BUSINESS ACQUISITION REPORT

Item 1. Identity of Company

1.1 Name and Address of Company

Dundee Real Estate Investment Trust ("**Dundee REIT**")
30 Adelaide Street East, Suite 1600
Toronto, Ontario
M5C 3H1

1.2 Executive Officer

The name of the executive officer of Dundee REIT who is knowledgeable about the significant acquisition and this business acquisition report is:

Mario Barrafato, Senior Vice President and Chief Financial Officer
Telephone: (416) 365-3535

Item 2. Details of Acquisition

2.1 Nature of Business Acquired

On March 2, 2012, Dundee REIT acquired Whiterock Real Estate Investment Trust ("**Whiterock REIT**"). Whiterock REIT provides high-quality office, retail, and industrial properties in Canada and, to a lesser extent in the United States. As at December 31, 2011, Whiterock REIT's portfolio totalled approximately 7.1 million square feet of gross leasable area across Canada and in the United States (including Whiterock REIT's share of co-owned and long-term leased properties) and had a 96.7% occupancy rate. The industrial real estate properties include 20 properties totalling approximately 1.4 million square feet, located in Saskatchewan, Alberta, Ontario, Québec and New Brunswick. The office real estate properties include 45 properties totalling approximately 4.6 million square feet, located in British Columbia, Alberta, Saskatchewan, Ontario, Québec, New Brunswick and Nova Scotia. The retail real estate properties include ten properties totalling approximately 0.4 million square feet, located in British Columbia, Alberta, Saskatchewan, Ontario, Prince Edward Island and Nova Scotia. The portfolio also included one office and one industrial property totalling 0.9 million square feet in the United States.

In January 2012, Whiterock REIT completed two previously announced acquisitions. It acquired a 40% interest (with Whiterock's usual co-owner acquiring the remaining 60% interest) in 9 office properties located in Edmonton, Alberta consisting of 0.2 million square feet of gross leasable area and the freehold interest in Airway Centre 2-4, Mississauga, Ontario (an office property in which Whiterock REIT had the leasehold interest as at December 31, 2011).

For further information regarding Whiterock REIT reference should be made to the offer to purchase by Dundee REIT relating to the offer and the accompanying take-over bid circular of Dundee REIT, the management information circular of Whiterock REIT relating to the special meeting of unitholders of Whiterock REIT held on February 27, 2012 and the trustees' circular of the board of trustees of Whiterock REIT with respect to the offer (collectively, the "**Offer to Purchase and the Circulars**") which are posted on www.sedar.com. The Offer to Purchase and the Circulars are not incorporated by reference in this business acquisition report.

2.2 Date of Acquisition

March 2, 2012.

2.3 Consideration

Dundee REIT took-up approximately 40.9% of the outstanding units of Whiterock REIT under its offer to acquire any and all units of Whiterock REIT in consideration for $16.25 or 0.4729 units of Dundee REIT, as elected by depositing unitholders of Whiterock REIT. Approximately 27% of the Whiterock units (9,832,563 Whiterock units) were tendered to Dundee REIT's offer for cash for an aggregate of approximately $159.8 million. No elections were pro-rated under the offer. The remaining outstanding units of Whiterock REIT were redeemed by Whiterock REIT in consideration for 0.4729 units of Dundee REIT. In total, Dundee REIT has issued 12,580,347 units of Dundee REIT in connection with the transaction.

In order to fund the cash portion of the purchase price and related transaction costs, Dundee REIT borrowed $220.0 million under its pre-existing bridge loan credit facilities provided by a syndicate of lenders in connection with the transaction. Subsequent to completing the acquisition, Dundee REIT will have undrawn credit facilities of approximately $100.0 million.

In connection with the transaction, Dundee REIT assumed the principal amount outstanding under each of the debentures of Whiterock REIT. The conversion prices under the convertible debentures have been adjusted in accordance with their terms. As at the close of business on March 1, 2012, there were outstanding:

- $6,625,000 aggregate principal amount of 6% Series F Debentures convertible at an exercise price of approximately $27.96;
- $2,112,000 aggregate principal amount of 7% Series G Debentures convertible at an exercise price of approximately $18.37; and
- $51,190,000 aggregate principal amount of 5.5% Series H Debentures convertible at an exercise price of approximately $36.69.

In connection with the transaction, Dundee REIT assumed approximately $709.1 million in mortgage and other debt. The mortgages have a weighted average interest rate of approximately 5.2% and an average term to maturity of approximately 4.4 years. The assumed debt to purchase ratio is 49.9%.

2.4 Effect on Financial Position

None disclosable as of the date hereof.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

The transaction was not with an informed person, associate or affiliate of Dundee REIT.

2.7 Date of Report

March 14, 2012.

Item 3. Financial Statements

Attached to this business acquisition report are: (a) *pro forma* consolidated financial statements of Dundee REIT for the year ended December 31, 2011, together with the notes thereto (Schedule A); and (b) audited consolidated financial statements of Whiterock REIT as at December 31, 2011, December 31, 2010 and January 1, 2010 and for the years ended December 31, 2011 and December 31, 2010, together with the notes thereto and the independent auditors' report thereon (Schedule B).

<u>SCHEDULE A</u>

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS OF DUNDEE REIT FOR THE YEAR ENDED DECEMBER 31, 2011, TOGETHER WITH THE NOTES THERETO

(See attached)

DUNDEE REAL ESTATE INVESTMENT TRUST

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
For the year ended December 31, 2011

DUNDEE REAL ESTATE INVESTMENT TRUST
PRO FORMA CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2011

(prepared under IFRS) (unaudited) (in thousands of Canadian dollars)	Dundee Real Estate Investment Trust	Whiterock	Subtotal	Notes	Pro Forma Adjustments	Pro Forma
ASSETS						
NON-CURRENT ASSETS						
Investment properties	$ 4,154,179	$ 699,008	$ 4,853,187	3c,d	$ 193,016	$ 5,046,203
Equity accounted investments	144,596	192,662	337,258	3c,d	70,562	407,820
Property management contracts	-	-	-	3d,e	16,512	16,512
Goodwill	-	-	-	3d,e	3,821	3,821
Other non-current assets	22,507	24,812	47,319	3d,f	(23,567)	23,752
	4,321,282	916,482	5,237,764		260,344	5,498,108
CURRENT ASSETS						
Amounts receivable	13,618	1,747	15,365		-	15,365
Prepaid expenses	11,990	15,523	27,513	3d,f	(6,000)	21,513
Cash and cash equivalents	111,870	29,738	141,608	3d,g	836	142,444
	137,478	47,008	184,486		(5,164)	179,322
Assets held for sale	7,707	-	7,707		-	7,707
Total assets	$ 4,466,467	$ 963,490	$ 5,429,957		$ 255,180	$ 5,685,137
LIABILITIES						
NON-CURRENT LIABILITIES						
Debt	$ 1,957,538	$ 474,807	$ 2,432,345	3c,d	$ 79,631	$ 2,511,976
Subsidiary redeemable units	114,445	-	114,445		-	114,445
Deposits	13,919	2,243	16,162		-	16,162
Deferred unit incentive plan	12,971	-	12,971		-	12,971
Other financial instruments	8,028	6,826	14,854	3d	(3,246)	11,608
	2,106,901	483,876	2,590,777		76,385	2,667,162
CURRENT LIABILITIES						
Debt	166,979	12,118	179,097	3d,h	218,500	397,597
Amounts payable and accrued liabilities	63,139	10,384	73,523	3d, j	6,299	79,822
Distributions payable	12,192	2,873	15,065		-	15,065
	242,310	25,375	267,685		224,799	492,484
Liabilities related to assets held for sale	22	-	22		-	22
Total liabilities	2,349,233	509,251	2,858,484		301,184	3,159,668
EQUITY						
Unitholders' equity	1,745,283	361,227	2,106,510	3a	77,576	2,184,086
Retained earnings	373,553	92,911	466,464	3a	(123,479)	342,985
Accumulated other comprehensive (loss) income	(1,602)	101	(1,501)	3a	(101)	(1,602)
Total equity	2,117,234	454,239	2,571,473		(46,004)	2,525,469
Total liabilities and equity	$ 4,466,467	$ 963,490	$ 5,429,957		$ 255,180	$ 5,685,137

DUNDEE REAL ESTATE INVESTMENT TRUST
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

(prepared under IFRS) (unaudited) (in thousands of Canadian dollars)	Dundee Real Estate Investment Trust	Whiterock	Blackstone[1]	Realex [2]	Subtotal	Notes	Pro Forma Adjustments	Pro Forma
Investment properties revenue	$ 411,588	$ 88,765	$ 54,524	$ 5,852	$560,729	4b	$ 15,777	$ 576,506
Investment properties operating expenses	167,514	40,295	26,043	2,219	236,071	4b	3,100	239,171
NET RENTAL INCOME	244,074	48,470	28,481	3,633	324,658		12,677	337,335
OTHER INCOME AND EXPENSES								
General and administrative	(15,344)	(4,334)	37	(293)	(19,934)		-	(19,934)
Share of net earnings from equity accounted investments	49,728	32,989	-	-	82,717	4b	2,928	85,645
Fair value adjustments to investment properties	232,987	12,655	-	-	245,642		-	245,642
Amortization	-	-	-	-	-	4d	(1,651)	(1,651)
Acquisition-related costs, net	(5,734)	-	-	-	(5,734)	3b	(30,568)	(36,302)
Interest								
Debt	(88,398)	(24,055)	(14,193)	(1,234)	(127,880)	4a	(9,023)	(136,903)
Subsidiary redeemable units	(7,704)	-	-	-	(7,704)		-	(7,704)
Mortgage prepayment penalty	-	(1,617)	-	-	(1,617)		-	(1,617)
Interest and fee income	2,376	2,841	-	97	5,314	4b	475	5,789
Convertible debenture issuance costs	-	(2,522)	-	-	(2,522)	4f	2,522	-
Fair value adjustments to financial instruments	(11,065)	(348)	-	-	(11,413)	4c	1,182	(10,231)
NET INCOME	$ 400,920	$ 64,079	$ 14,325	$ 2,203	$ 481,527		$ (21,458)	$ 460,069
OTHER COMPREHENSIVE INCOME (LOSS)								
Unrealized loss on interest rate swap agreements	(1,602)	(338)	-	-	(1,940)		-	(1,940)
Unrealized foreign currency translation gain	-	823	-	-	823	4e	(823)	-
Other comprehensive income from equity accounted investments	-	(213)	-	-	(213)		-	(213)
	(1,602)	272	-	-	(1,330)		(823)	(2,153)
COMPREHENSIVE INCOME	$ 399,318	$ 64,351	$ 14,325	$ 2,203	$ 480,197		$ (22,281)	$ 457,916

(1) Blackstone results for January 1 – August 14, 2011 (see Note 1)

(2) Realex results for January 1 – February 8, 2011 (see Note 1)

1. BASIS OF PRESENTATION

Dundee Real Estate Investment Trust ("Dundee REIT" or the "Trust") is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dundee REIT include the accounts of Dundee REIT and its consolidated subsidiaries. Dundee REIT's portfolio comprises office and industrial properties located across Canada in Vancouver, Calgary, Edmonton, Yellowknife, Saskatoon, Regina, Toronto, Kitchener-Waterloo, London, Ottawa, Montreal and Halifax. A subsidiary of Dundee REIT performs the property management function.

The pro forma consolidated financial statements have been prepared by management for the year ended December 31, 2011, to give effect to the acquisition (the "Acquisition") of all outstanding and issued units of Whiterock Real Estate Investment Trust ("Whiterock") by Dundee REIT on March 2, 2012 to be accounted for as a business combination on the basis and assumptions and adjustments described below. In addition, the pro forma consolidated financial statements include the previous acquisition of Blackstone Real Estate Advisors LP and Slate Properties Inc., combined ("Blackstone") which closed on August 15, 2011, accounted for as an asset acquisition, and the previous acquisition of Realex Properties Corp. ("Realex") that closed on February 8, 2011, accounted for as a business combination. The pro forma consolidated financial statements have been prepared based on the Trust's December 31, 2011 audited consolidated financial statements, and Whiterock's December 31, 2011 audited consolidated financial statements. Results for Blackstone have been included for the periods prior to acquisition based on unaudited interim combined financial statements for the three-months ended March 31, 2011, pro-rated for the period Blackstone was not owned by the Trust in 2011. Results for Realex have been included for the period prior to acquisition based on unaudited consolidated financial statements prepared by management for the period January 1, 2011 through to February 7, 2011.

The pro forma consolidated balance sheet gives effect to the Acquisition as if it had occurred on December 31, 2011. The Whiterock amounts in the pro forma consolidated balance sheet were obtained from the Whiterock audited consolidated financial statements as at December 31, 2011 prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The pro forma consolidated statement of comprehensive income for the year ended December 31, 2011 gives effect to the Acquisition, the acquisition of Blackstone and the acquisition of Realex as if they occurred on January 1, 2011. The Whiterock amounts in the pro forma consolidated statement of comprehensive income for the year ended December 31, 2011 were obtained from the Whiterock audited consolidated financial statements for the year ended at December 31, 2011 prepared in accordance with IFRS. The results relating to Blackstone are included in the results of the Trust for the year ended December 31, 2011, from the date of acquisition of the assets on August 15, 2011 to December 31, 2011. The Trust has included an adjustment to the pro forma statement of comprehensive income for the income determined in accordance with IFRS of Blackstone from January 1, 2011 to the date of acquisition of the assets. The results relating to the Realex acquisition are included in the results of the Trust for the year ended December 31, 2011, from the date of acquisition of control on February 8, 2011, to December 31, 2011. The Trust has included an adjustment to the pro forma statement of comprehensive income for the income determined in accordance with IFRS of Realex from January 1, 2011 to the date of acquisition of control.

The pro forma consolidated financial statements include estimates and assumptions effective March 14, 2012.

The pro forma consolidated financial statements are not necessarily indicative of the results that would have occurred had the transactions been consummated at the dates indicated nor are they necessarily indicative of future operating results or the financial position of the Trust.

(All dollar amounts in thousands, except unit or per unit amounts) (unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the pro forma consolidated financial statements are in accordance with those disclosed in the Trust's audited consolidated financial statements for the year ended December 31, 2011 in accordance with IFRS. These pro forma consolidated financial statements do not include all of the information and disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the December 31, 2011 consolidated financial statements of the Trust. Additionally, the Trust has reclassified certain items on Whiterock's consolidated financial statements as at December 31, 2011, and for the year ended December 31, 2011 to reflect the financial presentation of Dundee REIT's consolidated financial statements for the respective periods as follows:

	Whiterock consolidated assets and liabilities as at December 31, 2011		
	Whiterock as presented in Whiterock consolidated financial statements	Adjustments to presentation in accordance with Dundee REIT	Whiterock presented in accordance with Dundee REIT
ASSETS			
Investment properties	$ 705,892	$ (6,884)	$ 699,008
Equity accounted investments	192,662	-	192,662
Other non-current assets	-	24,812	24,812
	898,554	17,928	916,482
Other assets	34,409	(34,409)	-
Amounts receivable	-	1,747	1,747
Prepaid expenses	-	15,523	15,523
Cash and cash equivalents	30,527	(789)	29,738
	64,936	(17,928)	47,008
Total assets	$ 963,490	$ -	$ 963,490
LIABILITIES			
Debt (non-current)	$ -	$ 474,807	$ 474,807
Mortgages payable and facilities	375,816	(375,816)	-
Convertible debentures	67,361	(67,361)	-
Non-convertible debentures	44,086	(44,086)	-
Deposits	-	2,243	2,243
Unit options	6,488	(6,488)	-
Other financial instruments	-	6,826	6,826
	493,751	(9,875)	483,876
Debt (current)	-	12,118	12,118
Deferred tax	362	(362)	-
Amounts payable and accrued liabilities	15,138	(4,754)	10,384
Distributions payable	-	2,873	2,873
	15,500	9,875	25,375
Total liabilities	$ 509,251	$ -	$ 509,251

(All dollar amounts in thousands, except unit or per unit amounts) (unaudited)

3. PRO FORMA ASSUMPTIONS AND CONSOLIDATED BALANCE SHEET ADJUSTMENTS

(a) Equity

i) Unitholders' Equity

The pro forma adjustment to Unitholders' equity reconciles as follows:

	$
Units issued (12,580,347 x $34.88)	438,803
Elimination of Whiterock's Unitholders' equity	(361,227)
Unitholders' equity	77,576

ii) Retained Earnings

The pro forma adjustment to retained earnings includes the elimination of Whiterock's retained earnings of $92,911 and the recording of transaction costs of $16,304, the cash settlement of $450 in equity performance units, and the cash settlement of vested and unvested Whiterock stock options of $13,814; combined transaction related costs total $30,568.

iii) Accumulated Other Comprehensive Income ("AOCI")

The pro forma adjustment to AOCI is to eliminate Whiterock's AOCI of $101.

(b) Acquisition of Whiterock

The Acquisition was partially paid in cash of $159,779 and partly by the issuance of 12,580,347 Dundee REIT units. The Trust purchased 26,602,552 issued and outstanding Whiterock Units at December 31, 2011 through the issuance of 12,580,347 Dundee REIT units at a price of $34.88, the closing Dundee REIT unit price on March 2, 2012, at a conversion rate of 0.4729 Dundee REIT units per Whiterock unit, and paid $159,779 in cash for a total consideration of $598,582, excluding transaction related costs of $30,568 which have been expensed in accordance with IFRS.

The Trust's sources and uses of funds after completion of the offer to purchase are contemplated as follows:

		$
Units issued (12,580,347 x $34.88)		438,803
Cash		159,779
Consideration paid	$	598,582

(All dollar amounts in thousands, except unit or per unit amounts) (unaudited)

(c) Events subsequent to December 31, 2011

Subsequent to December 31, 2011, Whiterock entered into the following transactions for which balances and results have been included in the pro forma consolidated financial statements:

Whiterock acquired a forty-percent interest in a portfolio of multi-tenant flex office properties in Edmonton for a purchase price of $43,200, net of assumed and new mortgages of $27,200, the net equity of $16,000, has been recorded in equity accounted investments and an adjustment of $16,000 has been recorded as a reduction to cash and cash equivalents. The mortgages bear interest at an average rate of 3.87% for a remaining average term of 4 years.

Whiterock entered into an agreement to purchase the freehold interest in Airway Centre 2-4 in Mississauga, a property which Whiterock currently owns a 100 percent leasehold interest for $110,000. As part of the acquisition, Whiterock assumed a mortgage on the property with a principal amount of $76,000 at an interest rate of 2.6% and a remaining term of four years. The Trust applied the previously paid prepaid ground rent of $14,783 (of which $6,000 was classified as a prepaid expense and $8,783 was recorded as an other non-current asset) and option deposit of $7,900 (classified as an other non-current asset) against the consideration payable for the property, resulting in $11,317 being recorded as the cash consideration paid. The ground lease had a gross expense of $6,000 annually which was being offset by lease revenue of $2,000 annually. Upon purchase of the leasehold interest the $2,000 ground rent lease payment received from a third party was cancelled, accordingly, the Trust has decreased its rental properties operating expenses by $4,000 annually.

(d) Provisional fair value of identifiable assets and liabilities assumed

The identifiable assets and liabilities assumed including the events subsequent to December 31, 2011 in 3c above, have been recorded at their provisional fair values had the acquisition occurred on December 31, 2011. The provisional values under IFRS are as follows:

Investment properties	$ 892,024
Equity accounted investments	263,224
Goodwill	3,821
External property management contracts	16,512
Other non-current assets	1,245
Prepaid expenses	9,523
Amounts receivable	1,747
Cash and cash equivalents	2,421
Assumed debt	(566,556)
Distributions payable	(2,873)
Deposits	(2,243)
Amounts payable and accrued liabilities	(16,683)
Other financial instruments	(3,580)
Purchase Price	$ 598,582

The fair values above are provisional; the actual fair value of the identifiable assets and liabilities assumed will differ from the amount disclosed upon finalization of the Acquisition. Included in the net assets acquired is a fair value adjustment on mortgages payable (including mortgages held in equity accounted investments) of $15,916.

(e) Goodwill and external property management contracts

The Acquisition is recorded at its purchase price and the excess of the purchase price over the carrying amount of the net assets acquired is $3,821, which has been recorded as goodwill.

An adjustment has been made to record the third party property management contracts of $16,512 as an intangible asset, with a useful life of 10 years.

(f) Other non-current assets and prepaid expenses

As noted above in 3c the Trust has applied the prepaid ground rent to be applied in 2013 and later of $8,783 and the option deposit of $7,900 to the purchase in the free-hold interest of Airways Centre 2-4, both balances were included in other non-current assets on acquisition. In addition, on acquisition, the Trust has eliminated $6,884 of Whiterock's straight-line rent.

The current portion of the prepaid ground rent of $6,000 has been applied to the purchase of Airways Centre 2-4 and eliminated from prepaid assets.

(g) Cash and cash equivalents

Adjustments to cash and cash equivalents include $27,317 of cash paid on acquisition of properties subsequent to December 31, 2011, described above in 3c, and the inclusion of $28,153 of cash from the net proceeds of the $220,000 drawn on the secured term credit facility and the equity bridge facility, net of $30,568 of transaction related costs.

(h) Mortgage and Credit Facilities

The Trust has committed to a Secured Term Credit Facility and an Equity Bridge Facility with funds available up to $375,000. The secured term facility bears interest at Bankers Acceptance ("BA") + 1.75% with a term of one-year. The Trust drew $210,000 on the secured term facility. The equity bridge facility bears interest at BA + 2.35% and has an initial term of six-months. On closing of the Acquisition the Trust drew $10,000 on the equity bridge facility. In connection with this financing, the Trust paid $1,500 in deferred financing costs.

(i) Acquisition of Blackstone and Realex

There is no effect on the pro forma consolidated balance sheet as at December 31, 2011 of the acquisitions of Blackstone and Realex as they are already included in the Trust's audited consolidated balance sheet as at December 31, 2011.

(j) Amounts payable and accrued liabilities

Included in amounts payable and accrued liabilities are costs to be paid to prior Whiterock executives pursuant to a change of control clause in their employment agreement. As these amounts have not yet been paid, amounts payable and accrued liabilities have increased by $6,847.

4. PRO FORMA ASSUMPTIONS AND STATEMENT OF COMPREHENSIVE INCOME ADJUSTMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

(a) Interest Expense

Interest expense related to Whiterock has decreased by $3,943 to reflect the amortization of the fair value adjustment of assumed debt at acquisition of $2,963 and to eliminate previously recorded deferred financing cost amortization of $980 for the year ended December 31, 2011. The pro forma adjustments include interest expense from new financings related to the acquisition of $7,997 as well to reflect pro forma results for properties acquired in the third quarter of 2011 of $1,734, and subsequent to December 31, 2011 of $1,968.

Interest expense on the convertible debentures has been adjusted to reflect the new issuance by Whiterock of the Series H convertible debentures and Whiterock's redemption of the Series E convertible debentures subsequent to December 31, 2011 of $1,267.

(b) Significant acquisitions in the third quarter of 2011 and acquisitions subsequent to December 31, 2011

Adjustments have been made to reflect the pro forma results for properties acquired by Whiterock in the third quarter of 2011 to a full year of operations resulting in increases of $9,509 and $4,279 in investment properties revenues and investment properties operating expenses, respectively. Adjustments have also been made to reflect the results of properties acquired subsequent to December 31, 2011 (see 3c) of $6,268 in investment properties revenue and $(1,179) in investment properties operating expenses. The adjustment to investment properties operating expenses includes an increase in expenses of $2,821 and the elimination of $4,000 of ground rent payments no longer required as a result of the purchase of the freehold interest in Airways Centre 2-4, described in 3c, representing a net decrease in investment properties operating expenses of $1,179. In total these properties have contributed $15,777 in investment properties revenues and $3,100 in investment properties operating expenses.

Included in equity accounted investments is $4,603 of net rental income from properties acquired in the third quarter of 2011 net of an increase of $1,675 in interest expense for the same properties.

As a result of these acquisitions, the Trust has adjusted external property management fee income by $475 to reflect the property management fee income earned on properties that are jointly owned.

(c) Fair Value Adjustments on Financial Instruments

The Trust has eliminated the fair value adjustment on Whiterock's unit options plan of $1,182 as the unit options have been cancelled for a cash consideration payment of $13,814.

(d) Amortization

The Trust has included the amortization of $1,651 relating to the external property management contracts in its income for the year ended December 31, 2011. Amortization has been recorded based on a 10-year useful life.

(e) Unrealized Foreign Currency Translation Gain

The Trust has eliminated the acquired unrealized foreign currency translation gain of Whiterock.

(f) Convertible Debenture Issuance Costs

The Trust has eliminated the convertible debenture issuance costs of Whiterock as the Trust records its convertible debentures at amortized cost and includes convertible debenture issuance costs against the convertible debentures upon issuance.

SCHEDULE B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF WHITEROCK REIT AS AT DECEMBER 31, 2011 AND DECEMBER 31, 2010, JANUARY 1, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010, TOGETHER WITH THE NOTES THERETO AND THE INDEPENDENT AUDITORS' REPORT THEREON

(See attached)

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS
100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
Telephone: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

March 14, 2012

INDEPENDENT AUDITORS' REPORT

To the Unitholders of
Whiterock Real Estate Investment Trust:

We have audited the accompanying consolidated financial statements of Whiterock Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Whiterock Real Estate Investment Trust as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Scarrow & Donald LLP

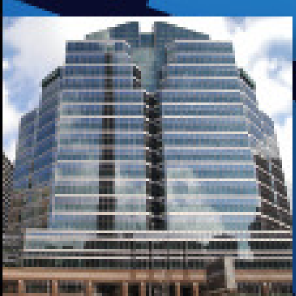
Chartered Accountants
Winnipeg, Canada

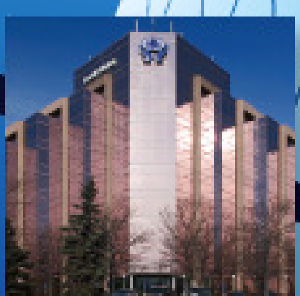
For this communication, together with the work done to prepare this communication and for opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

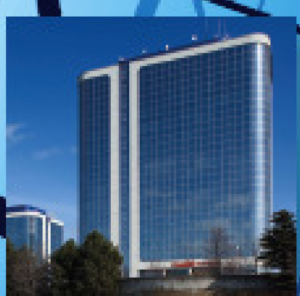
Whiterock Real Estate Investment Trust

Consolidated Financial Statements

DECEMBER 31, 2011 and 2010







WHITEROCK

WHITEROCK REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position

	Note	**December 31, 2011**	December 31, 2010(1)	January 1, 2010(1)
Assets				
Investment properties	5	**$ 705,891,900**	$ 557,680,000	$ 474,662,772
Equity accounted investments	6	**192,662,148**	96,665,488	20,402,337
		898,554,048	654,345,488	495,065,109
Other assets	7	**34,409,406**	33,194,618	5,158,242
Cash	8	**30,527,429**	–	–
Total Assets		**$ 963,490,883**	$ 687,540,106	$ 500,223,351
Liabilities and Unitholders' Equity				
Mortgages payable and facilities	9	**$ 375,816,224**	$ 302,048,336	$ 266,481,986
Convertible debentures	10	**67,361,378**	61,070,439	76,857,750
Non-convertible debentures	11	**44,086,396**	–	–
Accounts payable and other liabilities	12	**15,138,035**	16,467,171	7,980,422
Unit options	13	**6,488,461**	6,324,632	2,377,665
Warrants	14	–	760,755	34,020
Deferred tax	20	**362,000**	–	–
Total Liabilities		**509,252,494**	386,671,333	353,731,843
Unitholders' Equity		**454,238,389**	300,868,773	146,491,508
Total Liabilities and Unitholders' Equity		**$ 963,490,883**	$ 687,540,106	$ 500,223,351

(1) Refer to note 4 for the effects of transition to IFRS.

See accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees:

"Jason Underwood"
Trustee

"Nick Kanji"
Trustee

WHITEROCK REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income and Comprehensive Income

	Note	Year ended December 31 2011	2010[1]
Revenue			
Investment property revenue	16	**$ 88,765,358**	$ 71,059,905
Investment property operating costs		**(40,294,997)**	(31,486,350)
Net operating income		**48,470,361**	39,573,555
Other income and expenses			
Income from equity accounted investments	6	**15,552,988**	7,889,667
Fee income	17	**2,523,927**	1,231,313
Interest income		**316,855**	26,761
Interest expense	18	**(24,055,455)**	(21,225,590)
Convertible debentures issuance costs		**(2,522,387)**	–
Mortgage prepayment penalties		**(1,617,256)**	(700,000)
General and administrative expenses	19	**(3,970,668)**	(2,357,321)
		(13,771,996)	(15,135,170)
Fair value gains (losses)			
Fair value gains from investment properties	5	**12,655,284**	39,895,738
Fair value gains from equity accounted investments	6	**17,435,797**	19,829,284
Fair value gains (losses) from convertible debentures and warrants	24	**833,852**	(7,501,656)
Fair value losses from unit options	24	**(1,181,970)**	(4,544,670)
Net income before income taxes		**64,441,328**	72,117,081
Deferred tax		**(362,000)**	–
Net income		**64,079,328**	72,117,081
Other comprehensive income			
Fair value losses from interest rate swap	9	**(337,702)**	–
Unrealized foreign currency translation gain		**822,714**	–
Other comprehensive income from equity accounted investments	6	**(213,223)**	(170,959)
		271,789	(170,959)
Comprehensive income		**$ 64,351,117**	$ 71,946,122

(1) Refer to note 4 for the effects of transition to IFRS.

See accompanying notes to the consolidated financial statements.

WHITEROCK REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity

	Note	Year ended December 31 2011	2010[1]
Units			
Balance, beginning of period	15	**$ 237,821,408**	$ 129,804,308
Issuance of units		**126,569,860**	112,639,817
Value associated with unit options exercised		**1,977,668**	917,215
Value associated with warrants exercised		**727,816**	351,258
Unit issue costs		**(5,869,750)**	(5,891,190)
Balance, end of period		**361,227,002**	237,821,408
Retained earnings			
Balance, beginning of period		**63,218,324**	16,687,200
Net income		**64,079,328**	72,117,081
Distributions to unitholders (cash and units)		**(34,387,095)**	(25,585,957)
Balance, end of period		**92,910,557**	63,218,324
Accumulated Other Comprehensive Income			
Balance, beginning of period		**(170,959)**	–
Other comprehensive income (loss)		**271,789**	(170,959)
Balance, end of period		**100,830**	(170,959)
Total Unitholders' Equity		**$ 454,238,389**	$ 300,868,773
Units Issued and Outstanding	15	**35,926,551**	26,159,122

(1) Refer to note 4 for the effects of transition to IFRS.

See accompanying notes to the consolidated financial statements.

WHITEROCK REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

	Note	Year ended December 31 2011	2010[1]
Cash provided by (used in) operating activities			
Net income		**$ 64,079,328**	$ 72,117,081
Items not affecting cash			
Amortization – furniture and equipment	19	**179,309**	143,407
Non-cash compensation expense	19	**966,387**	257,512
Accrued rental revenue recognized on a straight-line basis	16	**(1,237,148)**	(1,257,809)
Interest expense	18	**24,055,455**	21,225,590
Interest paid	18	**(23,136,500)**	(20,282,939)
Convertible debentures issuance costs		**2,522,387**	–
Interest income		**(316,855)**	(26,761)
Interest received		**316,855**	26,761
Income from equity accounted investments		**(15,552,988)**	(7,889,667)
Distributions from equity accounted investments		**8,377,876**	5,298,505
Deferred tax expenses		**362,000**	–
Fair value gains	24	**(29,742,963)**	(47,678,696)
Change in non-cash operating items	25	**1,680,400**	7,256,145
		32,553,543	29,189,129
Cash provided by (used in) financing activities			
Mortgage principal instalment payments		**(6,687,061)**	(4,619,407)
Mortgage refinancings		**(17,400,232)**	(11,458,191)
Mortgage financings, net of costs		**49,763,143**	18,328,101
Convertible debentures financing proceeds, net of costs		**49,251,107**	–
Non-convertible debentures financing proceeds, net of costs		**43,982,627**	–
Convertible debentures repayment		**(34,670,000)**	(7,186,700)
Draw (repayment) on credit facilities		**(15,074,632)**	13,088,449
Issuance of units	15	**112,962,524**	94,460,800
Unit issue costs		**(5,814,774)**	(5,934,559)
Distributions to unitholders, net of reinvested distributions		**(27,794,906)**	(22,574,860)
		148,517,796	74,103,633
Cash provided by (used in) investing activities			
Investment properties acquired	5	**(66,314,456)**	(18,590,163)
Change in deposits on acquisitions		**(54,195)**	(477,741)
Proceeds from dispositions of properties		**–**	796,282
Option deposit paid	7	**(4,500,000)**	(27,400,000)
Investment in equity accounted investments	6	**(73,794,023)**	(54,492,868)
Revenue enhancing capital expenditures		**(3,480,111)**	(801,782)
Maintenance capital expenditures and leasing costs		**(2,098,774)**	(1,984,006)
Furniture and equipment		**(273,522)**	(342,484)
		(150,515,081)	(103,292,762)
Change in cash		**30,556,258**	–
Foreign exchange loss on cash held in foreign currency		**(28,829)**	–
Cash, beginning of period		**–**	–
Cash, end of period	8	**$ 30,527,429**	$ –

(1) Refer to note 4 for the effects of transition to IFRS.

See accompanying notes to the consolidated financial statements.

1. Organization

Whiterock Real Estate Investment Trust ("Whiterock" or the "REIT") is an open-ended real estate investment trust which was created under a Declaration of Trust, as amended and restated, on May 17, 2005 and is governed by the laws of Manitoba. Whiterock's units and Series F, G and H convertible debentures, and Series K non-convertible debentures, were listed on the Toronto Stock Exchange and traded under the symbol "WRK". The registered office of Whiterock is 401 The West Mall, Suite 1000, Toronto, Ontario, M9C 5J5.

These consolidated financial statements have been approved for issue by the Board of Trustees on March 14, 2012.

2. Significant Accounting Policies

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These standards include IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1"). Subject to certain transition elections disclosed in Note 4, the accounting policies set out below have been applied consistently in all material respects. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. Note 4 discloses the impact of the transition to IFRS on the REIT's reported financial position, net income and comprehensive income and cash flows, including the nature and effect of significant changes in accounting policies from those used in the REIT's consolidated financial statements for the year ended December 31, 2010.

Basis of Presentation

The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars. The annual consolidated financial statements have been prepared on a historical cost basis, except for investment properties and financial instruments as described below.

In these consolidated financial statements "Historical GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

Basis of Consolidation

These consolidated financial statements reflect the operations of Whiterock, its wholly-owned trust, WR Trust, and its wholly-owned subsidiaries (together, the "REIT"). Subsidiaries are consolidated from the date of acquisition, which is the date the REIT obtains control (the ability to govern the financial and operating policies of the subsidiary). The accounting policies of the subsidiaries are consistent with the accounting policies of the REIT. All intercompany balances, transactions and unrealized gains and losses are eliminated. The REIT engages in the strategic acquisition, ownership and management of income-producing office, industrial and retail properties in select markets across Canada.

Investment Properties

Property that is held to provide rental revenue or capital appreciation, or both, and that is not significantly occupied by the REIT is classified as investment property. Investment property is initially recorded at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at fair value at each reporting date.

The fair value of investment property reflects, among other things, rental revenue from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects future operating cash flows that could be expected in respect of the property. Fair value is determined based on available market evidence at the reporting date. The REIT uses the income approach and external valuations to determine fair value. Under the income approach, the fair value is estimated using the overall capitalization rate method whereby net operating income is capitalized at an overall capitalization rate. External valuations are performed as of the reporting date by professional valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The fair value of investment properties is sensitive to changes in capitalization rates. Fair value adjustments are recorded in the consolidated statement of income and comprehensive income in the period in which they arise.

Initial direct leasing costs from negotiating and arranging tenant leases are added to the carrying amount of investment properties. Expenditures with a future economic benefit to the REIT, including tenant improvements, are added to the carrying amount of investment properties. Repairs and maintenance expenditures are expensed when incurred.

The carrying amount of investment properties also includes the value of lease incentives. Lease incentives in the form of free rent or lower than market rent are accounted for as adjustments to investment property revenue using the straight-line method over the initial term of the lease. Lease incentives in the form of cash or other payments are amortized on a straight-line basis over the term of the lease as a reduction of investment property revenue.

Equity Accounted Investments

Investments in entities where the REIT exercises significant influence (the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies) are accounted for using the equity method and are recorded at initial cost plus the REIT's share of post-acquisition income or loss less net distributions received.

The REIT's share of net income before fair value adjustments in the equity accounted investments is reported in income from equity accounted investments in the statement of income and comprehensive income. Fair value adjustments to the investment properties measured at fair value held within equity accounted investments are reported in fair value adjustments to equity accounted investments in the statement of income and comprehensive income. Changes in the fair value of financial instruments measured at fair value through net income held within the equity accounted investments are also included in fair value adjustments to equity accounted investments in the statement of income and comprehensive income.

The accounting policies of the equity accounted investments are consistent with the accounting policies of the REIT. All intercompany balances, transactions and unrealized gains and losses are eliminated.

At each reporting period the REIT evaluates whether there is objective evidence that its interest in an equity accounted investment is impaired. The entire carrying amount of the equity accounted investment is compared to the recoverable amount, which is the higher of value in use or fair value less costs to sell. The recoverable amount of each investment is considered separately.

Furniture and Equipment

Furniture and equipment is stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of furniture and equipment. Furniture and equipment is amortized on a straight-line basis over its useful life. The residual value and useful life of furniture and equipment are reviewed and a write-down occurs if the carrying amount is less than the higher of the furniture and equipment's fair value and its value in use.

Convertible Debentures
The convertible debentures are convertible into units of the REIT, which are considered puttable financial instruments. The REIT has elected to record the full outstanding convertible debenture at its fair value with the changes being recorded in net income as a fair value adjustment.

Unit Options and Warrants
The REIT has a unit option plan available for officers, employees, trustees and consultants. 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. Awards of unit options and warrants related to private placements or public offerings of units are treated as unit issue costs.

The fair values of unit options and warrants granted are estimated on the date of grant and subsequently using the binomial option pricing model. Units of the REIT are considered puttable financial instruments; therefore, subsequent to initial recognition, unit options and warrants are measured at fair value at each reporting date and are presented as liabilities. Changes in fair value are recognized in net income as a fair value gain or loss. On the exercise of unit options, the consideration received and the fair value of the options are credited to units. Awards of warrants related to acquisitions are treated as part of the consideration for the investment property acquired.

Units
The REIT's units are considered puttable financial instruments. To be classified as equity a puttable financial instrument must meet all of the following conditions: (i) it must entitle the holder to a pro-rata share of the entity's net assets in the event of the entity's dissolution; (ii) it must be in a class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instrument must be based substantially on the profit or loss of the entity or change in fair value of the instrument. The REIT's units meet these conditions and accordingly are presented as equity.

Units are initially recognized at the fair value of the consideration received by the REIT. Transaction costs related to the issuance of units are recognized directly in Unitholders' equity as a reduction of the proceeds received.

Revenue Recognition
Revenue from income properties includes minimum rent earned from tenants under lease agreements, property tax and operating recoveries, and other incidental revenue. Rents and other incidental revenue are recognized 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.

Straight-line rent receivable is included in investment properties. Recoveries from tenants for property operating costs are recognized as revenue during the period in which the applicable costs are incurred. Lease incentives in the form of cash or other payments are amortized on a straight-line basis over the term of the lease as a reduction of investment property revenue. Fee income is recognized on an accrual basis according to the contract as the services are provided and the collectability is reasonably assured. Interest income is recognized using the effective interest method.

Foreign Currency
The functional currency of the REIT's investment property in the United States is the United States dollar as it is the currency of the primary economic environment in which the subsidiaries operate. Consideration in determining the functional currency is given to the denomination of the major cash flows of the entity.

Assets and liabilities of the investment property in the United States are translated into Canadian dollars at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the equity ownership as a result of a dilution or sale, amounts previously recognized in accumulated other comprehensive income are reclassified to net income.

For assets, liabilities, revenues and expenses that do not form part of the net investment in the REIT's foreign operations in the United States, any related foreign currency translation gains or losses are included in net income.

Provisions
Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material.

Financing Costs
Financing costs include underwriting, legal and other costs incurred in connection with the arrangement of borrowings. Costs incurred in connection with mortgages, facilities financings, and non-convertible debentures are measured at amortized cost using the effective interest method and are offset against the related mortgages, facilities or non-convertible debentures. Unamortized costs are expensed immediately in the event any related debt is extinguished. For convertible debentures, financing costs are expensed as incurred.

Income Taxes
The REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. In accordance with the terms of the Declaration of Trust, the REIT 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).

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes for the corporate subsidiaries are accounted for using the asset and liability method, whereby deferred income taxes assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and the corresponding tax values. Income taxes are computed using enacted and substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse. Adjustments to these balances are recognized in income as they occur. When realization of deferred tax assets is not probable, a valuation allowance is provided for the difference.

Financial Instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and the classification of financial assets and liabilities are dependent on the purpose for which the instruments were acquired or issued, their characteristics and the REIT's designation of such instruments. Financial assets and financial liabilities classified as fair value through profit and loss are subsequently measured at fair value with gains and losses recognized in net income. 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.

Derivative instruments are recorded at fair value. Changes in the fair values of derivative instruments are recognized in net income, except for derivatives that are designated as cash flow hedges, in which case the fair value changes for the effective portion of such hedging relationships are recognized in other comprehensive income.

From time to time, the REIT may enter into interest rate swap transactions to modify the interest rate profile of its variable rate debts without an exchange of the underlying principal amount. In such cash flow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income.

The REIT and its equity investments have entered into interest rate swaps on certain of their variable rate mortgages payable. The interest rate swaps are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. At the inception of a hedge relationship, the REIT formally designates and documents the hedge relationship to which the REIT is applying hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The following is a summary of the classification adopted by the REIT for each significant category of financial instrument.

	Classification	Measurement
Financial Assets		
Trade amounts receivable	Loans and receivables	Amortized cost
Security deposits	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Financial Liabilities		
Mortgages payable and facilities	Other liabilities	Amortized cost
Convertible debentures	Fair value through profit or loss	Fair value
Non-convertible debentures	Other liabilities	Amortized cost
Warrants	Fair value through profit or loss	Fair value
Unit options	Fair value through profit or loss	Fair value
Interest rate swaps	Cash flow hedge	Fair value
Accounts payable and other liabilities	Other liabilities	Amortized cost

The REIT 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.

Operating Segment
The REIT's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, the CEO of the REIT. The REIT's reportable operating segments are distinguishable components of the REIT that are engaged in providing related services subject to risks and rewards different from those of other reportable segments. The REIT's reportable segments are office, retail and industrial.

Distributions
The REIT makes distributions on its units in accordance with the Declaration of Trust, at the discretion of the Trustees. Distributions are recorded as a reduction of retained earnings and are presented as a liability in the period in which the distributions are declared.

Future Changes to Significant Accounting Policies

IAS 12 – Income Taxes was amended for the measurement of deferred tax assets and liabilities where investment property is measured using the fair value model. The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying amount of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments are effective for annual periods beginning on or after January 1, 2012 with earlier application permitted. The REIT does not expect any impact on its consolidated financial statements as a result of the amendment to IAS 12.

The following standards are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The REIT anticipates initially adopting the standards January 1, 2013 and is currently assessing the impact on its consolidated financial statements.

- IFRS 10 – Consolidated Financial Statements – replaces IAS 27 – Consolidated and Separate Financial Statements and SIC 12 – Consolidation – Special Purpose Entities. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.
- IFRS 11 – Joint Arrangements – supersedes IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. Joint arrangements are classified into two types – joint operations and joint ventures based on the contractual rights and obligations of the joint arrangement. A joint operator recognizes and measures the assets and liabilities, and recognizes the related revenues and expenses, in relation to its interest in the arrangement. A joint venturer recognizes an investment and accounts for that investment using the equity method.
- IFRS 12 – Disclosure of Interests in Other Entities – requires an entity to disclose information that enables users of financial statements to evaluate the judgments and assumptions made by a reporting entity when deciding how to classify its involvement with another entity; the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.
- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures. IAS 27 creates one standard that deals with separate financial statements. IAS 28 is amended to incorporate the equity method of accounting for joint ventures.
- IFRS 13 – Fair Value Measurement establishes a single source of guidance for the definition of fair value, guidance on its determination and required disclosures. There are no changes to the items that should be measured and disclosed at fair value.

IAS 1 – Presentation of Financial Statements was amended to require items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to net income. This amendment makes clearer the effects items of other comprehensive income may have on net income in the future. The amendments are effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The REIT is currently evaluating the impact of these standards on its consolidated financial statements.

IFRS 9 – replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for annual periods beginning on and after January 1, 2015 with earlier adoption permitted. The REIT is currently evaluating the impact of these standards on its consolidated financial statements.

3. Critical Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management bases its judgments, estimates and assumptions on factors it believes to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. The uncertainty of these judgments, assumptions and estimates could result in actual results that differ from the estimates, and in outcomes that require a material adjustment to the carrying amount of assets and liabilities in the future.

The following are the critical accounting judgments that have been made in applying the REIT's accounting policies.

Investment Properties
Critical judgments are made by the REIT in respect of the fair values of investment properties and the investment properties held in equity accounted investments. The fair values of investment properties are reviewed regularly by management with reference to market conditions and external valuations. Fair values are determined through external property valuations on a rotating basis. The external valuators are experienced, nationally recognized and qualified in the professional valuation of properties in the geographic areas in which those properties are located. Judgment is applied in determining the extent and frequency of these external appraisals. Internal appraisals are prepared by management for properties not subject to external appraisals during each reporting period. Judgment is also required in determining whether certain costs are additions to investment properties.

Lease Costs
The REIT makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property and this determines whether such amounts are treated as additions to the investment property.

The REIT also makes judgments with respect to whether tenant leases are operating or finance leases. The REIT has determined that all of its leases are operating leases.

Income Taxes
Under current tax legislation, a real estate investment trust is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders in the year. Whiterock is a real estate investment trust if it meets prescribed conditions under the *Income Tax Act* (Canada) relating to the nature

of its assets and revenue (the "REIT Conditions"). The REIT applies judgment in determining whether it continues to meet the REIT Conditions.

Hedge Accounting
The REIT makes judgments at the inception of a cash flow hedge relationship and on an ongoing basis to assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk.

Classification of Units
The REIT applies judgment in the classification of REIT units as equity with respect to the application of the conditions under which puttable financial instruments may be classified as equity.

Business Combinations
Accounting for business combinations under IFRS 3 – Business Combinations only applies if a business, as defined, has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or to lower costs or to obtain other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to these inputs and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. The REIT applies judgment in determining if the acquisition of an individual property qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

Classification of Co-Ownerships
The REIT makes judgments as to whether its co-ownerships provide it with joint control, significant influence or no influence. The REIT has determined that it has significant influence in all of its co-ownerships and therefore has accounted for its investment in these co-ownerships using the equity method.

The following are the critical accounting estimates and assumptions that have been made in applying the REIT's accounting policies.

Fair Value of Investment Properties
Changes in capitalization rates and net operating income assumptions may materially change the calculated fair value of investment properties.

Fair Value and Impairment of Financial Instruments
The fair value and impairment testing of financial instruments require estimates and assumptions to be made with respect to future cash flow, interest rates, credit spreads and other market factors.

Valuation of Deferred Tax Liabilities and Assets
Deferred tax liabilities and assets require the estimation of the tax rates that are expected to apply to the period when the asset is realized or the liability is settled and the evaluation of the probability of realization of a deferred tax asset.

4. Transition to IFRS

The REIT has adopted IFRS effective January 1, 2010 (the “transition date”) and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS, the REIT prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles in effect at that time (“Historical GAAP”).

The REIT has elected the following optional and mandatory exemptions from full retroactive application:

Business Combinations
The REIT has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 – Business Combinations retroactively to past business combinations. Accordingly, the REIT has not restated business combinations that took place prior to January 1, 2010.

Unit-Based Payments
The REIT has applied the exemption in IFRS 1 to not apply IFRS 2 – Share-based Payment to liabilities arising from unit-based payment transactions that were settled prior to January 1, 2010. Accordingly, the REIT has not restated for the settlement of liabilities arising from unit-based payments that took place prior to January 1, 2010.

Compound Financial Instruments
The REIT has elected to apply this exemption to convertible debentures with the related liability component no longer being outstanding at January 1, 2010. Accordingly, the REIT has not restated for convertible debenture conversions prior to January 1, 2010.

Estimates
Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Historical GAAP are consistent with their application under IFRS.

The key differences between IFRS and Historical GAAP that affect the preparation of the REIT’s consolidated financial statements under IFRS are set out below.

Balance Sheet Impact
The following is a reconciliation of the REIT’s balance sheet reported in accordance with Historical GAAP to its balance sheet in accordance with IFRS as at January 1, 2010 and December 31, 2010:

Balance Sheet reconciliation from Historical GAAP to IFRS

	January 1, 2010 Historical GAAP	Adjustments Related to Investment Properties	Adjustments Related to Equity Accounted Investments	Adjustments Related to Convertible Debentures, Unit Options and Warrants	January 1, 2010 IFRS
Assets					
Income properties	$ 369,869,589	$ 104,793,183	$ –	$ –	$ 474,662,772
Deferred charges					
Tenant inducements on acquisitions	8,271,332	(8,271,332)	–	–	–
Leasing costs	7,706,658	(7,706,658)	–	–	–
Intangible assets					–
Lease origination costs	9,113,153	(9,113,153)	–	–	–
Tenant relationships	5,834,414	(5,834,414)	–	–	–
Above market rents on acquisitions	961,071	(961,071)	–	–	–
Equity accounted investments	17,740,901	–	2,661,436	–	20,402,337
	419,497,118	72,906,555	2,661,436	–	495,065,109
Other assets					
Prepaid expenses and other assets	5,100,159	(343,755)	–	–	4,756,404
Trade amounts receivable	401,838	–	–	–	401,838
Straight-line rent receivable	4,413,789	(4,413,789)	–	–	–
	$ 429,412,904	$ 68,149,011	$ 2,661,436	$ –	$ 500,223,351
Liabilities and Unitholders' Equity					
Mortgages payable and facilities					
Mortgage liability	$ 267,276,088	$ –	$ –	$ –	$ 267,276,088
Mortgage deferred financing costs	(2,271,155)	–	–	–	(2,271,155)
Drawn on acquisition and operating facilities	1,681,210	–	–	–	1,681,210
Acquisition and operating facilities, deferred financing costs	(204,157)	–	–	–	(204,157)
Convertible debentures					
Convertible debentures liability	73,247,868	–	–	3,609,882	76,857,750
Deferred financing fees	(1,979,662)	–	–	1,979,662	–
Unit options	–	–	–	2,377,665	2,377,665
Warrants	–	–	–	34,020	34,020
Accounts payable and accrued liabilities					
Accrued mortgage, facilities, and debentures interest	1,558,009	–	–	–	1,558,009
Security deposits	976,306	–	–	–	976,306
Other accounts payable and accrued liabilities	5,446,107	–	–	–	5,446,107
Intangible liabilities					
Below market rents on acquisitions	5,742,818	(5,742,818)	–	–	–
	351,473,432	(5,742,818)	–	8,001,229	353,731,843
Unitholders' Equity					
Units	129,804,308	–	–	–	129,804,308
Unit options	973,347	–	–	(973,347)	–
Warrants	314,800	–	–	(314,800)	–
Equity component of convertible debentures	3,291,474	–	–	(3,291,474)	–
Retained earnings (Cumulative deficit)	(56,444,457)	73,891,829	2,661,436	(3,421,608)	16,687,200
	77,939,472	73,891,829	2,661,436	(8,001,229)	146,491,508
	$ 429,412,904	$ 68,149,011	$ 2,661,436	$ –	$ 500,223,351

Balance Sheet reconciliation from Historical GAAP to IFRS

	December 31, 2010	Adjustments Related to			December 31, 2010
	Historical GAAP	Investment Properties	Equity Accounted Investments	Convertible Debentures, Unit Options and Warrants	IFRS
Assets					
Income properties	$ 396,320,542	$ 161,359,458	$ –	$ –	$ 557,680,000
Deferred charges					
Tenant inducements on acquisitions	7,442,714	(7,442,714)	–	–	–
Leasing costs	8,721,434	(8,721,434)	–	–	–
Intangible assets					
Lease origination costs	8,180,449	(8,180,449)	–	–	–
Tenant relationships	5,257,094	(5,257,094)	–	–	–
Above market rents on acquisitions	687,258	(687,258)	–	–	–
Equity accounted investments	69,098,318	–	27,567,170	–	96,665,488
	495,707,809	131,070,509	27,567,170	–	654,345,488
Other assets					
Prepaid ground rent	20,783,333	–	–	–	20,783,333
Security deposits	3,400,000	–	–	–	3,400,000
Prepaid expenses and other assets	9,326,440	(1,497,790)	–	–	7,828,650
Trade amounts receivable	1,182,635	–	–	–	1,182,635
Straight-line rent receivable	5,660,972	(5,660,972)	–	–	–
	$ 536,061,189	$ 123,911,747	$ 27,567,170	$ –	$ 687,540,106
Liabilities and Unitholders' Equity					
Mortgages payable and facilities					
Mortgage liability	$ 289,680,990	$ –	$ –	$ –	$ 289,680,990
Mortgage deferred financing costs	(2,278,506)	–	–	–	(2,278,506)
Drawn on acquisition and operating facilities	14,810,871	–	–	–	14,810,871
Acquisition and operating facilities, deferred financing costs	(165,019)	–	–	–	(165,019)
Convertible debentures					
Convertible debentures liability	54,574,784	–	–	6,495,655	61,070,439
Deferred financing fees	(834,409)	–	–	834,409	–
Unit options	–	–	–	6,324,632	6,324,632
Warrants	–	–	–	760,755	760,755
Accounts payable and accrued liabilities					
Accrued mortgage, facilities, and debentures interest	1,597,781	–	–	–	1,597,781
Security deposits	1,763,129	–	–	–	1,763,129
Other accounts payable and accrued liabilities	13,106,261	–	–	–	13,106,261
Intangible liabilities					
Below market rents on acquisitions	4,003,360	(4,003,360)	–	–	–
	376,259,242	(4,003,360)	–	14,415,451	386,671,333
Unitholders' Equity					
Units	233,980,287	–	–	3,841,121	237,821,408
Unit options	819,477	–	–	(819,477)	–
Warrants	405,600	–	–	(405,600)	–
Equity component of convertible debentures	2,368,180	–	–	(2,368,180)	–
Retained earnings (Cumulative deficit)	(77,600,638)	127,915,107	27,567,170	(14,663,315)	63,218,324
Accumulated other comprehensive income	(170,959)	–	–	–	(170,959)
	159,801,947	127,915,107	27,567,170	(14,415,451)	300,868,773
	$ 536,061,189	$ 123,911,747	$ 27,567,170	$ –	$ 687,540,106

Adjustments Related to Investment Properties
Under Historical GAAP, income properties and certain intangibles held by the REIT were recorded at cost and depreciated over their estimated useful lives. The REIT has elected to use the fair value model in accordance with IFRS when preparing its financial statements. The fair value of investment property of the REIT as at January 1, 2010 exceeds the carrying value under Historical GAAP, inclusive of corresponding intangible assets and liabilities recorded under Historical GAAP. Initial direct leasing costs, lease incentives and tenant improvements, previously included in deferred charges, and straight-line rent receivable, previously included in other assets, have been reclassified to investment properties.

Under IFRS, intangible assets and liabilities recorded on acquisition, including tenant inducements, lease origination costs, tenant relationships and above or below market leases, net of accumulated amortization, are derecognized by reclassifying them to investment property.

Adjustments Related to Equity Accounted Investments
Under Historical GAAP, income properties that were held in equity accounted investments were recorded at cost and depreciated over their estimated useful lives. The REIT has elected to use the fair value model in accordance with IFRS when preparing its financial statements. The fair value of investment property at January 1, 2010 that is equity accounted for, including co-ownerships, exceeds the carrying value under Historical GAAP, inclusive of corresponding intangible assets and liabilities recorded under Historical GAAP.

Adjustments Related to Convertible Debentures, Unit Options and Warrants
Under Historical GAAP, the debt component of the REIT's convertible debentures was valued on issuance and recorded as a liability, with the remainder recorded as equity representing the value of the conversion feature. Financing costs associated with the liability component were netted against the liability and amortized to interest expense using the effective interest method. Under IFRS, the REIT's units are considered puttable financial instruments and the convertible debentures are classified as liabilities in their entirety. Further, the REIT has designated the convertible debentures as a financial liability measured at fair value to profit and loss. As a result, the equity component of the convertible debentures was reclassified to liabilities and the carrying amount of the equity component and liability component under Historical GAAP have been adjusted to the fair value of the convertible debentures. In addition, transaction costs associated with the convertible debentures are no longer netted against the liability and were recognized as an expense in the period in which they were incurred.

Under Historical GAAP, the value associated with unit options and warrants was recognized as equity. Under IFRS, the REIT's units are considered puttable financial instruments and the unit options and warrants are classified as liabilities and measured at fair value on each reporting date with the resulting gains or losses recognized in net income for the period. As a result, the values associated with unit options and warrants were reclassified to liabilities and adjusted to their fair values.

Income Statement Impact
The following is a reconciliation of the REIT's comprehensive income reported in accordance with Historical GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010:

	Year ended December 31, 2010
As reported under Historical GAAP – Comprehensive income (loss)	$ 3,892,307
Adjustments related to investment properties	
Fair value gains (losses) from investment properties	39,895,738
Eliminate amortization	
– building and improvements	8,848,203
– tenant inducements on acquisitions	1,866,347
– leasing costs	1,191,589
– lease origination costs	2,259,475
– tenant relationships	1,486,158
Eliminate amortization of above and below market leases	(1,449,799)
Eliminate gain on sale of investment property	(74,433)
Adjustments related to equity accounted investments	
Fair value gains (losses) from equity accounted investments	19,829,284
Income from equity accounted investments	5,076,450
Adjustments related to convertible debentures, unit options and warrants	
Eliminate convertible debenture deferred finance cost amortization	567,507
Eliminate convertible debenture interest rate expense in excess of coupon rate	603,622
Fair value gains (losses) from convertible debentures and warrants	(7,501,656)
Fair value gains (losses) from unit options	(4,544,670)
As reported under IFRS	$ 71,946,122

Adjustments Related to Investment Properties

Under Historical GAAP, income properties and certain intangibles held by the REIT were recorded at cost and depreciated over their estimated useful lives. Under IFRS, the REIT measures investment property at fair value and recognizes changes in fair value in net income during the period of change. Comprehensive income is adjusted to recognize the fair value gains and losses from investment properties and to eliminate the amortization of building and improvements, tenant inducements on acquisition, leasing costs, lease origination costs, tenant relationships and above and below market leases. The amortization of tenant incentives is reclassified to reduce revenue.

Adjustments Related to Equity Accounted Investments

Under Historical GAAP, income properties and certain intangibles held by the REIT's equity accounted investments were recorded at cost and depreciated over their estimated useful lives. Under IFRS, the REIT measures investment property at fair value and recognizes changes in fair value in net income during the period of change. Comprehensive income is adjusted to recognize the fair value gains and losses from investment properties held by the equity investments. Income from equity investments is adjusted to eliminate the amortization of building and improvements, tenant inducements on acquisition, leasing costs, lease origination costs, tenant relationships and above and below market leases within the equity investments.

Adjustments Related to Convertible Debentures, Unit Options and Warrants

Under Historical GAAP, interest expense on convertible debentures included implicit interest in excess of the coupon rate and the amortization of deferred finance costs related to the convertible debentures. Under IFRS, finance costs related to convertible debentures are expensed as incurred. Interest expense is recorded based on the stated interest rate and changes in the fair value of the convertible debentures are recognized in net income during the period of change. Comprehensive income is adjusted for the elimination of the amortization of deferred finance costs related to convertible debentures and convertible debenture interest in excess of the coupon rate and fair value gains and losses from convertible debentures.

Under Historical GAAP, expense for unit options and warrants was recognized when unit options and warrants were granted over the vesting periods and the value of the unit options and warrants was recognized as equity. Under IFRS, unit options and warrants are presented as liabilities and changes in the fair value of the unit options and warrants are recognized in net income during the period of change. Comprehensive income is adjusted for the fair value gains and losses from unit options and warrants.

Cash Flow Statement Impact

There are no material differences between the cash flow statements presented under IFRS and the cash flow statements presented under Historical GAAP for the year ended December 31, 2010.

5. Investment Properties

	Year ended	
	December 31, 2011	December 31, 2010
Balance, beginning of period	**$ 557,680,000**	$ 474,662,772
Acquisitions	**126,569,456**	38,290,163
Dispositions	**–**	(796,282)
Capital additions	**2,943,787**	1,010,049
Leasing additions	**2,098,774**	3,359,751
Investment properties, fair value adjustments	**12,655,284**	39,895,738
Straight-line rent	**1,222,707**	1,257,809
Foreign currency translation gain	**2,721,892**	–
	$ 705,891,900	$ 557,680,000

As at January 1, 2010, December 31, 2010 and December 31, 2011 management conducted an internal valuation of investment properties on an individual basis (including investment properties that were held as equity accounted investments), with no portfolio effect considered, to determine the fair value of investment properties. Since January 1, 2010, Whiterock has used external appraisals to support the internal valuations conducted by management. On a cumulative basis since January 1, 2010, the percentages of the total fair value of investment properties that have been externally appraised are approximately 46% at January 1, 2010, 52% at December 31, 2010, and 83% at December 31, 2011. Capitalization rates used to generate fair values for the investment properties ranged from 6.0% to 8.2% as at December 31, 2011 (December 31, 2010 – 6.3% to 8.9%; January 1, 2010 – 6.3% to 10.2%) and averaged 6.9% for the total portfolio (December 31, 2010 – 7.1%; January 1, 2010 – 7.6%).

The fair value of investment properties does not include Airway Centre 2–4 under a 30-year ground lease, which has a fair value, as determined by management, of $132 million as at December 31, 2011 (December 31, 2010 – $131 million) (Note 7).

The following table summarizes the investment properties acquired for the year ended December 31, 2011:

	Year ended	
	December 31, 2011	December 31, 2010
Investment properties	**$ 126,569,456**	$ 38,290,163
Consideration provided:		
Mortgage financings	**$ 60,255,000**	$ 19,700,000
Cash paid	**66,314,456**	18,590,163
	$ 126,569,456	$ 38,290,163

6. Equity Accounted Investments

The following table summarizes financial information about the REIT's equity accounted investments:

	2011	2010
Equity accounted investments, January 1	**$ 96,665,488**	$ 20,402,337
Investments	**73,794,023**	54,492,868
Distributions	**(8,377,876)**	(5,298,505)
Income	**15,552,988**	7,889,667
Other comprehensive income	**(213,223)**	(170,959)
Other	**(2,195,049)**	(479,204)
Fair value gains from investment properties	**16,543,151**	18,909,626
Fair value gains from derivatives	**892,646**	919,658
Equity accounted investments, December 31	**$ 192,662,148**	$ 96,665,488

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Investment properties	**$ 426,053,830**	$ 220,003,440	$ 57,358,000
Other assets	**9,771,843**	15,386,766	3,174,989
	435,825,673	235,390,206	60,532,989
Liabilities			
Mortgages payable	**(234,107,975)**	(124,886,688)	(37,279,715)
Other liabilities	**(9,055,550)**	(13,838,030)	(2,850,937)
Net equity investment	**$ 192,662,148**	$ 96,665,488	$ 20,402,337

	Year ended	
	December 31, 2011	December 31, 2010
Revenue		
Investment property revenue	**$ 45,347,521**	$ 25,007,604
Investment property operating costs	**(19,499,145)**	(10,929,085)
Net operating income	**25,848,376**	14,078,519
Other income and expenses		
Other income	**237,388**	6,586
Interest expense	**(10,370,895)**	(6,186,306)
General and administrative expenses	**(161,881)**	(9,132)
	(10,295,388)	(6,188,852)
Income before the undernoted	**15,552,988**	7,889,667
Fair value gains (losses)		
Fair value gains (losses) from investment properties	**16,543,151**	18,909,626
Fair value gains (losses) from derivatives	**892,646**	919,658
Net income	**32,988,785**	27,718,951
Other comprehensive income	**(213,223)**	(170,959)
Comprehensive income	**$ 32,775,562**	$ 27,547,992

Under the terms of each of the co-ownership agreements related to equity accounted investments, the REIT has property management control and has a right of first opportunity in the event of a future sale of the properties by the co-owner. The REIT has significant influence over the equity accounted investments.

An executive who is also a Trustee of Whiterock and/or associates of the executive have an indirect minority economic interest of less than 1% in the co-owner of the equity accounted investments, and control an investment advisory business that provides advisory services to the co-owner and receive market compensation from the co-owner for such services.

Accounts receivable and other assets as at December 31, 2011 include $290,325 (December 31, 2010 – $528,289) due from the co-ownerships after the elimination of the REIT's interest in the equity accounted investments.

Other comprehensive income from equity accounted investments includes a non-cash gain on interest rate swaps of $135,435 (December 31, 2010 – $106,038) for the year ended December 31, 2011.

The co-ownerships in which the REIT participates have mortgage debt totaling $548 million (December 31, 2010 – $296 million; January 1, 2010 – $110 million). As a condition of financing, the REIT has guaranteed, for the term of the loans, approximately $173 million (December 31, 2010 – $46 million; January 1, 2010 – $7 million) related to those mortgages.

7. Other Assets

	December 31, 2011	December 31, 2010	January 1, 2010
Prepaid ground rent	**$ 14,783,333**	$ 20,783,333	$ –
Option deposits	**7,900,000**	3,400,000	–
Prepaid expenses and other assets	**9,522,652**	7,466,759	4,593,591
Furniture and equipment	**456,104**	361,891	162,813
Trade amounts receivable	**1,747,317**	1,182,635	401,838
	$ 34,409,406	$ 33,194,618	$ 5,158,242

On June 18, 2010, the REIT entered a 30-year ground lease with one two-year extension period with respect to the lands and buildings comprising Airway Centre 2–4. During the initial term under the ground lease, $6 million of basic rent is payable annually by the REIT (subject to increases every four years to reflect any increase in the Consumer Price Index (Toronto)). The annual basic rent during the extension term, if exercised, will be at fair market rent.

The REIT is responsible for all capital improvements and expenditures at Airway Centre 2–4 during the term of the ground lease prior to January 1, 2013. Thereafter, the lessor is responsible for capital improvements and expenditures to be agreed between the lessor and the REIT based on successive 10-year plans. Pursuant to the terms of the ground lease, from and after January 1, 2013, the lessor is required to pay to the REIT an annual management and administration fee equal to 10% of the annual basic rent of $6 million.

On entering into the ground lease, the REIT paid $24 million, being the first four years' annual basic rent in advance. The REIT also paid a deposit of $400,000 and agreed to provide additional security deposits of $750,000 every 60 days up to a total of $10 million, secured by a promissory note. For the year ended December 31, 2011, $6 million of ground rent has been expensed (for the year ended December 31, 2010, $3.2 million).

The REIT has an option to purchase the fee simple interest in Airway Centre 2–4, exercisable by the REIT between January 1, 2021 and March 31, 2021, for a purchase price determined by applying a 7.5% capitalization rate on the net operating income for Airway Centre 2–4 for the trailing 12-month period, less the cost of any capital expenditures, tenant inducements, and leasing commissions to Airway Centre 2–4 incurred by the REIT from and after the date of acquisition and the amount of the deposit. In no event will the purchase price be less than $80 million or greater than $125 million.

The REIT and the lessor entered into a put agreement for Airway Centre 2–4 that was exercised by the lessor before December 31, 2011 and as a result the REIT purchased the freehold interest in Airway Centre 2–4 on January 19, 2012.

During the year ended December 31, 2011 the total addition to furniture and equipment amounted to $273,522 (December 31, 2010 – $342,484).

Trade amounts receivable are net of an allowance for doubtful accounts of $261,772 as at December 31, 2011, $451,340 as at December 31, 2010 and $401,000 as at January 1, 2010 with the difference being charged against property operating costs. An allowance is established when there is objective evidence that the REIT 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 $1,173,081 (December 31, 2010 – $289,000 and January 1, 2010 – $96,000) of uncollected trade amounts receivable were three months past due at December 31, 2011, but not considered impaired.

8. Cash

	December 31, 2011	December 31, 2010	January 1, 2010
Cash	**$ 29,738,830**	$ –	$ –
Restricted cash	**788,599**	–	–
	$ 30,527,429	$ –	$ –

In conjunction with a centralized banking arrangement in Canada, the REIT applies its Canadian cash balances against amounts outstanding under its revolving credit facilities (Note 9). The REIT uses the credit facilities, as appropriate, to support its day-to-day operations.

Restricted cash represents deposits to blocked accounts. A lender has the right and priority to transfer funds from these blocked accounts to service the Trust's debt obligations. Once these obligations are satisfied, the lender transfers any excess funds to the Trust's bank accounts.

9. Mortgages Payable and Facilities

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

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgage liability	**$ 379,254,869**	$ 289,680,990	$ 267,276,088
Interest rate swap	**337,702**	–	–
Mortgage deferred financing costs	**(5,509,771)**	(3,565,479)	(3,113,180)
Accumulated amortization	**1,898,690**	1,286,972	842,025
Mortgage liability – net of deferred financing costs	**375,981,490**	287,402,483	265,004,933
Drawn on acquisition and operating facilities	**–**	14,810,871	1,681,210
Acquisition and operating facilities deferred financing costs	**(1,214,152)**	(950,391)	(911,679)
Accumulated amortization	**1,048,886**	785,373	707,522
Acquisition and operating facilities – net of deferred financing costs	**(165,266)**	14,645,853	1,477,053
	$ 375,816,224	$ 302,048,336	$ 266,481,986

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

	December 31, 2011	December 31, 2010	January 1, 2010
Fixed rate mortgages	**$ 379,254,869**	$ 289,680,990	$ 267,276,088
Floating rate mortgages	**–**	–	–
	$ 379,254,869	$ 289,680,990	$ 267,276,088

As at December 31, 2011, fixed rate mortgages had a weighted average interest rate of 5.3% (December 31, 2010 – 5.5%; January 1, 2010 – 5.7%).

Scheduled principal repayments of mortgages payable outstanding as at December 31, 2011 are as follows:

	Scheduled Amortization	Balloon Payments	**Total**
2012	8,675,480	3,442,998	**12,118,478**
2013	9,009,080	23,593,756	**32,602,836**
2014	8,544,138	20,961,517	**29,505,655**
2015	7,121,787	85,308,516	**92,430,303**
2016	6,716,178	135,797,567	**142,513,745**
2017	2,307,136	3,251,949	**5,559,085**
Thereafter	12,381,514	52,143,254	**64,524,767**
	$ 54,755,313	$ 324,499,557	**$ 379,254,869**

Interest Rate Swap

The REIT has an interest rate swap agreement on one floating interest rate mortgage payable that hedges the variability in cash flows attributable to fluctuating interest rates. The swap is designated as a hedge and the change in value is recorded as a component of other comprehensive income. Settlement on both the fixed and variable portion of the interest rate swap occurs on a monthly basis. The $10.9 million mortgage with a maturity date of January 2014 has an effective interest rate of 4.28%. The effectiveness of the hedging relationship is reviewed on a quarterly basis.

Acquisition and Operating Facilities

The REIT has a revolving acquisition and operating facility of up to $35 million with a major Canadian chartered bank that was renewed for two years on August 24, 2011. The facility can be increased by up to an additional $20 million and is secured by mortgages on existing properties and the guarantee of the REIT. The facility can be used for acquisitions, operations and general REIT purposes. Interest is incurred at floating rates determined, at the REIT's option, by reference to the prime rate plus 187.5 basis points or Bankers' Acceptance rates plus 287.5 basis points.

The REIT has a $2.4 million demand revolving operating facility with a major Canadian chartered bank that is secured by a mortgage on an existing property and the guarantee of the REIT. The facility bears interest at a floating rate determined by reference to the prime rate plus 150 basis points.

As at December 31, 2011, no balances were outstanding under these facilities (December 31, 2010 – $14.8 million; January 1, 2010 – $1.7 million).

10. Convertible Debentures

As at December 31, 2011, the REIT had the following outstanding series of convertible debentures:

	Principal	Interest Rate	Conversion Price	Interest Payable	Maturity Date
Series F	$10,262,0000	6.0%	$13.22 per unit	quarterly	July 15, 2012
Series G	$ 3,653,000	7.0%	$8.69 per unit	semi-annually	December 31, 2014
Series H	$ 51,650,000	5.5%	$17.35 per unit	semi-annually	March 31, 2017

	Series D	Series E	Series F	Series G	Series H	**December 31, 2011 Total**	December 31, 2010 Total
Principal balance, beginning of period	$ 10,000,000	$ 25,000,000	$ 11,400,000	$ 8,996,000	$ –	**$ 55,396,000**	$ 75,096,700
Issuance of debentures	–	–	–	–	51,650,000	**51,650,000**	–
Conversion of debentures	–	(330,000)	(1,138,000)	(5,343,000)	–	**(6,811,000)**	(12,514,000)
Repayment of debentures	(10,000,000)	(24,670,000)	–	–	–	**(34,670,000)**	(7,186,700)
Principal balance, end of period	$ –	$ –	$ 10,262,000	$ 3,653,000	$ 51,650,000	**$ 65,565,000**	$ 55,396,000
Fair value adjustment	–	–	210,371	1,895,907	(309,900)	**1,796,378**	5,674,439
Balance – end of period	**$ –**	**$ –**	**$ 10,472,371**	**$ 5,548,907**	**$ 51,340,100**	**$ 67,361,378**	$ 61,070,439

The fair value for all publicly traded convertibles is determined by using the market value, specifically the last trade value coinciding with the date of the financial statements.

Series A

On June 28, 2005, the REIT issued 8% subordinated unsecured convertible debentures in the original principal amount of $13 million with interest payable semi-annually and which matured and were repaid on June 28, 2010. The debentures were 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 were redeemable at the REIT's option at the principal amount, subject to certain terms and conditions, from June 29, 2007 and until June 28, 2009, provided that the 20-day weighted average trading price of the units was at least $15.30 and, after June 28, 2009, the 20-day weighted average trading price was at least $12.75.

On June 28, 2010, the Series A convertible debentures matured and were repaid.

Series C

On December 21, 2005, the REIT issued 9% subordinated unsecured convertible debentures in the original principal amount of $3 million with interest payable quarterly and which matured and were repaid on December 21, 2010. The debentures were 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 were redeemable at the REIT's option at the principal amount, subject to certain terms and conditions, after June 21, 2008, provided that the 20-day weighted average trading price was at least $14.00.

On December 21, 2010, the Series C convertible debentures matured and were repaid.

Series D
On August 14, 2006, the REIT issued 7.5% subordinated unsecured convertible debentures in the original principal amount of $10 million with interest payable semi-annually and which mature on July 31, 2011. The debentures were 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 were redeemable at the REIT's option at the principal amount, subject to certain terms and conditions, from July 31, 2009 and until July 14, 2010, provided that the 20-day weighted average trading price of the units was at least $18.75 and, after July 14, 2010, at their principal amount.

On April 27, 2011, the REIT completed the early repayment of the Series D convertible debentures.

Series E
On December 8, 2006, the REIT issued 6.3% subordinated unsecured convertible debentures in the original principal amount of $25 million 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 REIT's option at the principal amount, subject to certain terms and conditions, from December 31, 2009 and prior to December 31, 2010, provided that the 20-day weighted average trading price of the units is at least $17.19 and, after December 31, 2010, at their principal amount.

In the year ended December 31, 2011, $330,000 of the Series E convertible debentures were converted into 23,996 units.

On December 31, 2011, the Series E convertible debentures matured and were repaid.

Series F
On July 16, 2008, the REIT issued 6.0% subordinated unsecured convertible debentures in the original principal amount of $11.4 million with interest payable quarterly and which mature on July 15, 2012. 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 $13.22.

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

In the year ended December 31, 2011, $1,138,000 of the Series F convertible debentures were converted into 86,080 units.

Subsequent to December 31, 2011, $3,637,000 of the Series F convertible debentures were converted into 275,107 units.

Series G
On October 1, 2009, the REIT issued 7.0% subordinated unsecured convertible debentures in the original principal amount of $20 million with interest payable semi-annually and which mature on December 31, 2014. On October 28, 2009, the REIT issued an additional $3 million of these debentures as a result of the underwriters exercising their over-allotment option. The debentures are convertible at the request of the holder, subject to certain terms and conditions, at a conversion price of $8.68667.

The debentures are redeemable at the REIT's option at the principal amount, subject to certain terms and conditions, from December 31, 2012 and prior to December 31, 2013, provided that the 20-day weighted average trading price of the units is at least $10.86 and, after December 31, 2013, at their principal amount.

In the year ended December 31, 2011, $5,343,000 of Series G convertible debentures were converted into 615,056 units.

Subsequent to December 31, 2011, $1,541,000 of the Series G convertible debentures were converted into 177,392 units.

Series H
On December 9, 2011, the REIT issued 5.5% subordinated unsecured convertible debentures in the original principal amount of $45 million with interest payable semi-annually and which mature on March 31, 2017. On December 19, 2011, the REIT issued an additional $6.65 million of these debentures as a result of the underwriters exercising their over-allotment option. The debentures are convertible at the request of the holder, subject to certain terms and conditions, at a conversion price of $17.35.

The debentures are redeemable at the REIT's option at the principal amount, subject to certain terms and conditions, from March 31, 2015 and prior to March 31, 2016, provided that the 20-day weighted average trading price of the units is at least $21.69 and, on and after March 31, 2016, at their principal amount.

Subsequent to December 31, 2011, $460,000 of the Series H convertible debentures were converted into 26,512 units.

11. Non-Convertible Debentures

As at December 31, 2011, the REIT had the following outstanding series of non-convertible debentures:

	December 31, 2011	December 31, 2010	January 1, 2010
Principal balance	**$ 45,000,000**	$ –	$ –
Deferred financing fees	**(1,017,373)**	–	–
Deferred financing fees – accumulated amortization	**103,769**	–	–
	$ 44,086,396	$ –	$ –

Series K
On April 26, 2011, the REIT issued a first tranche of 5.95% senior unsecured non-convertible debentures in the original principal amount of $25 million. On May 31, 2011, the REIT issued a second tranche of these debentures in the original principal amount of $10 million. The debentures are redeemable at the REIT's option, subject to certain terms and conditions. Interest is payable monthly and the debentures mature on April 26, 2016.

Series L
On August 8, 2011, the REIT issued 5.95% senior unsecured non-convertible debentures in the original principal amount of $10 million. The debentures are redeemable at the REIT's option, subject to certain terms and conditions. Interest is payable monthly and the debentures mature on September 30, 2016.

12. Accounts Payable and Other Liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Accrued mortgage, facilities, and debentures interest	**$ 1,537,705**	$ 1,597,781	$ 1,558,009
Security deposits	**2,242,964**	1,763,129	976,306
Distributions payable	**2,873,001**	–	–
Other accounts payable and other liabilities	**8,299,036**	13,106,261	5,446,107
Equity performance units	**185,329**	–	–
	$ 15,138,035	$ 16,467,171	$ 7,980,422

During the year ended December 31 2011, the REIT implemented a deferred compensation plan for the Chief Executive Officer ("CEO"). The plan is structured whereby one third of the CEO's bonus compensation will be awarded in the form of equity performance units that will be settled in the amount of one third of the award on each of the first, second, and third anniversary of the award date. The value of the equity performance units will be based on the unit price and settlement will be in cash. For the year ended ended December 31, 2011, $185,329 of equity performance units were awarded.

13. Unit Options

The REIT may grant unit options to the Trustees, senior officers, employees, and consultants to the REIT. 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 three years, except for unit options granted to Trustees, which vest immediately.

	2011		2010	
	Unit Options	Weighted Average Exercise Price	Unit Options	Weighted Average Exercise Price
Outstanding, January 1	**1,978,473**	**$ 9.37**	1,398,928	$ 8.89
Granted	**1,127,500**	**13.17**	1,112,940	9.75
Exercised	**(467,886)**	**9.94**	(420,896)	8.62
Cancelled	**(46,250)**	**9.75**	(112,500)	9.85
Outstanding, December 31	**2,591,837**	**$ 10.92**	1,978,473	$ 9.37
Options vested, end of period	**2,107,655**	**$ 10.51**	1,190,973	$ 9.14
Weighted average remaining life (years)	**3.6**		3.5	

Exercise Price	Number Outstanding	Remaining Outstanding Contractual Life (years)	Vested Exercise Price	Number Vested
$ 10.88	50,000	0.7	$ 10.88	50,000
$ 10.04	12,500	1.2	$ 10.04	12,500
$ 9.74	30,000	1.2	$ 9.74	30,000
$ 9.80	85,000	1.5	$ 9.80	85,000
$ 10.21	70,000	1.5	$ 10.21	70,000
$ 6.09	20,000	1.9	$ 6.09	20,000
$ 6.71	275,147	2.6	$ 6.71	275,147
$ 9.947	72,000	3.1	$ 9.95	72,000
$ 9.867	328,000	3.2	$ 9.87	280,344
$ 9.62	521,690	3.6	$ 9.62	415,478
$ 13.77	525,000	4.3	$ 13.77	333,219
$ 13.79	50,000	4.3	$ 13.79	20,594
$ 13.30	50,000	4.5	$ 13.30	16,240
$ 12.46	492,500	4.7	$ 12.46	426,698
$ 12.86	10,000	4.9	$ 12.86	435
$ 10.92	**2,591,837**	**3.6**	**$ 10.61**	**2,107,655**

The fair value associated with the unit options outstanding as at December 31, 2011 was calculated using the binomial model for option valuation, assuming a 90-day volatility of 25.99% (December 31, 2010 – 15.9%, January 1, 2010 – 30%) on the underlying units, an annual distribution of $1.12, and the risk-free rate (equivalent Government of Canada bond yield) that corresponds to the option life.

On June 18, 2010, the REIT modified its Unit Option Plan to add a market growth feature. Under the plan, participants may elect to receive units at market value equal to the number of options exercised multiplied by the amount by which the market price exceeds the option exercise price. Pursuant to this feature, during the year ended December 31, 2011, the REIT issued 152,924 units from the exercise of 467,886 options having a weighted average exercise price of $8.18 per unit.

14. Warrants

	2011		2010	
	Warrants	**Weighted Average Exercise Price**	Warrants	Weighted Average Exercise Price
Outstanding, January 1	**556,000**	**$ 12.39**	215,500	$ 13.94
Issued	**–**	**–**	562,500	11.41
Expired	**(215,500)**	**13.94**	–	–
Exercised	**(340,500)**	**11.41**	(222,000)	11.41
Warrants exercisable, December 31	**–**	**–**	556,000	$ 12.39
Weighted average remaining life (years)	**–**		0.9	

The fair value associated with the unit warrants issued during the year ended December 31, 2010 was calculated using the binomial model for option valuation, assuming a weighted average volatility of 13.89% on the underlying units, an annual distribution of $1.12, and the five-year weighted average risk-free interest rate (the five-year Government of Canada bond rate at the date of grant).

15. Units

The REIT is authorized to issue an unlimited number of voting units, each of which represents an equal undivided beneficial interest in the REIT. All units outstanding from time to time shall participate pro rata in any distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. Units shall rank among themselves equally and ratably without discrimination, preference or priority. Unitholders are entitled to require the REIT to redeem all or any part of their REIT Units at prices determined and payable in accordance with the conditions provided for in the Declaration of Trust. A maximum amount of $20,000 may be redeemed in total in any one month unless otherwise waived by the Board of Trustees.

The REIT is authorized to issue an unlimited number of special trust units that will be used to provide voting rights to holders of securities exchangeable into REIT Units. The special trust units shall not be entitled to any amount in respect of distributions or on a liquidation, dissolution or winding-up of the REIT. There are no outstanding special trust units.

On January 27, 2011, the REIT subdivided its issued and outstanding units on the basis of three (3) post-subdivision units for each two (2) pre-subdivision units held. All references to units, unit options and warrants in these financial statements, including per unit value, have been adjusted to reflect the subdivision of units.

		2011		2010	
	Note	**Units**	**$**	Units	$
Issued and outstanding, January 1		**26,159,122**	**$ 237,821,408**	14,699,938	$ 129,804,308
Units issued					
Public offering		**8,247,700**	**108,887,112**	9,393,000	90,962,125
Conversion of convertible debentures					
Series C		**–**	**–**	151,908	1,886,600
Series E		**23,996**	**331,726**	–	–
Series F		**86,080**	**1,187,936**	–	–
Series G		**615,056**	**8,368,487**	1,230,675	13,281,320
Distribution reinvestment plan		**301,173**	**3,719,187**	292,168	3,011,097
Exercise of options	13	**152,924**	**191,442**	169,433	966,395
Exercise of warrants	14	**340,500**	**3,883,970**	222,000	2,532,280
Value associated with unit options exercised		**–**	**1,977,668**	–	917,215
Value associated with warrants exercised		**–**	**727,816**	–	351,258
Unit issue costs		**–**	**(5,869,750)**	–	(5,891,190)
Issued and outstanding December 31		**35,926,551**	**$ 361,227,002**	26,159,122	$ 237,821,408

Distribution Reinvestment Plan

In April 2006, the REIT established a Distribution Reinvestment Plan ("DRIP") which allows unitholders, subject to certain terms and conditions, to elect to have cash distributions from the REIT 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.

16. Investment Property Revenue

	Year ended December 31	
	2011	2010
Revenue from investment properties		
Base rent	**$ 52,099,675**	$ 41,205,049
Recoveries from tenants	**35,428,535**	28,597,047
Accrued rental revenue recognized on a straight-line basis	**1,237,148**	1,257,809
	$ 88,765,358	$ 71,059,905

17. Fee Income

	Year ended December 31	
	2011	2010
Lease administration and capital project management fees	**$ 689,248**	$ 9,024
Property management fees	**1,834,679**	1,222,289
	$ 2,523,927	$ 1,231,313

18. Interest Expense

	Year ended December 31	
	2011	2010
Mortgage interest expense	**$ 18,598,393**	$ 15,924,805
Facilities and other interest expense	**739,931**	793,028
Convertible debentures interest expense	**3,006,047**	4,507,757
Non-convertible debentures interest expense	**1,711,084**	–
Interest expense	**24,055,455**	21,225,590
Deferred finance cost amortization		
Mortgages payable	**(611,749)**	(447,048)
Acquisition and operating facilities	**(263,513)**	(455,831)
Non-convertible debentures	**(103,769)**	–
Change in accrued interest	**60,076**	(39,772)
Cash interest paid	**$ 23,136,500**	$ 20,282,939

19. General and Administrative Expenses

	Year ended December 31	
	2011	2010
Salaries and wages	**$ 1,595,101**	$ 1,223,279
Legal, audit, regulatory, and other	**1,229,871**	733,123
Amortization expense, furniture, and equipment	**179,309**	143,407
	3,004,281	2,099,809
Non-cash compensation – trustees, officers, and employees	**966,387**	257,512
	$ 3,970,668	$ 2,357,321

20. Income Taxes

As described below, management believes that in 2011, as currently structured, Whiterock met the REIT Conditions and was not subject to the SIFT tax.

Whiterock is a mutual fund trust and a real estate investment trust pursuant to the *Income Tax Act* (Canada). Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income tax provided that its taxable income is fully distributed to unitholders. Whiterock intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure that Whiterock will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in the consolidated financial statements.

The *Income Tax Act* (Canada) contains legislation (the “SIFT Rules”) affecting the tax treatment of “specified investment flow-through” trusts (“SIFT”s). SIFTs include a publicly-traded trust. The SIFT Rules provide for a transition period until 2011 for publicly-traded trusts like Whiterock which existed prior to November 1, 2006. Under the SIFT Rules, distributions of certain income by a SIFT are not deductible in computing the SIFT’s taxable income, and a SIFT is subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, the SIFT Rules do not apply to a publicly-traded trust that qualifies as a real estate investment trust under the *Income Tax Act*. Whiterock completed the necessary tax restructuring to qualify as a real estate investment trust effective December 31, 2009.

The Trust is subject to taxation in the United States on the taxable income earned by its investment property in the United States. A deferred tax liability arises, calculated using the United States tax rate of 38.5%, from the temporary differences of approximately $0.9 million between the carrying value and the net assets of the investment property and losses available for carry forward in the United States.

21. Segmented Financial Information

For the years ended December 31, 2011 and 2010, Whiterock and its subsidiaries operated in the office, retail, and industrial segments of the real estate industry in Canada and the United States.

Investment property revenue, operating costs, and net operating income by segment for the year ended December 31, 2011 and 2010 are summarized as follows:

	Year ended December 31, 2011			
	Office	**Retail**	**Industrial**	**Total**
Investment property revenue	**$ 72,045,355**	**$ 8,095,313**	**$ 8,624,690**	**$ 88,765,358**
Investment property operating costs	**(35,309,324)**	**(2,700,948)**	**(2,284,725)**	**(40,294,997)**
Net operating income	**$ 36,736,031**	**$ 5,394,365**	**$ 6,339,965**	**$ 48,470,361**
Net operating income from equity accounted investments	**22,867,964**	**992,725**	**1,987,687**	**25,848,376**
	$ 59,603,995	**$ 6,387,090**	**$ 8,327,652**	**$ 74,318,737**

	Year ended December 31, 2010			
	Office	Retail	Industrial	Total
Investment property revenue	$ 56,096,073	$ 7,864,304	$ 7,099,528	$ 71,059,905
Investment property operating costs	(26,452,646)	(2,528,191)	(2,505,513)	(31,486,350)
Net operating income	$ 29,643,427	$ 5,336,113	$ 4,594,015	$ 39,573,555
Net operating income from equity accounted investments	13,343,281	–	735,238	14,078,519
	$ 42,986,708	$ 5,336,113	$ 5,329,253	$ 53,652,074

	Year ended December 31, 2011		
	Canada	**U.S.**	**Total**
Investment property revenue	**$ 85,464,940**	**$ 3,300,418**	**$ 88,765,358**
Investment property operating costs	**(39,651,351)**	**(643,646)**	**(40,294,997)**
Net operating income	**$ 45,813,589**	**$ 2,656,772**	**$ 48,470,361**
Net operating income from equity accounted investments	**25,848,376**	–	**25,848,376**
	$ 71,661,965	**$ 2,656,772**	**$ 74,318,737**

	Year ended December 31, 2010		
	Canada	**U.S.**	**Total**
Investment property revenue	$ 71,059,905	$ –	$ 71,059,905
Investment property operating costs	(31,486,350)	–	(31,486,350)
Net operating income	$ 39,573,555	$ –	$ 39,573,555
Net operating income from equity accounted investments	14,078,519	–	14,078,519
	$ 53,652,074	$ –	$ 53,652,074

For the year ended December 31, 2011, one tenant accounted for more than 10% of the REIT's total revenue; SIQ (a Province of Quebec government agency) comprised approximately 11% (December 31, 2010 – 12%) of the REIT's total revenue.

22. Capital Management

The REIT defines capital that it manages as the aggregate of Unitholders' equity and interest-bearing debt. The REIT'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 REIT 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 REIT is summarized as below:

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgages payable and facilities	**$ 375,816,224**	$ 302,048,336	$ 266,481,986
Convertible debentures	**67,361,378**	61,070,439	76,857,750
Non-convertible debentures	**44,086,396**	–	–
	$ 487,263,998	$ 363,118,775	$ 343,339,736
Unitholders' equity	**454,238,389**	300,868,773	146,491,508
	$ 941,502,387	$ 663,987,548	$ 489,831,244

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

The Declaration of Trust provides that total indebtedness may not exceed 75% of gross book value ("GBV") of assets (all as defined in the Declaration of Trust). A special resolution was passed at Whiterock's annual and special meeting of Unitholders, held on May 29, 2006, that this limitation on total indebtedness (which term shall be amended to include the REIT's outstanding convertible debentures) be reduced to 65% of GBV. The reduction shall take effect at such time as the total assets of the REIT, as reflected in its audited annual consolidated financial statements for its most recently completed fiscal year, exceed $750 million.

The REIT's total assets, as reflected in the audited consolidated financial statements for the year ended December 31, 2011, exceeded $750 million. Accordingly, the Declaration of Trust provides that total indebtedness may not exceed 65% of GBV, where total indebtedness includes the REIT's outstanding convertible debentures. Whiterock is in compliance with this ratio. As at December 31, 2011, according to the amended calculation as defined in the Declaration of Trust, this ratio was 51.1% (December 31, 2010 – 51.0%).

The REIT is required to maintain certain financial ratios for the purposes of the mortgages payable and facilities (Note 9). As at December 31, 2011, the REIT was in compliance with these requirements.

Monitoring procedures are typically performed as part of the overall management of Whiterock's operations. The REIT's strategy during the period, 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 REIT cannot predict.

23. Financial Instruments and Risk Management

Fair Values

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

The fair values of the REIT's other financial assets and financial liabilities, except as noted, approximate their carrying value due to their short-term nature. The fair value of the REIT's mortgages payable and non-convertible debentures as of December 31, 2011 is $379.3 million and $45.0 million (December 31, 2010 – $293.0 million and nil; January 1, 2010 – $267.0 million and nil). The fair values of the REIT's mortgages payable and non-convertible debentures have been estimated based on current market rates for mortgages and debentures with similar terms and conditions.

The REIT uses a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived. The REIT's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) for the following financial instruments recorded at fair value as at December 31, 2011, December 31, 2010, and January 1, 2010 were as follows:

December 31, 2011	Convertible debentures	Warrants	Unit options	Interest rate swap
Level 1 – valued using quoted market prices	$ 67,361,378	$ –	$ –	$ –
Level 2 – valued using internal models (with observable market inputs)	–	–	6,488,461	337,702
	$ 67,361,378	**$ –**	**$ 6,488,461**	**$ 337,702**

December 31, 2010	Convertible debentures	Warrants	Unit options	Interest rate swap
Level 1 – valued using quoted market prices	$ 61,070,439	$ –	$ –	$ –
Level 2 – valued using internal models (with observable market inputs)	–	760,755	6,324,632	–
	$ 61,070,439	**$760,755**	**$ 6,324,632**	**$ –**

January 1, 2010	Convertible debentures	Warrants	Unit options	Interest rate swap
Level 1 – valued using quoted market prices	$ 76,857,750	$ –	$ –	$ –
Level 2 – valued using internal models (with observable market inputs)	–	34,020	2,377,665	–
	$ 76,857,750	**$34,020**	**$ 2,377,665**	**$ –**

Risk Management

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

Management's risk management policies are typically performed as part of the overall management of the REIT'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 REIT 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. As part of the overall operation of the REIT, 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 REIT 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 22, the REIT's Declaration of Trust provides that total indebtedness, which excludes convertible debentures and short-term credit facilities, may not exceed 65% of gross book value of the REIT's total assets. As at December 31, 2011, the REIT had up to $55 million of credit facilities available for acquisitions, operations and general REIT purposes taking into account the REIT's ability to call on the $20 million expansion feature of its acquisition and operating facility. The REIT also endeavours to stagger its debt maturities.

The REIT's principal liquidity needs arise from working capital, debt servicing and repayment obligations, planned funding of maintenance, leasing costs, distributions to Unitholders, and possible property acquisition funding requirements.

Distributions to Unitholders and maintenance leasing costs are primarily funded from cash flows from operating the property portfolio. Other liquidity needs are funded from refinancing the REIT's maturing debt, financing unencumbered properties, draws on credit facilities and raising new equity by issuing units.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT. Management's strategy mitigates the REIT's exposure to excessive amounts of debt maturing in any one year. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of debt refinancings. The success of new capital issuances is subject to the capital markets being receptive to an equity issue with financial terms favorable to the REIT.

The estimated maturities of the REIT's financial liabilities, excluding options and warrants, are outlined below:

(Thousands of dollars)	2012	2013	2014	2015	2016	Thereafter	Total
Mortgages – scheduled amortization	$ 8,675	$ 9,009	$ 8,544	$ 7,122	$ 6,716	$ 14,689	$ 54,755
Mortgages – balloon payments	3,443	23,594	20,962	85,309	135,798	55,394	324,500
Convertible debentures	10,262	–	3,653	–	–	51,650	65,565
Non-convertible debentures	–	–	–	–	45,000	–	45,000
Accounts payable and other liabilities	15,014	62	62	–	–	–	15,138
	$ 37,394	$ 32,665	$ 33,221	$ 92,431	$ 187,514	$ 121,733	$ 504,958

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 REIT's outstanding mortgages, convertible debentures, and non-convertible debentures are fixed rate. Of the REIT's $379 million of mortgage debt, $3.4 million is scheduled to mature in 2012. One of the REIT's series of convertible debentures, in the amount of $10.3 million, is scheduled to mature in 2012 and management expects to refinance it in the normal course.

There is interest rate risk associated with the acquisition and operating facilities as the interest is impacted by changes in the prime rate. The REIT has no floating rate mortgage debt as at December 31, 2011, except for the acquisition and operating facilities. If the interest rate would have been 100 basis points higher, the REIT's net income and other comprehensive income would be $3,764 lower and $574,018 higher, respectively (December 31, 2010 – $108,584 and $484,395). If interest rates would have been 100 basis points lower, the REIT's net income and other comprehensive income would be $1,175 lower and $591,259 lower, respectively (December 31, 2010 – $59,874 and $411,441). This sensitivity analysis does not take into consideration that the REIT's assets and liabilities are actively managed. Additionally, the financial position of the REIT may vary at the time that any actual market movement occurs or be mitigated by management actions to reduce exposure to risks. Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the REIT's view of possible near term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

From time to time, the REIT may enter into interest rate swap contracts to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount.

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 be investigated and that the tenant mix be comprised of tenants with creditworthy covenants, by staggered lease maturities and by an appropriate geographic mix of tenants.

Currency Risk
Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The REIT owns two investment properties located in the United States and are subject to foreign currency fluctuations that may impact its financial position and results. The REIT may periodically enter into derivative contracts to manage part of the foreign exchange risk exposures denominated in United States dollars.

For the year ended December 31, 2011, a $0.10 strengthening in the U.S. dollar against the average Canadian dollar exchange rate of $1.0232, and the period end exchange rate of $1.0197 at December 31, 2011 would have increased the unrealized foreign currency translation gain included in other comprehensive income by approximately $2.9 million. Conversely, a $0.10 weakening in the U.S. dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant. The sensitivity analysis does not take into consideration that the REIT's assets and liabilities are actively managed. Additionally, the financial position of the REIT may vary at the time that any actual market movement occurs or be mitigated by management actions to reduce exposure risks. Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the REIT's view of possible near-term market changes that cannot be predicted with any certainty.

24. Fair Market Value Gains (Losses)

For the years ended December 31, 2011 and 2010, fair value gains (losses) are summarized as follows:

	Year ended December 31	
	2011	2010
Fair value gains from investment properties	**$ 12,655,284**	$ 39,895,738
Fair value gains from equity accounted investments	**17,435,797**	19,829,284
Fair value gains (losses) from convertible debentures and warrants	**833,852**	(7,501,656)
Fair value losses from unit options	**(1,181,970)**	(4,544,670)
	$ 29,742,963	$ 47,678,696

25. Change in Non-Cash Operating Items

For the years ended December 31, 2011 and 2010, non-cash operating items are summarized as follows:

	Year ended December 31	
	2011	2010
Change in prepaid ground rent	**$ 6,000,000**	$ 3,216,667
Change in prepaid expenses and other assets	**(1,450,933)**	(4,105,905)
Change in trade amounts receivable	**(564,682)**	(780,797)
Change in security deposits	**479,835**	786,822
Change in equity accounted investments working capital accounts	**2,195,049**	479,204
Change in accounts payable and other liabilities	**(4,978,869)**	7,660,154
	$ 1,680,400	$ 7,256,145

26. Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly. The REIT's key management personnel include the Chief Executive Officer, the Chief Financial Officer, and the Senior Vice President of Operations. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31	
	2011	2010
Short-term employee benefits	**$ 752,610**	$ 480,526
Transaction fees capitalized	**5,300,003**	4,425,994
Unit-based payments	**731,807**	117,488
	$ 6,784,420	$ 5,024,008

27. Base Rent

Future minimum base rent payments to the REIT by tenants are as follows:

	Operating leases
2012	$ 54,042,012
2013	51,224,952
2014	46,915,010
2015	41,056,684
2016	31,552,203
Thereafter	117,996,179
	$ 342,787,040

28. Subsequent Events

Transaction with Dundee Real Estate Investment Trust
On January 17, 2012, Whiterock and Dundee Real Estate Investment Trust ("Dundee") jointly announced that they entered into a definitive transaction agreement (the "Transaction") for the acquisition by Dundee of all of the issued and outstanding units of Whiterock for a combination of cash and Dundee units. The Transaction was approved by 98.8% of Whiterock unitholders voting at a special meeting of Whiterock unitholders on February 27, 2012. The details of the Transaction were described in the Dundee take-over bid circular, the Whiterock trustee's circular, and the Whiterock information circular, all dated January 26, 2012. The Transaction was completed on March 2, 2012. Whiterock was delisted from the Toronto Stock Exchange on March 6, 2012.

Acquisitions
On January 11, 2012, Whiterock completed the purchase of 9 newly built, multi-tenant flex office properties in Edmonton, Alberta for approximately $108 million (before closing costs). The properties were purchased in co-ownership with ROI Capital Ltd., with Whiterock owning 40% and providing exclusive property management services.

On January 19, 2012, Whiterock acquired a 100% freehold interest in Airway Centre 2–4 in Mississauga, Ontario, a property in which Whiterock had a 100% leasehold interest as at December 31, 2011, for a purchase price of approximately $110 million (before closing costs).