

Consolidated Financial Statements of

**RETROCOM MID-MARKET REAL
ESTATE INVESTMENT TRUST**

Years ended December 31, 2007 and 2006



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AUDITORS' REPORT

To the Unitholders of Retrocom Mid-Market Real Estate Investment Trust

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

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

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

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 27, 2008, except
as to note 20(b) which is
as of March 31, 2008

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of dollars)

December 31, 2007 and 2006

	2007	2006
Assets		
Income-producing properties (note 4)	\$ 244,140	\$ 236,602
Deferred costs (note 5)	17,537	15,399
Intangible assets (note 6)	27,906	36,549
Amounts receivable (note 7)	7,573	9,010
Investments (note 23)	2,333	-
Other assets (note 8)	2,338	1,343
Cash	9,185	2,583
Discontinued operations (note 21)	3,919	74,130
	\$ 314,931	\$ 375,616

Liabilities and Unitholders' Equity

Liabilities:		
Mortgages payable (note 9)	\$ 161,968	\$ 148,549
Secured operating line (note 10)	-	29,679
Convertible debentures (note 20)	18,994	19,428
Convertible debentures issued to vendor (note 20)	29,956	29,877
Intangible liabilities (note 11)	976	1,287
Accounts payable and other liabilities (note 12)	8,505	10,792
Distributions payable	2,777	895
Discontinued operations (note 21)	629	49,566
	223,805	290,073
Unitholders' equity	91,126	85,543
Commitments and contingencies (notes 13, 18, 19 and 20)		
Pending financing (note 20)		
	\$ 314,931	\$ 375,616

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Stephen Bellringer" _____ Trustee

"Christopher J. Cann" _____ Trustee

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

	2007	2006
Rental revenue:		
Minimum rent	\$ 34,296	\$ 32,686
Recoveries from tenants and other	20,305	20,064
	54,601	52,750
Expenses:		
Operating	27,110	25,333
Interest:		
Long-term debt	9,023	8,656
Other	4,622	4,500
Depreciation	4,899	4,702
Amortization	13,774	14,262
Trust (note 17(a) and (b))	3,557	6,047
	62,985	63,500
Loss from operations	(8,384)	(10,750)
Other income and interest	425	407
Loss before discontinued operations	(7,959)	(10,343)
Gain (loss) from discontinued operations (note 21)	24,694	(4,513)
Net income (loss)	\$ 16,735	\$ (14,856)
Basic and diluted income (loss) per unit (note 13(c)):		
Before discontinued operations	\$ (0.43)	\$ (0.56)
After discontinued operations	0.90	(0.80)
Weighted average number of units outstanding (note 13(c))	18,517,927	18,476,048

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
(In thousands of dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Trust Units		
Balance, beginning of year	\$ 157,058	\$ 156,567
DRIP units issued	–	491
Balance, end of year	\$ 157,058	\$ 157,058
Value associated with LTIP units		
LTIP units under subscription	\$ 7,021	\$ 7,021
LTIP instalment loan receivable, beginning of year	\$ (5,845)	\$ (6,251)
Interest on instalment loan receivable	(227)	(240)
Distributions applied against instalment loan receivable	484	646
LTIP instalment loan receivable, end of year	\$ (5,588)	\$ (5,845)
Deficit		
Balance, beginning of year	\$ (31,965)	\$ (17,109)
Impact of change in accounting for financial instruments (note 3)	(41)	–
Net income (loss)	16,735	(14,856)
Balance, end of year	\$ (15,271)	\$ (31,965)
Cumulative distributions to unitholders		
Balance, beginning of year	\$ (40,726)	\$ (25,502)
Distributions to unitholders, net of interest on instalment loan	(11,368)	(15,224)
Balance, end of year	\$ (52,094)	\$ (40,726)
Total unitholders' equity	\$ 91,126	\$ 85,543

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 16,735	\$ (14,856)
Items not affecting cash:		
Loss (gain) on disposal of income-producing properties	(23,424)	3,785
Depreciation and amortization	18,673	18,964
Straight-line rent	(474)	(479)
Amortization of above- and below-market rents, net	(229)	(367)
Amortization of mortgage premium	(476)	(661)
Accretion expense	152	141
Amortization of recoverable improvements	636	529
Additions to deferred leasing costs	(3,760)	(3,839)
Additions to recoverable improvements	(2,484)	(1,494)
Change in other non-cash operating items	(1,006)	99
Discontinued operations	(1,510)	3,523
	2,833	5,345
Financing activities:		
Secured debt financing	18,850	-
Discharge of mortgage	(7,744)	(9,315)
Secured debt repayment	(5,285)	(5,382)
Operating line draw (repayment), net	(29,680)	24,584
Additions to deferred financing costs	(300)	(441)
Distributions to unitholders	(9,228)	(14,651)
Discontinued operations - deferred financing costs	-	(12)
Discontinued operations - secured debt repayments	(922)	(3,141)
Discontinued operations - discharge of mortgages	(25,853)	(3,335)
	(60,162)	(11,693)
Investing activities:		
Acquisition of 50% interest in income-producing properties	(5,976)	-
Proceeds of sale of discontinued operations	71,299	7,791
Additions to income-producing properties	(1,392)	(56)
Discontinued operations	-	(109)
	63,931	7,626
Increase in cash	6,602	1,278
Cash, beginning of year	2,583	1,305
Cash, end of year	\$ 9,185	\$ 2,583
Supplemental cash flow information:		
Interest paid	\$ 14,586	\$ 17,320
Mortgages assumed on acquisition of 50% interest in income-producing properties	8,060	-
Mortgages assumed by purchaser on the disposition of income-producing properties	19,757	-
Mortgage assumed on the acquisition of Maple Park	-	2,235
Mortgage assumed by purchaser on sale of 501 Lakeshore	-	7,709

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

1. Basis of presentation:

Retrocom Mid-Market Real Estate Investment Trust (the "Trust") is an unincorporated open-ended real estate investment trust and was created pursuant to the Declaration of Trust dated December 15, 2003, when 10 trust units were issued for \$100 cash. The Trust commenced operations on March 22, 2004. The Trust issued trust units for cash pursuant to an initial public offering (the "IPO") and utilized the proceeds as partial consideration for income-producing properties acquired. The unitholders have the right to require the Trust to redeem their units on demand (note 13).

The Trust owns 100% of the outstanding units and the Series 1 trust notes of Retrocom Mid-Market Subsidiary Trust (the "Subtrust"), an unincorporated open-ended trust established under the laws of the Province of Ontario, which in turn owns 100% of the outstanding limited partnership units of Retrocom Limited Partnership ("Retrocom LP"), a limited partnership created under the laws of the Province of Ontario.

The assets of the Trust are held by Retrocom LP, which carries out the business of the Trust. The activities of Retrocom LP are financed through equity by the Subtrust and third party lenders, including mortgages.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

2. Significant accounting policies:

(a) Income-producing properties:

Income-producing properties include land, buildings and building improvements. The income-producing properties are carried at cost less accumulated depreciation.

An impairment loss is required to be recognized when the carrying amount of any individual income-producing property exceeds the sum of the undiscounted cash flows expected from its use and disposal. If required, an impairment loss is measured as the amount by which the carrying amount of an income-producing property exceeds its estimated fair value.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(b) Accounting for acquisitions of income-producing properties:

The purchase price is allocated to land, buildings, recoverable improvements, tenant improvements and intangible assets, such as the value of the above- and below-market leases, the in-place leases and tenant relationships, if any.

In-place lease costs are determined based on the estimates of the costs that would be incurred to put the existing lease in place under the same terms and conditions. These costs include the lease commission, tenant inducements and other fees incurred to initiate leases, such as legal and tenant co-ordination costs. Also, the value of in-place leases includes the present value of the foregone rental income to lease the buildings to the occupancy level on acquisition.

The value ascribed to above- and below-market in-place leases is determined based on the present value of the difference between the rents payable under the respective lease and the estimated market rents for each in-place lease.

Purchased intangible assets and liabilities subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any impairment loss recognized is recorded to the related amortization expense.

The Trust depreciates or amortizes the purchase price allocation amounts on a straight-line basis over the following terms:

Buildings	Over estimated useful life, generally 40 years
Building improvements and recoverable improvements	Over remaining useful life
Tenant improvements	Over remaining average term of leases
Acquired in-place leases	Over remaining average term of leases
Above- and below-market in-place leases to remaining term	Over remaining term of individual lease

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(c) Revenue recognition:

Revenue from income-producing properties includes rents earned from tenants under lease agreements, percentage rent, realty tax and operating cost recoveries and other incidental income.

Certain leases call for rental payments that vary significantly over their term due to changes in rates or rent inducements granted to tenants. The rental revenue from these leases is recorded on a straight-line basis, resulting in accruals for rent that are not billable or due until future years. These straight-line rent amounts are recorded as accrued rent receivable. Percentage rents are recognized only when actual sales reach the annual sales threshold as set out in the tenant's lease.

(d) Deferred costs:

Amounts expended to meet the Trust's lease obligation are characterized as either tenant improvements owned by the landlord, or lease inducements. When the obligation is determined to be tenant improvements owned by the Trust, then the Trust is considered to have acquired an asset. Accordingly, the tenant improvements are capitalized and amortized over the lease term. If the Trust determines that for accounting purposes it is not the owner of the tenant improvements, then any obligations funded under the lease are treated as lease inducements, and are deferred and amortized over the lease as a reduction of revenue.

Leasing costs are amortized on a straight-line basis over the terms of the leases or mortgages to which they relate.

Deferred financing costs are measured using the effective interest method (note 3).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(f) Income taxes:

The Trust uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of substantive enactment (note 24). A valuation allowance is recorded against future tax assets to the extent it is considered more likely than not that the future tax asset will not be realized.

(g) Asset retirement obligations:

The Trust recognizes the fair value of a future asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. The Trust concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation, if any, is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(h) Long-Term Incentive Plan ("LTIP"):

The Trust accounts for its LTIP using the fair value-based method, under which a compensation cost is recognized, at the time of vesting, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes and they are included in the calculation of diluted income (loss) per unit.

(i) Variable interest entities ("VIEs"):

The Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline No. 15, Consolidation of Variable Interest Entities ("AcG-15"), which establishes criteria to identify VIEs and the primary beneficiary of such entities. Entities that qualify as VIEs must be consolidated by their primary beneficiary. Effective January 1, 2005, the Trust adopted AcG-15 and has concluded that it does not have to consolidate any interest under AcG-15.

3. Changes in accounting policies:

- (a) CICA has issued new standards: Handbook Section 3855, Financial Instruments - Recognition and Measurement, Handbook Section 1530, Comprehensive Income, Handbook Section 3865, Hedges, and Handbook Section 3251, Equity, which were adopted by the Trust on January 1, 2007. In accordance with the transitional provisions of the respective standards, prior periods have not been restated and the effects of adopting these standards were recorded as an adjustment to the opening balance of consolidated unitholders' equity.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

3. Changes in accounting policies (continued):

(i) Financial Instruments - Recognition and Measurement:

This standard provides guidance on recognizing financial instruments and non-financial derivatives on the consolidated balance sheets. The standard also specifies how financial instrument gains and losses are presented. Under this standard, all financial instruments are classified as one of: (a) held-to-maturity; (b) loans and receivables; (c) held-for-trading; (d) available-for-sale; or (e) other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income (loss). Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in comprehensive income (loss).

Upon adoption of these new standards, the Trust designated its cash as held-for-trading, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Mortgages payable, secured operating line, convertible debentures, convertible debentures issued to vendor, distributions payable and accounts payable and other liabilities are classified as other financial liabilities which are also measured at amortized cost. The Trust designated investments as held-to-maturity which is measured at amortized cost. The Trust did not have any available-for-sale instruments as at or during the years ended December 31, 2007 and 2006.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception.

All derivative instruments, including embedded derivatives, are recorded in the consolidated statements of income at fair value unless exempted from derivative treatment. The Trust has elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after January 1, 2003.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

3. Changes in accounting policies (continued):

(ii) Statement of Comprehensive Income:

This standard requires that comprehensive income, a new component of unitholders' equity, be included in the Trust's consolidated statements of income. In addition, the standard requires a statement of comprehensive income, that may include items such as unrealized gains and losses on financial assets classified as available-for-sale, deferred gains or losses arising from the settlement of historic cash flow hedging transactions and changes in the fair value of the effective position of cash flow hedging instruments. The Trust had no significant adjustments resulting from this standard and, therefore, adoption of this standard did not require the Trust to include a consolidated statement of other comprehensive income and present accumulated other comprehensive income as a new category of unitholders' equity.

(iii) Hedges:

In a fair value hedge, the change in fair value of the hedging derivative will be offset in the consolidated statements of income and comprehensive income against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative, to the extent effective, is recorded in other comprehensive income (loss) until the asset or liability being hedged affects the consolidated statements of income and comprehensive income, at which time, the related change in fair value of the derivative is recorded in the consolidated statements of income and comprehensive income. Any hedge ineffectiveness is recorded in the consolidated statements of income.

The impact of these changes in accounting policies was to change the method of amortization of the deferred financing costs to the effective interest rate method from straight-line, which increased opening deficit and increased accumulated amortization by \$41 as at January 1, 2007, and to classify deferred financing costs net against the relevant liability within the liability portion of the consolidated balance sheets.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

3. Changes in accounting policies (continued):

(iv) Convertible and Other Debt Instruments with Embedded Derivatives:

Effective January 1, 2007, Emerging Issues Committee ("EIC") Abstract 164, Convertible and Other Debt Instruments with Embedded Derivatives, issued by the EIC of the Accounting Standards Board on March 5, 2007, was adopted early by the Trust. This abstract addressed various issues surrounding the recognition, classification and presentation of convertible debentures. There was no impact on the consolidated financial statements as a result of the adoption of this abstract.

- (b) CICA has issued four new accounting standards that are effective for the Trust's 2008 year end: Handbook Section 1400, General Statements of Financial Statements Presentation ("Section 1400"), Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments - Presentation ("Section 3863").

Section 1400 provides guidance on assessing and disclosing the ability of an entity to continue as a going concern. Certain disclosures are required where there are material uncertainties or conditions that could cause the entity not to be a going concern.

Section 1535 includes required disclosure about an entity's objectives, policies and processes for managing capital.

Section 3862 and Section 3863 replace the current Handbook Section 3861, Financial Instruments - Disclosure and Presentation. The new sections revise and enhance the current disclosure requirements and require disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Trust is currently evaluating the impact of these changes on its consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

4. Income-producing properties:

2007	Cost	Accumulated depreciation	Net book value
Land	\$ 60,289	\$ –	\$ 60,289
Buildings	195,431	14,278	181,153
Building improvements	2,803	105	2,698
	<u>\$ 258,523</u>	<u>\$ 14,383</u>	<u>\$ 244,140</u>

2006	Cost	Accumulated depreciation	Net book value
Land	\$ 58,001	\$ –	\$ 58,001
Buildings	187,266	9,426	177,840
Building improvements	801	40	761
	<u>\$ 246,068</u>	<u>\$ 9,466</u>	<u>\$ 236,602</u>

5. Deferred costs:

2007	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 10,052	\$ 1,933	\$ 8,119
Recoverable improvements	7,166	1,509	5,657
Tenant improvements on income-producing property acquisitions	8,923	5,162	3,761
	<u>\$ 26,141</u>	<u>\$ 8,604</u>	<u>\$ 17,537</u>

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

5. Deferred costs (continued):

2006	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 6,311	\$ 762	\$ 5,549
Deferred financing costs	1,763	754	1,009
Recoverable improvements	4,742	944	3,798
Tenant improvements on income-producing property acquisitions	9,083	4,040	5,043
	<u>\$ 21,899</u>	<u>\$ 6,500</u>	<u>\$ 15,399</u>

Effective January 1, 2007, deferred financing costs are deducted from the specific debt carrying values to which they relate (notes 3, 9, 10 and 20).

6. Intangible assets:

2007	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 58,024	\$ 30,430	\$ 27,594
Above-market in-place leases	576	264	312
	<u>\$ 58,600</u>	<u>\$ 30,694</u>	<u>\$ 27,906</u>

2006	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 59,118	\$ 22,929	\$ 36,189
Above-market in-place leases	568	208	360
	<u>\$ 59,686</u>	<u>\$ 23,137</u>	<u>\$ 36,549</u>

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

7. Amounts receivable:

	2007	2006
Tenant receivables	\$ 1,755	\$ 3,598
Amount receivable from Retrocom Growth Fund Inc.	—	605
Amounts receivable from other vendors	183	378
Accrued rents receivable, straight-line rent	1,818	1,265
Interest subsidy (a)	572	1,072
Other (b)	3,245	2,092
	\$ 7,573	\$ 9,010

(a) The Trust assumed seven mortgages payable as part of an acquisition in 2005 and obtained an interest subsidy due from the vendor as the mortgages were at above-market rates. The amount of the interest subsidy reflects the discounted present value of the future payments expected to be received by the Trust. The term of the interest subsidy coincides with each related mortgage payable with maturity dates between 2008 and 2014.

(b) Other amounts receivable include a \$2,174 vendor take-back receivable ("VTB") (2006 - \$1,990) from a purchaser of an income-producing property disposed of in 2005. The VTB accrues interest at 10.25% per annum, payable on maturity at December 21, 2007. The VTB was paid in full on January 28, 2008.

8. Other assets:

	2007	2006
Prepaid realty taxes	\$ 1,064	\$ 729
Lease reserves	791	330
Other	483	284
	\$ 2,338	\$ 1,343

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

9. Mortgages payable:

	2007	2006
Mortgages payable	\$ 161,249	\$ 147,367
Mark-to-market adjustment	1,024	1,182
Deferred financing costs, net of accumulated amortization of \$293	(305)	-
	\$ 161,968	\$ 148,549

Mortgages payable are secured by the Trust's interests in income-producing properties and, in certain circumstances, are also guaranteed by the Trust. Mortgages payable bear interest at fixed and floating rates ranging between 5.15% and 8.25% (2006 - 5.15% and 9.84%) per annum, with a weighted average interest rate per annum of 6.3% (2006 - 6.38%) and mature at various dates between 2008 and 2017. The Trust assumed seven mortgages payable as part of an acquisition in 2005 and obtained an interest subsidy from the vendor as the mortgages bear interest at above-market rates (note 7). After giving effect to the interest subsidy, mortgages payable, excluding the deferred financing costs, bear a weighted average interest rate of 5.97% (2006 - 6.02%). Substantially all mortgages require monthly principal and interest payments.

Future payments are as follows:

Years ending December 31:

2008	\$ 15,196
2009	53,541
2010	9,318
2011	2,457
2012	11,109
Thereafter	69,628
	\$ 161,249

As at December 31, 2007, the fair market value of the mortgages was \$163,004 (2006 - \$150,089).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

9. Mortgages payable (continued):

The fair market value of the mortgage payable has been determined by discontinuing the cash flow of these mortgages using estimated year-end market rates for debt with similar terms and security as at December 31, 2007.

10. Secured operating line:

The Trust has an operating line of up to \$10,000 (2006 - \$35,000), which expires on March 31, 2008. Draws on this facility are subject to the Trust providing appropriate security. At December 31, 2007, approximately \$10,000 was available, of which nil (2006 - \$29,679) was drawn on the operating line. This facility is secured with specific charges on certain income-producing properties. Interest is at prime plus 100 basis points. The Trust has entered into an agreement to amend this facility effective March 2008. The amendment is to convert the line to a demand line with a maximum availability of \$5,000 subject to the same rate of interest and security requirements.

11. Intangible liabilities:

2007	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,089	\$ 1,113	\$ 976

2006	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,230	\$ 943	\$ 1,287

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

12. Accounts payable and other liabilities:

	2007	2006
Accounts payable and accrued liabilities	\$ 8,130	\$ 10,388
Tenant deposits	373	397
Deferred revenue	2	7
	\$ 8,505	\$ 10,792

13. Trust units:

The Trust is authorized to issue an unlimited number of units. Each unit represents a single vote at any meeting of unitholders of entities and the unitholder is to receive a pro rata share of all distributions.

The unitholders have the right to require the Trust to redeem their units on demand. Upon receipt of the redemption notice by the Trust, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit ("Redemption Price") as determined by a market formula. The Redemption Price will be satisfied by way of a cash payment to the unitholder or in certain circumstances, including where such payment would cause the Trust's monthly cash redemption obligations to exceed \$50, by a special distribution of notes of the subsidiary of the Trust.

(a) Units issued and outstanding:

	2007		2006	
	Units	Amount	Units	Amount
Balance, beginning of year	18,517,927	\$ 157,058	18,440,763	\$ 156,567
Issued under distribution reinvestment plan (b)	–	–	77,164	491
Balance, end of year	18,517,927	\$ 157,058	18,517,927	\$ 157,058

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

13. Trust units (continued):

(b) Distribution reinvestment plan:

In October 2005, the Trust implemented a distribution reinvestment plan ("DRIP") that allows unitholders to use monthly cash distributions paid on their existing units to purchase additional units directly from the Trust. Unitholders who elected to participate in the DRIP received bonus units equal in value to 3% of each cash distribution.

In March 2007, the Trust suspended, until further notice, its DRIP.

(c) Per unit calculation:

Basic per unit calculation is based on the weighted average number of units outstanding for the year.

The diluted income (loss) per unit calculation excluded the effect of the assumed conversions of units issued under the LTIP of 807,000 units and conversion of convertible debentures into 5,088,991 units, as the inclusion of these conversions resulted in the anti-dilutive effect; therefore, diluted income (loss) per unit is the same as basic income (loss) per unit.

(d) Unitholder Rights Plan:

In November 2005, the Trust adopted a Unitholder Rights Plan to ensure that permitted bids, which are take-over bids made by way of circulars for all outstanding units, remain open for all outstanding units for all at least 60 days and satisfy certain other conditions.

(e) Distributions:

The Trust is required to make distributions to unitholders not less than its taxable income in accordance to the Declaration of Trust. However, the Trust's trustees have discretion in declaring distributions.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

14. Long-Term Incentive Plan:

Certain trustees and officers of the Trust and certain Retrocom Investment Management Inc. ("RIMI") employees have been provided an LTIP, under which the participants subscribed for units of the Trust. Participants are required to pay interest and to apply cash distributions received by them, in respect of the LTIP, towards payments of that interest and instalments. Participants may prepay any remaining instalments at their discretion and/or remove any fully paid units. If a participant fails to pay interest and/or any remaining instalments, the Trust may elect to reacquire or sell the units in satisfaction of the outstanding amounts.

The Trust has no recourse to a participant's other assets, except such participant's units. An aggregate of 825,000 units are reserved for issuance, pursuant to the LTIP. On March 22, 2004, 412,500 units were issued at an average purchase price of \$10 per unit. On December 2, 2005, 394,500 units were issued at an average purchase price of \$6.62 per unit. The market value of the Trust units at December 31, 2007 was \$4.13 (2006 - \$5.22) per unit.

The Trust accounts for the LTIP using the fair value-based method, under which a compensation cost is recognized for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes. Accordingly, the fair value of the LTIP on the date of issuance was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 12.4%; expected volatility of between 15% and 20%; risk-free interest rate of 4.06%; expected life of 10 years; and average expected tenure of eight years. The fair value also includes the estimated present value of the 1.25% benefit at an assumed market rate of return of between 5.0% and 5.25%.

Compensation cost of nil (2006 - nil), attributable to the LTIP, is charged against income during the year with a corresponding amount included in unitholders' equity as units under subscription. The unit instalment loans receivable are recognized as a deduction from units under subscription. Distributions received under the LTIP units are charged to unitholders' equity and interest at the rate of 4% (2006 - 4%) received under the LTIP is credited to distributions.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

15. Segment disclosure:

The Trust owns, manages and operates shopping centres located throughout Canada. Management, when measuring the Trust's performance, does not distinguish or group its operations on a geographical or any other basis. Accordingly, the Trust has a single reportable segment for disclosure purposes in accordance with generally accepted accounting principles.

No single tenant accounted for more than 10% of the Trust's rental revenue.

16. Risk management and fair values:

(a) Risk management:

In the normal course of business, the Trust is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(i) Interest rate risk:

Floating rate debt is restricted to the Trust's secured operating line and one mortgage of \$1,336 as at December 31, 2007 (2006 - \$33,909). The Trust structures its financings so as to stagger the maturities of its mortgages, thereby minimizing exposure to future interest rate fluctuations.

(ii) Credit risk:

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Trust mitigates the risk of credit loss by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. Thorough credit assessments are conducted in respect of all new leasing.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

16. Risk management and fair values (continued):

(iii) Capital risk:

Capital risk arises from the possibility of not having sufficient debt and equity capital available to the Trust to fund its capital needs for leasing, operating, growth and refinancing debts as they mature. The Trust works to mitigate this potential risk by seeking out new sources of capital and staggering the maturity dates of its long-term debts.

(iv) Environmental risk:

The Trust is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect the Trust's ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against the Trust. As required by the Declaration of Trust, Phase 1 audits are completed on all properties prior to acquisitions. Further investigation is conducted if Phase 1 tests indicate a potential problem. In addition, the standard lease requires compliance with environmental laws and regulations, and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site.

(b) Fair values:

The fair values of the Trust's financial assets and financial liabilities, except as noted, approximate their recorded values due to their short-term nature.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

17. Related party transactions:

Effective February 28, 2006, RIMI, through termination of its agreement, is no longer a related party of the Trust. Other than the transactions disclosed elsewhere in these consolidated financial statements, the Trust had the following significant related party transactions:

- (a) Effective February 28, 2006, the Trust terminated its asset management services agreement with RIMI. As part of the settlement, the Trust paid RIMI a one-time termination fee of \$750, and paid asset management fees for March and April 2006 of \$199. The Trust also incurred additional termination costs of approximately \$300.

The Trust retained RIMI to provide asset management services. The agreement had a five-year term expiring in 2009 and was renewable upon mutual agreement. For the year ended December 31, 2007, the Trust incurred nil (2006 - \$205) in asset management and acquisition advisory fees. Additionally, the Trust reimbursed RIMI for certain costs in the amount of nil (2006 - \$106).

- (b) Effective February 28, 2006, the Trust terminated its income-producing property management services agreement with RIMI. During the notice period, RIMI continued to receive 20% of the income-producing property management fee paid by the Trust until June 30, 2006.

The Trust also retained RIMI to provide income-producing property management services. The agreement had an initial term of five years. On December 14, 2004, RIMI subcontracted some of the income-producing property management and construction development for the Trust to O&Y Enterprise GP Inc. (Arcturus Realty Corporation). RIMI received an ongoing payment of 20% of the income-producing property management fee paid by the Trust. The Trust incurred nil of income-producing property management and construction development fees during the year (2006 - \$364), of which nil (2006 - \$65) is included in accounts payable and other liabilities. The Trust also reimbursed the income-producing property manager for certain costs.

RIMI rented office space at Woodbine Place and 501 Lakeshore Road East. Rental revenue for the year ended December 31, 2007 was nil (2006 - \$34) of which nil (2006 - \$18) is included in amounts receivable.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

18. Co-ownership activities:

As at December 31, 2006, the Trust held 50% interest in three income-producing properties. On March 7, 2007, the Trust acquired the remaining 50% interest in Staples Plaza in Dartmouth, Nova Scotia and Landsdowne Place in Saint John, New Brunswick pursuant to buyout provisions contained in co-ownership agreements with Plazacorp Retail Properties Ltd. (note 22). At the same time, the Trust sold its 50% interest in Les Promenades St. Francois in Laval, Quebec (note 21). The following amounts are proportionately consolidated in the Trust's consolidated financial statements:

	2007	2006
Assets	\$ –	\$ 16,472
Liabilities	–	9,806
Revenue	\$ 696	\$ 2,831
Expenses	471	2,704
Income from operations	225	127
Cash provided by (used in):		
Operating activities	\$ 235	\$ 1,006
Financing activities	(52)	(200)
Investing activities	(76)	(261)

The Trust was contingently liable for mortgage obligations of co-owners. In each case, the co-owners' share of the assets in each co-ownership was available for the purpose of satisfying these obligations and the estimated market values of these assets were in excess of the obligation secured.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

19. Commitments and contingencies:

Other than disclosed elsewhere in these consolidated financial statements, the Trust has the following commitments and contingencies:

- (a) The Trust continues to guarantee certain debt assumed by purchasers in connection with past dispositions of income-producing properties. These guarantees will remain until the debt is modified, refinanced or extinguished. The Trust has recourse under these guarantees in the event of default by the purchaser, in which case the Trust would have a claim against the underlying income-producing property. The estimated amount of debt subject to such guarantees at December 31, 2007 is \$28,205 (2006 - \$7,592), with an estimated weighted average remaining term of 5.46 years (2006 - 1.33 years).
- (b) The mortgage on one income-producing property has been cross-collateralized with indebtedness of \$12,250 owed by the vendor on two other income-producing properties in which the Trust did not acquire an interest at the time of the IPO. The vendor has agreed to indemnify the Trust against any claims that the Trust may incur in connection with a default by the vendor under the cross-collateralized loan.
- (c) The Trust is involved in litigation and claims in relation to the income-producing properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on these consolidated financial statements.
- (d) The Trust has entered into a construction contract in the amount of \$1,100 which it expects to be completed in the first quarter of 2008. At December 31, 2007, \$475 has been incurred.
- (e) The Trust entered into certain contracts relating to dispositions disclosed elsewhere (note 21).
- (f) The Trust entered into an operating lease for office space which expires in April 2013. Rental payments are approximately \$88 in 2008, \$132 in 2009 through 2012 and \$44 in 2013. Rental payments total approximately \$660.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

20. Convertible debentures:

- (a) On July 26, 2005, the Trust issued \$20,000 principal amount of unsecured, convertible, subordinated, seven-year debentures. Costs of issuing the debentures of approximately \$750 are capitalized to deferred financing costs. The debentures bear interest at 7.5% per annum, payable semi-annually on July 31 and January 31 each year, and mature July 31, 2012. The debentures are convertible at the debenture holder's option into fully paid units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of \$9.25 per unit. The debentures are not redeemable on or before July 31, 2009. After July 31, 2009 and prior to July 31, 2011, the debentures may be redeemed, in whole or in part, at the Trust's option, provided that the market price for the units is not less than 125% of the conversion price. Subsequent to July 31, 2011 and prior to the maturity date, the debentures may be redeemed, in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest. The Trust may satisfy its obligation to repay the principal amounts of the debentures, in whole or in part, by delivering units of the Trust. In the event the Trust elects to satisfy its obligation to repay principal with units of the Trust, it must deliver that number of units equal to 95% of the market price for the units at that time. The conversion price is \$9.25 per unit. The debentures are currently anti-dilutive. At December 31, 2007, the debentures balance outstanding includes debt of \$19,501 and equity of \$672 (2006 - \$19,428 and \$672, respectively).

Interest expense has been calculated and accreted on the debt portion using a discount rate of approximately 8.10% (2006 - 8.10%) for an interest expense of \$1,500 (2006 - \$1,577) for the year ended December 31, 2007. During the year ended December 31, 2007, none of the debenture holders exercised their option to convert the units.

The convertible debentures balance is net of deferred financing costs of \$507 which is net of accumulated amortization of \$330 (note 3).

As at December 31, 2007, the fair market value of these debentures was \$19,600 (2006 - \$19,600).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

20. Convertible debentures (continued):

- (b) On July 26, 2005, the Trust issued to a vendor, as partial consideration of an acquisition of income-producing properties, \$30,000 of secured, convertible, subordinated, three-year debentures. The coupon rate is 4.5% per annum. These debentures mature on July 26, 2008 and interest is compounded semi-annually and paid monthly in arrears. These debentures are convertible at the debenture holder's option into fully paid units at any time prior to the maturity date at a conversion price of \$10.25 per unit. The Trust will be required to pay cash for the balance of convertible debentures outstanding on the maturity date. At December 31, 2007, the debentures balance outstanding includes debt of \$29,956 (2006 - \$29,877) and equity of \$232 (2006 - \$232). The debentures are currently anti-dilutive.

The interest expense has been calculated and accreted on the debt portion using a discount rate of 4.8% (2006 - 4.8%) for an interest expense of \$1,350 (2006 - \$1,422) for the year ended December 31, 2007. During the year ended December 31, 2007, the holder of the convertible debentures has not exercised its option to convert the units.

Subsequent to year end, the Trust has received a term sheet (uncommitted) from a Canadian Chartered bank for a \$30,000 bridge loan facility for a term of six months from the drawdown date. It is the Trust's intention to use this short-term facility to repay the \$30,000 debenture, which comes due on July 26, 2008. Notwithstanding, the Trust has already began a process to refinance a number of properties, the proceeds of which will be used to either repay the debenture directly, or to repay the bridge loan facility if utilized to repay the debenture earlier.

For the Trust to be in a position to be able to refinance the properties currently securing the \$30,000, the Trust is required to ensure that it can deliver adequate security to new lender(s). As such and subsequent to year end, the Trust has entered into an agreement with the debenture holder such that on repayment of the debentures and for a fee of \$1,750, the related security and cross collateralization of the security on the majority of the properties will be released, facilitating the refinancing of these assets. The Trust also has the ability to be released from the property management agreement if the debenture is repaid and the payment occurs prior to the termination of that agreement on July 26, 2008.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

20. Convertible debentures (continued):

As at December 31, 2007, the fair market value of these convertible debentures issued to vendor approximated their carrying value (2006 - \$27,705).

21. Discontinued operations:

On March 2, 2007, the Trust sold Maple Park Shopping Centre, located in Quesnel, British Columbia, Evergreen Office and Shopping Centre, located in Sooke, British Columbia, and Millwoods Mainstreet Shopping Centre, located in Edmonton, Alberta, to Sunstone Realty Group ("Sunstone"). On March 30, 2007, a second group of income-producing properties, including Smithers Shopping Centre, located in Smithers, British Columbia, Cariboo Mall, located in 100 Mile House, British Columbia, and Terrace Shopping Centre, located in Terrace, British Columbia, was also sold to Sunstone. The total of these two transactions resulted in gross proceeds of \$45,437, before mortgage assumption of \$18,305. The sale of these income-producing properties resulted in a total gain on disposition of \$12,030, which has been included as a gain on sale under discontinued operations.

On March 7, 2007, the Trust sold its 50% interest in Les Promenades St. Francois, located in Laval, Quebec. The consideration received on the sale consisted of gross proceeds of \$2,578, before mortgage assumption of \$1,452, which was used to partially fund the acquisition of the remaining 50% interest of Staples Plaza in Dartmouth, Nova Scotia and Lansdowne Place in Saint John, New Brunswick (note 22). The sale of Les Promenades St. Francois resulted in a gain on disposition of \$827, which has been included as a gain on sale under discontinued operations.

On May 22, 2007, the Trust completed the sale of Woodbine Place, located in Toronto, Ontario. The consideration received on the sale consisted of cash proceeds of \$11,685 prior to mortgage repayment of \$2,484 and resulted in a gain on disposition of \$4,623, which has been included as a gain on sale under discontinued operations.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

21. Discontinued operations (continued):

On June 27, 2007, the Trust completed the sale of Driftwood Mall, located in Courtney, British Columbia. The consideration received on sale consisted of cash proceeds of \$19,383 prior to mortgage repayment of \$11,559 and resulted in a gain on disposition of \$4,100, which has been included as a gain on sale under discontinued operations.

The Trust completed the disposition of six income-producing properties, all located in Kingston, Ontario on October 5, 2007, with gross proceeds of \$12,500 and resulted in a gain of sale of \$1,869, which has been included as a gain on sale under discontinued operations.

On March 26, 2008, the Trust completed the sale of Grand Central Plaza, located in Saskatoon, Saskatchewan, for gross proceeds of \$2,700, which will result in an estimated net gain on disposition of \$383.

Summarized financial information relating to the discontinued operations is as follows:

	2007	2006
Assets:		
Income-producing properties	\$ 2,142	\$ 62,906
Deferred costs	72	2,973
Intangible assets	85	4,781
Other	1,620	3,470
	\$ 3,919	\$ 74,130
Liabilities:		
Mortgages payable	\$ –	\$ 46,563
Other liabilities	629	3,003
	\$ 629	\$ 49,566

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

21. Discontinued operations (continued):

	2007	2006
Rental revenue:		
Minimum rent	\$ 3,227	\$ 9,386
Recoveries from tenants and other	2,038	5,325
	<u>\$ 5,265</u>	<u>\$ 14,711</u>
Expenses:		
Operating	\$ 2,523	\$ 6,833
Interest on long-term debt	1,180	3,424
Depreciation	96	1,451
Amortization	196	3,731
	<u>\$ 3,995</u>	<u>\$ 15,439</u>
Discontinued operations:		
Gain (loss) on disposal of income-producing properties	\$ 23,424	\$ (3,785)
Income (loss) from discontinued operations	1,270	(728)
	<u>\$ 24,694</u>	<u>\$ (4,513)</u>

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

22. Acquisitions:

On March 7, 2007, the Trust acquired the remaining 50% interest in two income-producing properties pursuant to buyout provisions contained in each of the Trust's co-ownership agreements with Plazacorp Retail Properties Ltd. These income-producing properties were Staples Plaza in Dartmouth, Nova Scotia and Lansdowne Place in Saint John, New Brunswick. The acquisitions have been recorded by the purchase method, with the results of operations included in these consolidated financial statements from the date of acquisition. The Trust is in the process of completing the valuation of net assets acquired and based on this, the purchase price allocation may be adjusted in future periods. The net assets acquired were as follows:

Land	\$ 2,177
Buildings and building improvements	9,176
In-place leases	2,147
Above-market rent leases	61
Below-market rent leases	(27)
	<u>13,534</u>
Add (deduct):	
Closing adjustments	502
Assumed mortgages	(8,060)
	<u>(7,558)</u>
<u>Purchase price paid in cash</u>	<u>\$ 5,976</u>

23. Investments:

Investments consist of \$2,333 (2006 - nil) of government securities pledged as security and held in a trust account to match interest and principal payments of a mortgage in the amount of \$2,152, maturing in 2009.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

24. Income taxes:

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

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT") received royal assent (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership or trust, such as an income trust and a real estate investment trust. The Trust is a SIFT, as discussed below.

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

A SIFT which was publicly listed on or before October 31, 2006 (an "Existing Trust") will become subject to the tax on distribution of certain income commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. As at December 31, 2007, the Trust has not exceeded this limit.

Under the SIFT Rules, the new taxation regime will not apply to a trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, the Trust does not meet the REIT Conditions and, therefore, is a SIFT. Accordingly, commencing in 2011, the Trust will become subject to tax on distributions of certain income, unless it is able to restructure to meet the REIT Conditions before that date.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per unit amounts)

Years ended December 31, 2007 and 2006

24. Income taxes (continued):

Due to the SIFT Rules, the Trust commenced recognizing future income tax assets and liabilities on June 22, 2007 with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, and those of its subsidiaries, that are expected to reverse in or after 2011. The SIFT Rules resulted in the Trust being in a net future income tax asset position as of December 31, 2007 of \$7,278 with respect to the temporary differences that are expected to reverse in or after 2011. A full valuation allowance has been recorded in connection with this net future income tax asset as the realization of this asset is uncertain. Future income tax assets or liabilities are recorded using substantively enacted tax rates and laws expected to apply when the temporary differences are expected to reverse.

The tax effect of temporary differences that give rise to significant portions of future tax assets and future tax liabilities (expected to reverse in or after 2011) as at December 31, 2007, are as follows:

Future income tax assets:	
Income-producing properties (excluding land)	\$ 16,677
Other	101
	<hr/>
	16,778
Valuation allowance	7,278
	<hr/>
	9,500
Future income tax liabilities:	
Intangible assets	7,837
Deferred costs	1,646
Amounts receivable	17
	<hr/>
	9,500
Net future income taxes	<hr/>
	\$ —

25. Comparative figures:

Certain 2006 figures have been reclassified to conform with the financial statement presentation adopted in 2007.