,023,814
Interest	526,453	1,209,028
Amortization	208,568	1,030,800
	1,845,618	4,263,642
Income before the undernoted	341,808	308,453
Gain on disposition of properties	3,514,785	-
Income and gains from discontinued operations	\$ 3,856,593	\$ 308,453

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Cash flow from discontinued operations for the year ended December 31, 2007 and 2006 are as follows:

	Year ended December 31,	
	2007	2006
Cash provided by (used in) operating activities		
Income	\$ 3,856,593	\$ 308,453
Items not affecting cash		
Amortization	208,568	1,030,800
Deferred finance cost amortization - mortgages payable	7,944	20,834
Accrued rental revenue recognized on a straight-line basis	(38,470)	(78,037)
Above and below market lease amortization	(83,027)	(186,486)
Gain on disposition of properties	(3,514,785)	-
	436,823	1,095,564
Changes in non-cash operating items	(683,017)	612,285
	(246,194)	1,707,849
Cash used in financing activities		
Mortgage principal repayments	(168,484)	(312,735)
Mortgage financing costs	(4,005)	(259,904)
	(172,489)	(572,639)
Cash provided by (used in) investing activities		
Income properties acquired	-	(16,611,579)
Proceeds from disposition of properties	20,098,007	-
Leasing costs and capital expenditures	(28,017)	-
	20,069,990	(16,611,579)
Change in cash - Discontinued operations	\$ 19,651,307	\$ (15,476,369)

22. Per Unit Calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The diluted per unit information is calculated based on the weighted average diluted number of units outstanding for the period, considering the potential exercise of outstanding unit options and warrants to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income from continuing operations, discontinued operations and net income per unit calculations are based on the following:

	December 31,	
	2007	2006
Weighted average number of Units		
Basic	10,077,907	6,894,247
Diluted - Continuing Operations	10,077,907	6,894,247
Diluted - Discontinued Operations	10,179,326	7,034,168
Diluted - Net Income	10,179,326	6,894,247

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The following securities were not included in the diluted net income per unit calculation as the effect would have been anti-dilutive:

	Exercise / Conversion Price	Number of Units if Converted or Exercised at December 31, 2007
Unit options	\$ 13.08	166,250
Warrants	\$ 13.76	125,000
	\$ 14.20	90,500
Convertible Debentures		
Series A (8.0%)	\$ 10.20	912,647
Series C (9.0%)	\$ 12.00	223,083
Series D (7.5%)	\$ 15.00	666,667
Series E (6.3%)	\$ 13.75	1,818,182
		4,002,329

All unit options, warrants and convertible debentures outstanding at December 31, 2006 were excluded from the diluted net income per unit calculation as the effect would have been anti-dilutive.

23. Financial Instruments and Risk Management

Fair values

For purposes of disclosure, the Trust calculates the fair value of certain assets and liabilities. The fair values of the Trust's financial assets and liabilities which represent net working capital, and the Trust's acquisition facility, approximate their recorded values at December 31, 2007 and 2006, due to their short term nature.

The fair value of the Trust's mortgages payable approximates carrying value. The fair value of mortgages payable has been estimated based on current market rates for mortgages with similar terms and conditions.

The fair value of the Trust's convertible debentures liability component approximates carrying value. The fair value of convertible debenture liability component has been estimated based on current market rates for debentures with similar terms and conditions.

At December 31, 2007 and 2006, the Trust did not have any cash flow or interest rate hedges in place.

Risk management

The Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. The Trust manages the risks, as follows:

- Obtaining long term mortgages with fixed interest rates reduces cash flow risk. The Declaration of Trust restricts total mortgage loans on income properties from being greater than 75% of the appraised value of the income properties.
- Credit risk arises from the possibility that tenants may experience financial difficulty and may not be able to fulfill their lease commitments. The risk of credit loss is mitigated by leasing policies which require that the financial viability of prospective tenants is investigated in order to ensure that the tenant mix is comprised of tenants with credit worthy covenants.

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

24. Segmented Financial Information

The Trust and its subsidiaries operate in the office, retail and industrial segments of the real estate industry in Canada.

Property operating income (excluding discontinued operations) and income properties by segment for the year ended December 31, 2007 and 2006 are summarized as follows:

	Year ended December 31, 2007			
	Office	Retail	Industrial	Total
Income property rentals	\$ 36,124,987	\$ 5,696,038	\$ 6,527,886	\$ 48,348,911
Property operating costs	15,292,713	1,603,894	2,182,702	19,079,309
Property operating income	\$ 20,832,274	\$ 4,092,144	\$ 4,345,184	\$ 29,269,602
Income properties - continuing	\$ 220,961,593	\$ 39,781,022	\$ 53,386,100	\$ 314,128,715

	Year ended December 31, 2006			
	Office	Retail	Industrial	Total
Income property rentals	\$ 20,771,616	\$ 3,810,810	\$ 3,755,008	\$ 28,337,434
Property operating costs	7,853,538	1,137,336	1,117,051	10,107,925
Property operating income	\$ 12,918,078	\$ 2,673,474	\$ 2,637,957	\$ 18,229,509
Income properties - continuing	\$ 219,809,868	\$ 35,178,374	\$ 40,330,568	\$ 295,318,810

For the year ended December 31, 2007, there is one tenant that accounts for more than 10% of the Trusts' total revenue. SIQ (Quebec government agency) comprised approximately 19% (2006 – 27%) of the Trust's total revenue.

25. Co-ownerships

The Trust participates in co-ownerships with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent the Trust's proportionate share of assets, liabilities, revenue, expenses and cash flows therein.

	December 31,	
	2007	2006
Assets	\$ -	\$ 50,956,547
Liabilities	-	34,087,684
	\$ -	\$ 16,868,863

WHITEROCK REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

	Year ended December 31,	
	2007	2006
Revenue	\$ 2,187,426	\$ 4,572,095
Expenses	1,845,618	4,263,642
	\$ 341,808	\$ 308,453

	Year ended December 31,	
	2007	2006
Cash flow generated from (utilized in):		
Operating activities	\$ (246,194)	\$ 1,707,849
Financing activities	(172,489)	(572,639)
Investing activities	(28,017)	(16,611,579)
	\$ (446,700)	\$ (15,476,369)

On April 10, 2007, the Trust disposed of all its co-owned properties (Note 21).

26. Subsequent Events

Property Disposition

Effective January 28, 2008, the Trust sold its interest in an industrial property in Regina, Saskatchewan to a third party limited partnership for gross proceeds totaling \$14.0 million, which approximates the Trust's gross book value. In conjunction with the sale, the Trust has provided the partnership with a \$7.25 million second mortgage at a 10% interest rate in priority to the additional equity capital provided by the partnership. The Trust has the right to acquire the property at market once substantially leased. The Trust continues to guarantee the \$7.5 million first mortgage financing on the property.

Conversion of Series A Debentures

Subsequent to December 31, 2007, \$253,000 of Whiterock's Series A (8.0%) debentures were converted by debentureholders into 24,803 units.

Mortgage Funding

Subsequent to December 31, 2007, the Trust provided first mortgage financing on a property in Dartmouth, Nova Scotia. The total amount funded was \$3.2 million at an interest rate of 8.5%. The Trust has an option to acquire the property at market.

27. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.