



Consolidated Financial Statements  
December 31, 2008 and 2007



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March 18, 2009

## 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, 2008 and 2007 and the consolidated statements of income 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, 2008 and 2007 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	2008	2007
<b>Assets</b>			
Income properties	3	\$ 380,325,509	\$ 314,128,715
Deferred charges	4	16,273,493	15,137,436
Intangible assets	5	21,412,359	17,117,794
Mortgages receivable	6	7,250,666	-
		<b>425,262,027</b>	346,383,945
Other assets	7	7,602,878	4,496,522
Cash	8	-	4,152,370
Future income tax asset	19	40,000	140,000
		<b>\$ 432,904,905</b>	<b>\$ 355,172,837</b>
<b>Liabilities and Equity</b>			
Mortgages payable and facilities	9	\$ 284,153,909	\$ 224,598,967
Convertible debentures	10	52,533,520	43,507,560
Accounts payable and accrued liabilities	11	16,148,967	12,204,780
		<b>352,836,396</b>	280,311,307
Unitholders' Equity		<b>80,068,509</b>	74,861,530
		<b>\$ 432,904,905</b>	<b>\$ 355,172,837</b>

*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 AND COMPREHENSIVE INCOME**

		Year Ended December 31,	
	Note	2008	2007
<b>Revenue</b>			
Income property rentals	15	\$ 55,639,185	\$ 48,015,347
Interest income		833,361	504,738
		<b>56,472,546</b>	<b>48,520,085</b>
<b>Expenses</b>			
Property operating costs		21,397,146	18,841,512
Interest	16	18,244,883	16,773,966
General and administrative expenses	17	1,673,278	2,201,395
Amortization	18	13,469,749	11,563,739
		<b>54,785,056</b>	<b>49,380,612</b>
Income (loss) before the undernoted		1,687,490	(860,527)
Strategic alternatives costs	25	-	(2,229,290)
Future income tax recovery (expense)	19	(100,000)	140,000
<b>Income (loss) from continuing operations</b>		<b>1,587,490</b>	<b>(2,949,817)</b>
Income (loss) from discontinued operations	20	(55,546)	249,757
Gain on disposition of properties	20	44,819	3,514,785
<b>Net income and comprehensive income</b>		<b>\$ 1,576,763</b>	<b>\$ 814,725</b>
<b>Basic net income (loss) per unit</b>			
	21		
Continuing operations		\$ 0.43	\$ (0.88)
Discontinued operations		\$ -	\$ 1.12
Net income per unit		\$ 0.42	\$ 0.24
<b>Diluted net income (loss) per unit</b>			
	21		
Continuing operations		\$ 0.43	\$ (0.88)
Discontinued operations		\$ -	\$ 1.11
Net income per unit		\$ 0.42	\$ 0.24

See accompanying notes to the consolidated financial statements

**WHITEROCK REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**

	Note	Year Ended December 31,	
		2008	2007
<b>Units</b>	12		
Balance, beginning of year		\$ 99,571,778	\$ 94,226,033
Issuance of units		16,207,662	5,438,307
Value associated with unit options exercised		4,677	83,355
Value associated with warrants exercised		-	5,220
Value associated with unit options expired		20,735	76,873
Unit issue costs		(378,651)	(258,010)
<b>Balance, end of year</b>		<b>115,426,201</b>	<b>99,571,778</b>
<b>Unit Options</b>	13		
Balance, beginning of year		756,212	840,738
Value associated with unit options exercised		(4,677)	(83,355)
Value associated with unit options vested		112,882	107,128
Value associated with unit options cancelled/expired		(25,823)	(108,299)
<b>Balance, end of year</b>		<b>838,594</b>	<b>756,212</b>
<b>Warrants</b>	14		
Balance, beginning of year		314,800	320,020
Value associated with warrants exercised		-	(5,220)
<b>Balance, end of year</b>		<b>314,800</b>	<b>314,800</b>
<b>Equity Component of Convertible Debentures</b>	10		
Balance, beginning of year		2,132,625	2,335,991
Equity component of convertible debentures issued		412,546	-
Equity component of convertible debentures converted		(147,925)	(203,366)
<b>Balance, end of year</b>		<b>2,397,246</b>	<b>2,132,625</b>
<b>Cumulative Earnings and Accumulated Comprehensive Earnings</b>			
Balance, beginning of year		(6,629,571)	(7,509,446)
Transition amount - adoption of financial instruments	2	-	65,150
Net income		1,576,763	814,725
<b>Balance, end of year</b>		<b>(5,052,808)</b>	<b>(6,629,571)</b>
<b>Cumulative Distributions to Unitholders</b>			
Balance, beginning of year		(21,284,314)	(9,960,897)
Distributions to unitholders (cash and units)		(12,571,210)	(11,323,417)
<b>Balance, end of year</b>		<b>(33,855,524)</b>	<b>(21,284,314)</b>
<b>Total Unitholders' Equity</b>		<b>\$ 80,068,509</b>	<b>\$ 74,861,530</b>
<b>Units Issued and Outstanding</b>	12	<b>3,956,516</b>	<b>3,461,758</b>

See accompanying notes to the consolidated financial statements

**WHITEROCK REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Note	Year ended December 31,	
		2008	2007
<b>Cash provided by (used in) operating activities</b>			
Income (loss) from continuing operations		\$ 1,587,490	\$ (2,949,817)
Items not affecting cash			
Amortization	18	13,469,749	11,563,739
Deferred finance cost amortization			
- mortgages payable		238,071	221,767
- acquisition and operating facilities		326,698	499,642
- convertible debentures		483,897	519,929
Implicit interest rate in excess of coupon rate - convertible debentures		423,678	398,967
Non-cash compensation expense	17	206,260	75,702
Future income taxes	19	100,000	(140,000)
Accrued rental revenue recognized on a straight line basis	15	(1,245,706)	(1,384,481)
Above and below market lease amortization	15	(1,845,984)	(1,314,592)
		13,744,153	7,490,856
Changes in non-cash operating items		903,588	(1,644,908)
		14,647,741	5,845,948
<b>Cash provided by (used in) financing activities</b>			
Mortgage principal instalment payments		(3,239,572)	(2,731,232)
Mortgage principal repayments on maturity		(9,800,166)	(10,663,400)
Mortgage financing, net of costs		11,782,784	13,169,034
Draw on facilities, net of costs		32,230,302	4,174,044
Repayment of credit facilities		(1,830,000)	(7,800,000)
Issuance of units	12	53,750	362,625
Convertible debenture issue costs		(108,758)	-
Unit issue costs		(236,308)	(22,315)
Distributions to unitholders (in cash)		(10,966,325)	(10,782,405)
		17,885,707	(14,293,649)
<b>Cash provided by (used in) investing activities</b>			
Income properties acquired	3	(33,565,182)	(8,299,781)
Issuance of mortgages receivable		(10,425,000)	-
Repayment of mortgages receivable		3,175,000	-
Payment of purchase price holdback	3	-	(503,538)
Revenue enhancing capital expenditures		(868,987)	-
Leasing costs and other capital expenditures		(1,154,811)	(1,183,389)
Furniture and equipment		(55,847)	(50,981)
		(42,894,827)	(10,037,689)
Change in cash - Continuing operations		(10,361,379)	(18,485,390)
Change in cash - Discontinued operations	20	6,209,009	13,339,520
Cash, beginning of year		4,152,370	9,298,240
<b>Cash, end of year</b>	8	\$ -	\$ 4,152,370
<b>Supplementary cash flow information</b>			
Cash interest paid	16	\$ 16,524,457	\$ 15,946,363

See accompanying notes to the consolidated financial statements

**WHITEROCK REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**1. Organization and Basis of Presentation**

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

**2. Significant Accounting Policies**

Whiterock’s significant accounting policies are as follows:

**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.

**Financial instruments**

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. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified as held for trading are subsequently measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until the financial asset is disposed of. Investments in equity instruments are classified as available for sale if they do not have a quoted market price in an active market and are measured at cost.

Net gains and losses arising from changes in fair value of loans and receivables, held to maturity investments, and other liabilities are recognized in net income upon disposition or impairment.

Derivative instruments are recorded 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 recognized in other comprehensive income. The Trust presently does not have any derivative financial instruments.

The Trust has designated its 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.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

## **WHITEROCK REAL ESTATE INVESTMENT TRUST**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***

The Trust assesses impairment of all its financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment is included in current earnings.

#### **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.

#### **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.

## **WHITEROCK REAL ESTATE INVESTMENT TRUST**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***

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 required 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 \$12,571,210 in 2008 (2007 - \$11,323,417) 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.

#### **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 19).

#### **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.

## **WHITEROCK REAL ESTATE INVESTMENT TRUST**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***

#### **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 Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards that are effective for the Trust's fiscal year commencing January 1, 2008: CICA Handbook Section 1535 – Capital Disclosures; CICA Handbook Section 3862 – Financial Instruments – Disclosures; and Section 3863 – Financial Instruments – Presentation.

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about the entity's various sources of capital (Note 23).

Sections 3862 and 3863 replace Section 3861 – Financial Instruments – Disclosure and Presentation. These new Sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. The new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (Note 24).

The new standards have no impact on the classification and measurement of the Trust's financial instruments.

#### **Future Changes to Significant Accounting Policies**

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting in Canada. As part of that plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis.

The CICA has issued a new accounting standard, CICA Handbook Section 3064 – Goodwill and Intangible Assets, effective for the Trust's 2009 fiscal year, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. CICA Handbook Section 1000 – Financial Statement Concepts, was also amended to provide consistency with this new standard. The Trust believes the impact of these Standards on its 2009 consolidated financial statements will not be material.

The CICA has issued a new accounting standard, CICA Handbook Section 1582 – Business Combinations which will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook sections 1601 – Consolidations and 1602 – Non-controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 – Consolidated Financial Statements.

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

CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Trust is currently considering the effect on the financial statements of the new standards.

**3. Income Properties**

	December 31,	
	2008	2007
Land	\$ 63,872,234	\$ 46,060,937
Buildings and improvements	335,346,308	265,399,455
	<b>399,218,542</b>	311,460,392
Accumulated amortization	<b>(18,893,033)</b>	(11,288,859)
	<b>380,325,509</b>	300,171,533
Discontinued operations (Note 20)	-	13,957,182
	<b>\$ 380,325,509</b>	<b>\$ 314,128,715</b>

During the year ended December 31, 2008, the Trust acquired six office properties, three industrial properties, a retail centre and land leased for 17 years to an existing tenant for parking for a total of \$93.7 million including closing costs. The acquisitions were financed in part by \$23.3 million of assumed mortgages, \$11.4 million equity issued at \$34.50 per unit and \$11.4 million convertible debentures (Note 10) with the balance paid in cash and from the Trust's acquisition and operating facilities.

During the year ended December 31, 2007, the Trust acquired an interest in two office properties, a retail centre and land leased to an existing tenant for parking for a total of \$12.0 million including closing costs, financed in part by \$3.3 million of fixed rate mortgages, with the balance paid in cash and from the Trust's acquisition facilities.

In April 2007, the Trust disposed on 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 20). Proceeds from the sales were used to repay the \$7.8 million outstanding on the Trust's acquisition facility.

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

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

	December 31	
	2008	2007
Income properties		
- Land	\$ 17,811,297	\$ 2,126,482
- Building and improvements	68,982,034	8,777,618
Deferred charges		
- Tenant inducements	2,147,331	724,826
Intangible assets		
- Lease origination costs	4,434,732	399,419
- Tenant relationships	2,900,767	233,744
- Above market rents	892,444	-
Accounts payable and accrued liabilities		
- Below market rents	(3,449,577)	(158,770)
	<b>\$ 93,719,028</b>	<b>\$ 12,103,319</b>
Consideration provided:		
Mortgage financing		
- New mortgages	\$ 14,100,000	\$ 3,300,000
- Assumed mortgages	23,253,846	-
Issuance of equity	11,400,000	-
Series F convertible debentures	11,400,000	-
Purchase price holdback	-	503,538
Cash and acquisition facilities	33,565,182	8,299,781
	<b>\$ 93,719,028</b>	<b>\$ 12,103,319</b>

In 2007 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. Effective January 28, 2008, the Trust disposed of its interest in that industrial property for gross proceeds of \$14.0 million (Note 20), less mortgages assumed by the purchaser of \$7.5 million.

**4. Deferred Charges**

	December 31,	
	2008	2007
Tenant inducements on acquisitions	\$ 15,860,162	\$ 13,727,056
Leasing costs	6,269,902	4,772,968
	<b>22,130,064</b>	<b>18,500,024</b>
Accumulated amortization		
Tenant inducements on acquisitions	(4,921,597)	(2,989,796)
Leasing costs	(934,974)	(457,739)
	<b>(5,856,571)</b>	<b>(3,447,535)</b>
	<b>16,273,493</b>	<b>15,052,489</b>
Discontinued operations (Note 20)	-	84,947
	<b>\$ 16,273,493</b>	<b>\$ 15,137,436</b>

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

**5. Intangible Assets**

	December 31,	
	2008	2007
Lease origination costs	\$ 16,953,300	\$ 12,547,480
Tenant relationships	10,709,554	7,808,787
Above market rents on acquisitions	2,456,255	1,565,218
	<b>30,119,109</b>	21,921,485
Accumulated amortization		
Lease origination costs	(4,694,225)	(2,656,798)
Tenant relationships	(2,986,301)	(1,679,611)
Above market rents on acquisitions	(1,026,224)	(688,969)
	<b>(8,706,750)</b>	(5,025,378)
	<b>21,412,359</b>	16,896,107
Discontinued operations (Note 20)	-	221,687
	<b>\$ 21,412,359</b>	<b>\$ 17,117,794</b>

**6. Mortgages Receivable**

	December 31,	
	2008	2007
Mortgages receivable	\$ 7,250,000	\$ -
Deferred financing costs	7,687	-
Accumulated amortization	(7,021)	-
Mortgages receivable - including deferred financing costs	<b>\$ 7,250,666</b>	<b>\$ -</b>

In conjunction with the disposition of an industrial property in Regina, Saskatchewan, the Trust provided a two year \$7.25 million second mortgage at a 10% interest rate in priority to the additional equity capital provided by the purchaser. The Trust has the right to acquire the property at market once substantially leased, which is expected to occur in 2009. As a condition of financing, the Trust continues to guarantee the \$7.5 million first mortgage financing on the property.

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

**7. Other Assets**

	December 31,	
	2008	2007
Prepaid expenses and other assets	\$ 3,612,676	\$ 1,767,371
Trade amounts receivable	608,730	624,637
Interest receivable	60,417	23,648
Straight line rent receivable	3,321,055	2,078,750
	<b>7,602,878</b>	4,494,406
Discontinued operations (Note 20)	-	2,116
	<b>\$ 7,602,878</b>	<b>\$ 4,496,522</b>

Trade amounts receivable are net of an allowance for doubtful accounts of \$225,000 at December 31, 2008 and \$109,000 at December 31, 2007 with the difference being charged against property operating costs. An allowance is established when there is objective evidence that the Trust will not be able to collect the amount due. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Approximately \$44,000 of uncollected trade amounts receivable were three months past due at December 31, 2008 but not considered impaired.

**8. Cash**

	December 31,	
	2008	2007
Cash	\$ -	\$ 4,152,370

In conjunction with a centralized banking arrangement, Whiterock applies its cash balances against amounts outstanding under its \$5 million revolving credit facility (Note 9). The Trust uses the facility to support its day to day operations and to reduce the negative financial impact of holding excess cash.

**9. Mortgages Payable and Facilities**

Mortgages payable and facilities are secured by income properties and are summarized as follows:

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

	December 31,	
	2008	2007
Mortgage liability - continuing	\$ 255,497,090	\$ 218,832,982
Mortgage liability - discontinued	-	7,500,000
Mortgage deferred financing costs	(2,450,655)	(2,016,987)
Accumulated amortization	502,777	398,254
<b>Mortgage liability - net of deferred financing costs</b>	<b>253,549,212</b>	<b>224,714,249</b>
Drawn on acquisition and operating facilities	30,855,442	-
Acquisition and operating facilities deferred financing costs	(477,596)	(860,766)
Accumulated amortization	226,851	745,484
<b>Acquisition and operating facilities - net of deferred financing costs</b>	<b>30,604,697</b>	<b>(115,282)</b>
	<b>\$ 284,153,909</b>	<b>\$ 224,598,967</b>

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

	December 31,	
	2008	2007
Fixed rate	\$ 255,497,090	\$ 218,832,982
Floating rate	-	-
	<b>255,497,090</b>	<b>218,832,982</b>
Discontinued operations - floating rate	-	7,500,000
	<b>\$ 255,497,090</b>	<b>\$ 226,332,982</b>

Fixed rate mortgage financing bears interest at a weighted average rate of 5.5% (2007 – 5.4%). Floating rate mortgage financing bears interest at rates determined by reference to the prime rate plus 25 basis points at December 31, 2007.

Scheduled principal repayments of mortgages payable outstanding as of December 31, 2008 are as follows:

	Note	Scheduled Amortization	Balloon Payments	Total
2009	26	\$ 3,947,418	\$ 4,500,000	\$ 8,447,418
2010		4,217,951	12,716,598	16,934,549
2011		4,842,556	-	4,842,556
2012		5,693,642	20,250,892	25,944,534
2013		5,263,344	23,593,756	28,857,100
2014		5,199,257	-	5,199,257
Thereafter		18,901,347	146,370,329	165,271,676
		<b>\$ 48,065,515</b>	<b>\$ 207,431,575</b>	<b>\$ 255,497,090</b>

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

**Acquisition and Operating Facilities**

On June 19, 2008, the Trust entered into a demand revolving acquisition and operating facility of up to \$40 million, subject to renewal on an annual basis, with a major Canadian financial institution. The facility is secured by mortgages on new and existing property and the guarantee of the Trust and can be used for acquisitions, operations and general corporate purposes. The facility bears interest at floating rates determined, at the Trust's option, by reference to the prime rate plus 150 basis points or Bankers Acceptance rates plus 250 basis points. As at December 31, 2008, \$26.7 million was outstanding under this facility. Subsequent to year end, the Trust used \$17 million of mortgage proceeds to reduce the outstanding balance of its revolving facilities (Note 26).

The Trust's \$5 million demand revolving operating facility is subject to renewal on an annual basis and is secured by mortgages on existing property and the guarantee of the Trust. The facility bears interest at a floating rate determined by reference to the prime rate plus 50 basis points. As at December 31, 2008, \$4.2 million was outstanding under this facility (December 31, 2007 – nil).

On April 28, 2006, the Trust entered into an 8.5% revolving \$23.5 million acquisition facility with a third party provider which was amended on July 31, 2006, so that the maximum amount available to be drawn was increased to \$45 million. This facility expired in May 2008 and was replaced by the new \$40 million revolving acquisition and operating facility.

**10. Convertible Debentures**

As at December 31, 2008, the Trust has five series of convertible debentures outstanding.

	Principal	Interest rate	Conversion Price	Interest Payable	Maturity Date
Series A	\$ 6,797,700	8.0%	\$30.60 per unit	semi-annually	June 28, 2010
Series C	\$ 2,212,000	9.0%	\$36.00 per unit	quarterly	December 21, 2010
Series D	\$ 10,000,000	7.5%	\$45.00 per unit	semi-annually	July 31, 2011
Series E	\$ 25,000,000	6.3%	\$41.25 per unit	semi-annually	December 31, 2011
Series F	\$ 11,400,000	6.0%	\$39.66 per unit	quarterly	July 15, 2012

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

	Series A	Series C	Series D	Series E	Series F	Total
Liability	\$ 12,328,078	\$ 2,883,060	\$ 9,564,256	\$ 23,888,615	\$ -	\$ 48,664,009
Equity	671,922	116,940	435,744	1,111,385	-	2,335,991
Principal on issuance	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
Issuance of debentures - liability	-	-	-	-	10,987,454	10,987,454
Issuance of debentures - equity	-	-	-	-	412,546	412,546
Conversion of debentures	(2,511,300)	(465,000)	-	-	-	(2,976,300)
<b>Principal - December 31, 2008</b>	<b>\$ 6,797,700</b>	<b>\$ 2,212,000</b>	<b>\$ 10,000,000</b>	<b>\$ 25,000,000</b>	<b>\$ 11,400,000</b>	<b>\$ 55,409,700</b>

**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 C	Series D	Series E	Series F	Total
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
Issuance of debentures	-	-	-	-	10,987,454	10,987,454
Implicit interest rate in excess of coupon rate	78,660	17,999	82,270	203,332	41,417	423,678
Conversion of debentures	(2,447,831)	(454,823)	-	-	-	(2,902,654)
Liability - December 31, 2008	6,674,865	2,171,735	9,749,681	24,293,821	11,028,871	53,918,973
Deferred financing fees	(922,431)	(165,067)	(240,458)	(1,338,461)	(108,758)	(2,775,175)
Deferred financing fees - Accumulated amortization	694,334	92,731	103,300	489,392	9,965	1,389,722
<b>Balance - December 31, 2008</b>	<b>\$ 6,446,768</b>	<b>\$ 2,099,399</b>	<b>\$ 9,612,523</b>	<b>\$ 23,444,752</b>	<b>\$ 10,930,078</b>	<b>\$ 52,533,520</b>

**Series A**

On June 28, 2005, the Trust issued 8% redeemable subordinated unsecured convertible debentures in the original principal 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 \$30.60.

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 \$45.90 and, after June 28, 2009, providing that the 20-day weighted average trading price is at least \$38.25.

In 2008, \$2,511,300 of Series A debentures were converted into 82,068 units. In 2007, \$3,691,000 of Series A debentures converted into 120,619 units.

**Series C**

On December 21, 2005, the Trust issued 9% redeemable subordinated unsecured convertible debentures in the original principal 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 \$36.00.

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 \$39.00 and, after June 21, 2008, providing that the 20-day weighted average trading price is at least \$42.00.

In 2008, \$465,000 of Series C debentures were converted into 12,917 units. In 2007, \$323,000 of Series C debentures were converted into 8,971 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 original principal 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 \$45.00.

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 \$56.25 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 original principal 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 \$41.25.

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 \$51.57 and, after December 30, 2010, at their principal amount.

**Series F**

On July 16, 2008, the Trust issued 6.0% redeemable subordinated unsecured convertible debentures in the original principal amount of \$11,400,000 with interest payable quarterly and which mature on July 15, 2012 (Note 3). The debentures are convertible at the request of the holder after July 15, 2009, subject to certain terms and conditions at a conversion price of \$39.66.

The debentures are redeemable at the option of the Trust at 115% of the principal amount subject to certain terms and conditions.

**11. Accounts Payable and Accrued Liabilities**

	December 31,	
	2008	2007
Below market rents on acquisitions	\$ 13,765,468	\$ 10,329,358
Accrued mortgage, facility, and debenture interest	1,515,844	1,224,830
Security deposits	856,760	389,652
Other accounts payable and accrued liabilities	5,764,681	3,297,351
	<u>21,902,753</u>	<u>15,241,191</u>
Accumulated amortization		
Below market rents on acquisitions	(5,753,786)	(3,582,607)
	<u>16,148,967</u>	<u>11,658,584</u>
Discontinued operations (Note 20)	-	546,196
	<u>\$ 16,148,967</u>	<u>\$ 12,204,780</u>

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

**12. Units**

On December 22, 2008, the Trust consolidated its issued and outstanding units on the basis of one post-consolidation unit for every three 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.

	Note	2008		2007	
		Units	\$	Units	\$
Issued and outstanding, January 1		<b>3,461,758</b>	<b>\$ 99,571,778</b>	3,289,960	\$ 94,226,033
Units issued					
Issuance of units - property acquisition	3	<b>330,434</b>	<b>11,400,000</b>	-	-
Conversion of Series A debentures		<b>82,068</b>	<b>2,577,630</b>	120,619	3,760,545
Distribution reinvestment plan		<b>63,590</b>	<b>1,604,885</b>	15,139	541,012
Conversion of Series C debentures		<b>12,917</b>	<b>472,949</b>	8,971	325,048
Issuance of units - trustees		<b>3,666</b>	<b>98,448</b>	-	-
Exercise of options	13	<b>2,083</b>	<b>53,750</b>	13,625	332,250
Exercise of warrants	14	-	-	1,875	30,375
Settlement of accrued management services fees		-	-	11,569	449,077
Value associated with options exercised			<b>4,677</b>		83,355
Value associated with warrants exercised			-		5,220
Value associated with options cancelled/expired			<b>20,735</b>		76,873
Unit issue costs			<b>(378,651)</b>		(258,010)
Issued and outstanding, December 31		<b>3,956,516</b>	<b>\$115,426,201</b>	3,461,758	99,571,778

Units issued and outstanding at January 1, 2007 in the table above include 68,451 LP Class B units issued in 2006 by Whiterock Limited Partnership, a subsidiary of Whiterock. The LP Class B units, together with their accompanying Special Trust Units, had economic and voting rights equivalent in all material respects to the Trust units and could only be converted into Trust units. During the three months ended March 31, 2007, all of the remaining 68,451 LP Class B units were converted to units of the Trust.

On January 3, 2007, the Trust issued 11,569 units valued at \$449,077 and paid \$238,705 cash to two officers and Trustees of the Trust to settle the remaining outstanding fees accrued as of December 31, 2006 in accordance with the original terms of their management services agreements.

In 2008, the Trust issued 3,666 units at a weighted average price of \$26.85 to the independent Trustees of Whiterock in lieu of paying the quarterly retainers to the Trustees.

**Distribution Reinvestment and Unit Purchase Plan**

In April 2006, the Trust established a Distribution Reinvestment Plan 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 weighted average market price of the units for the 10 trading days preceding the distribution payment date.

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

**13. 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. 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.

	2008		2007	
	Unit Options	Weighted Average Exercise Price	Unit Options	Weighted Average Exercise Price
Outstanding, January 1,	192,292	\$31.87	215,084	\$32.04
Granted	113,333	28.20	21,667	32.64
Exercised	(2,083)	25.80	(13,625)	24.39
Expired	(5,104)	34.60	(20,938)	38.25
Cancelled	(3,021)	33.30	(9,896)	34.08
Outstanding, December 31	295,417	\$30.44	192,292	\$31.87
Options vested, end of period	291,250	\$30.45	187,917	\$31.83
Weighted average remaining life (years)	3.0		3.2	

The fair value associated with the unit options issued in 2008 was calculated using the Black-Scholes model for option valuation, assuming a weighted average volatility of 24% (2007 – 25%) on the underlying units, the term to expiry of 5 years, an annual distribution of \$3.37, and the five year weighted average risk free interest rate (the five year Canada bond rate at the date of grant).

**14. Warrants**

	2008		2007	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, January 1,	71,833	\$41.83	73,708	\$41.18
Exercised	-	-	(1,875)	16.20
Outstanding, December 31	71,833	\$41.83	71,833	\$41.83
Warrants exercisable, end of period	71,833	\$41.83	71,833	\$41.83
Weighted average remaining life (years)	2.5		3.5	

No warrants were issued in 2008 (2007 – nil).

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

**15. Income Property Rentals**

	Year ended December 31,	
	2008	2007
Revenue from tenant leases	\$ 52,547,495	\$ 45,316,274
Accrued rental revenue recognized on a straight-line basis	1,245,706	1,384,481
Above and below market lease amortization	1,845,984	1,314,592
	<b>\$ 55,639,185</b>	<b>\$ 48,015,347</b>

**16. Interest**

	Year ended December 31,	
	2008	2007
Mortgage interest expense	\$ 12,844,845	\$ 11,757,668
Facilities and other interest expense	1,055,975	599,826
Debenture interest expense	4,344,063	4,416,472
<b>Interest expense - continuing operations</b>	<b>18,244,883</b>	<b>16,773,966</b>
Interest expense		
- discontinued operations (Note 20)	42,932	611,953
Deferred finance cost amortization:		
mortgages payable	(238,071)	(221,767)
mortgages payable		
- discontinued operations (Note 20)	-	(7,944)
acquisition and operating facilities	(326,698)	(499,642)
convertible debentures	(483,897)	(519,929)
Implicit interest rate in excess of coupon rate - convertible debentures	(423,678)	(398,967)
Change in accrued interest	(291,014)	208,693
<b>Cash interest paid</b>	<b>\$ 16,524,457</b>	<b>\$ 15,946,363</b>

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

**17. General and Administrative Expenses**

	Year ended December 31,	
	2008	2007
Salaries and wages	\$ 774,285	\$ 1,260,687
Trustee fees - cash	50,031	134,507
Non-cash compensation - trustees and officers	206,260	75,702
Legal, audit and regulatory	348,860	252,216
Office rent	-	84,218
Insurance	51,593	61,679
Other general and administrative	120,355	106,761
	<b>1,551,384</b>	<b>1,975,770</b>
Costs related to properties not acquired	45,673	106,482
Office relocation costs	-	38,543
Recruiting costs	76,221	80,600
	<b>\$ 1,673,278</b>	<b>\$ 2,201,395</b>

**18. Amortization**

	Year ended December 31,	
	2008	2007
Building and improvements	\$ 7,604,174	\$ 6,622,840
Deferred charges		
- tenant inducements on acquisitions	1,946,026	1,804,820
- leasing costs	449,102	323,465
Intangible assets		
- lease origination costs	2,066,339	1,685,138
- tenant relationships	1,306,690	1,066,572
Furniture and fixtures	97,418	60,904
Amortization expense	<b>\$ 13,469,749</b>	<b>\$ 11,563,739</b>

**19. Income Taxes**

Recent tax legislation has adversely affected the tax status of many trusts. Whiterock intends to take the steps necessary to qualify for exemption from these adverse changes. The following summarizes the legislative changes.

Whiterock 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 Whiterock's distributions was treated as an exemption from taxation as Whiterock 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 Whiterock or its wholly-owned subsidiary trust.

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

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 certain publicly-listed or traded partnerships and trusts, such as income trusts 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 Existing Trusts (as defined below), 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 amounts 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, 2007 and 2008, all Whiterock’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 generally become subject to the tax contemplated under the SIFT Rules commencing in its 2011 taxation year. However, in accordance with the Normal Growth Guidelines released by the Department of Finance on December 15, 2006, as amended, an Existing Trust may become subject to this tax prior to its 2011 taxation year if it issues new equity capital beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Whiterock has not exceeded such limits, and subject to any “undue expansion”, management does not believe the Trust will be subject to the SIFT Rules prior to its 2011 taxation year.

Under the SIFT Rules, the new taxation regime will not apply to a trust that meets prescribed conditions relating to the nature of its revenue and investments (the “REIT Conditions”). The Trust intends to take the necessary steps to qualify for the REIT Conditions prior to 2011. Without further action, commencing in 2011 the Trust would become subject to the tax contemplated under the SIFT Rules, because, as currently structured, the Trust does not meet the REIT Conditions and, therefore, it is a SIFT.

Due to the SIFT Rules, in 2007 Whiterock 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 \$40,000 (2007 - \$140,000) in the consolidated balance sheet at December 31, 2008, and a future income tax expense of \$100,000 (2007 - \$140,000 recovery) reflected in consolidated income for the year ended December 31, 2008.

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

	December 31,	
	2008	2007
Future income tax asset:		
Income producing property	\$ (120,000)	\$ 706,000
Straight line rent receivable	(930,000)	(582,000)
Non-capital losses	1,070,000	-
Other assets and receivables	20,000	16,000
<b>Net future income tax asset</b>	<b>\$ 40,000</b>	<b>\$ 140,000</b>

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

**20. Discontinued Operations**

Effective January 28, 2008, the Trust sold its interest in an industrial property in Regina, Saskatchewan for gross proceeds totaling \$14.0 million, which approximated the Trust's gross book value. In conjunction with the sale, the Trust has provided a two year \$7.25 million second mortgage (Note 6) at a 10% interest rate in priority to the additional equity capital provided by the purchaser.

The Trust has the right to acquire the property at market once substantially leased. As a condition of financing, the Trust continues to guarantee the \$7.5 million first mortgage financing on the property. This property was acquired on October 1, 2007.

On April 10, 2007, the Trust completed a sale to the existing co-owners through the exercise of buy-sell provisions in its co-ownership agreement, which were initiated by the Trust, of its 50% undivided, non-managed interest in three Quebec City office properties. 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,	
	2008	2007
<b>Revenue</b>		
Income property rentals	\$ 115,894	\$ 2,503,427
Interest income	271	17,803
	<b>116,165</b>	<b>2,521,230</b>
<b>Expenses</b>		
Property operating costs	97,901	1,348,394
Interest	42,932	611,953
Amortization	30,878	311,126
	<b>171,711</b>	<b>2,271,473</b>
Income (loss) before the undernoted	<b>(55,546)</b>	249,757
Gain on disposition of properties	44,819	3,514,785
<b>Income (loss) and gain from discontinued operations</b>	<b>\$ (10,727)</b>	<b>\$ 3,764,542</b>

Cash flow from discontinued operations for the year ended December 31, 2008 and 2007 are as follows:

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

	Year ended December 31,	
	2008	2007
<b>Cash provided by (used in) operating activities</b>		
Income (loss) and gain from discontinued operations	\$ (10,727)	\$ 3,764,542
Items not affecting cash		
Amortization	30,878	311,126
Deferred finance cost amortization - mortgages payable	-	7,944
Accrued rental revenue recognized on a straight-line basis	-	(38,470)
Above and below market lease amortization	(8,831)	(109,521)
Gain on disposition of properties	(44,819)	(3,514,785)
	<b>(33,499)</b>	420,836
Changes in non-cash operating items	<b>(189,070)</b>	(482,817)
	<b>(222,569)</b>	(61,981)
<b>Cash provided by (used in) financing activities</b>		
Mortgage principal instalment payments	-	(168,484)
Mortgage financing costs	-	(4,005)
	-	(172,489)
<b>Cash provided (used in) investing activities</b>		
Income properties acquired	-	(6,496,000)
Proceeds from disposition of properties	6,431,578	20,098,007
Leasing costs and capital expenditures	-	(28,017)
	<b>6,431,578</b>	13,573,990
<b>Change in cash - Discontinued operations</b>	<b>\$ 6,209,009</b>	<b>\$ 13,339,520</b>

**21. Per Unit Calculations**

On December 22, 2008, the Trust consolidated its issued and outstanding units on the basis of one post-consolidation unit for every three 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.

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 and warrants 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,	
	2008	2007
Weighted average number of units		
Basic	3,714,927	3,359,302
Diluted - Continuing Operations	3,715,347	3,359,302
Diluted - Discontinued Operations	3,714,927	3,393,048
Diluted - Net Income	3,715,347	3,393,048

**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, 2008
Unit options		
	\$ 25.80	60,000
	\$ 29.22	10,000
	\$ 29.40	56,667
	\$ 29.55	4,167
	\$ 30.00	43,750
	\$ 30.12	4,167
	\$ 30.63	23,333
	\$ 32.64	16,666
	\$ 34.80	6,250
	\$ 39.24	55,417
Warrants		
	\$ 41.28	41,667
	\$ 42.60	30,166
Convertible Debentures		
Series A (8.0%)	\$ 30.60	222,147
Series C (9.0%)	\$ 36.00	61,444
Series D (7.5%)	\$ 45.00	222,222
Series E (6.3%)	\$ 41.25	606,060
Series F (6.0%)	\$ 39.66	287,443
		<b>1,751,566</b>

**22. 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, 2008 and 2007 are summarized as follows:

	Year ended December 31, 2008			
	Office	Retail	Industrial	Total
<b>Income property rentals</b>	\$ 41,576,968	\$ 7,044,811	\$ 7,017,406	\$ 55,639,185
<b>Property operating costs</b>	17,123,265	2,035,964	2,237,917	21,397,146
<b>Property operating income</b>	\$ 24,453,703	\$ 5,008,847	\$ 4,779,489	\$ 34,242,039
<b>Income properties - continuing</b>	\$ 273,901,568	\$ 55,879,073	\$ 50,544,868	\$ 380,325,509

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

	Year ended December 31, 2007			
	Office	Retail	Industrial	Total
Income property rentals	\$ 36,124,987	\$ 5,696,038	\$ 6,194,322	\$ 48,015,347
Property operating costs	15,292,713	1,603,894	1,944,905	18,841,512
Property operating income	\$ 20,832,274	\$ 4,092,144	\$ 4,249,417	\$ 29,173,835
Income properties - continuing	\$ 220,961,593	\$ 39,781,022	\$ 39,428,918	\$ 300,171,533

For the year ended December 31, 2008, there is one tenant that accounts for more than 10% of the Trusts' total revenue. SIQ (Quebec government agency) comprised approximately 18% (December 31, 2007 – 20%) of the Trust's total revenue.

**23. Capital Management**

The Trust defines capital that it manages as the aggregate of unitholders' equity and interest bearing debt. The Trust's objectives when managing capital are to safeguard and build long term unitholder value, fund its ongoing long term business strategies and provide reasonable returns to unitholders taking into account levels of risk.

The Trust manages its capital structure and makes adjustments to it taking into account changes in economic conditions, availability of capital and the risk characteristics of its underlying assets.

The total managed capital for the Trust is summarized below:

	December 31,	
	2008	2007
Mortgages payable and facilities	\$ 284,153,909	\$ 224,598,967
Convertible debentures	52,533,520	43,507,560
	<b>336,687,429</b>	268,106,527
Unitholders' Equity	<b>80,068,509</b>	74,861,530
	<b>\$ 416,755,938</b>	\$ 342,968,057

The Trust monitors capital from time-to-time using a variety of measures. The Trust's Declaration of Trust contains provisions that have the effect of limiting capital expended by the Trust for, among other items, the following:

Whiterock's Declaration of Trust provides that total indebtedness, which excludes convertible debentures and short term credit facilities, may not exceed 75% of gross book value of the Trust's total assets ("GBV"). Whiterock continues to be in compliance with this ratio. At December 31, 2008, according to the calculation as defined in the Declaration of Trust, this ratio was 54.8% (December 31, 2007 – 60.3%). It is management's intention to reduce Whiterock's leverage ratio over time.

A special resolution was passed at an annual and special meeting of unitholders that this limitation on total indebtedness (which term shall be amended to include the aggregate principal amount of all convertible subordinated debentures of the Trust) be reduced to 65% of GBV. The reduction shall take effect at such time as the total assets of the Trust, as reflected on its audited annual consolidated financial statements for its most recently completed fiscal year, exceeds \$750 million.

## WHITEROCK REAL ESTATE INVESTMENT TRUST

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Monitoring procedures are typically performed as a part of the overall management of Whiterock's operations. The Trust's strategy during the year, which was unchanged from the prior year, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Trust cannot predict.

#### 24. 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 and operating facilities, approximate their recorded values at December 31, 2008 and December 31, 2007, 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. Such fair value estimates are not necessarily indicative of the amounts the Trust might pay or receive in actual market transactions.

At December 31, 2008 and December 31, 2007, the Trust did not have any cash flow or interest rate hedges in place.

##### Risk management

The main risks that arise from the Trust's financial instruments are liquidity, interest and credit risk. The Trust's approach to managing these risks, is summarized below:

Management's risk management policies are typically performed as a part of the overall management of the Trust's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Trust is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Trust has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk. These risks include, and the actions taken to manage them, are as follows:

##### Liquidity risk

Liquidity risk is the risk that the Trust may not have sufficient debt and equity capital available to fund its growth program and refinance its debts as they mature. As discussed in Note 23, The Trust's Declaration of Trust provides that total indebtedness, which excludes convertible debentures and short term credit facilities, may not exceed 75% of gross book value of the Trust's total assets. As at December 31, 2008, the Trust has up to \$45 million of facilities available for acquisitions, operations and general corporate purposes, of which \$30.9 million was drawn. The Trust also endeavors to stagger its debt maturities. Of the Trust's \$255.5 million of mortgage debt at December 31, 2008, \$4.5 million was scheduled to mature in 2009 and \$12.7 million is scheduled to mature in November 2010. The 2009 scheduled maturity has been refinanced with a new \$9.0 million mortgage due in 2014 (Note 26). None of the Trust's convertible debentures are scheduled to mature in 2009 and \$9.0 million are scheduled to mature in 2010.

## **WHITEROCK REAL ESTATE INVESTMENT TRUST**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***

#### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk. All of the Trust's outstanding mortgages and convertible debentures are fixed rate. Of the Trust's \$255.5 million of mortgage debt, \$4.5 million is scheduled to mature in 2009 subsequently refinanced (Note 26) and \$12.7 million is scheduled to mature in 2010. None of the Trust's convertible debentures are scheduled to mature until 2010.

#### Credit risk

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 and that the tenant mix is comprised of tenants with credit worthy covenants, by staggered lease maturities and by an appropriate geographic mix of tenants.

## **25. Review of Strategic Alternatives in 2007**

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.

## **26. Subsequent Events**

On February 25, 2009, the Trust refinanced a \$4.5 million 10% second mortgage due in 2009 with a \$9.0 million 9.5% second mortgage due in 2014. Net cash proceeds were used to reduce the outstanding balance of the Trust's revolving facilities.

On March 17, 2009 the Trust entered into a five year 6.7% \$12.5 million first mortgage. Net cash proceeds were used to reduce the outstanding balance of the Trust's revolving facilities.

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

**27. Comparative Amounts**

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