

Consolidated Financial Statements of

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

Three months ended March 31, 2007 and 2006
(Unaudited)

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of dollars)

	March 31, 2007	December 31, 2006
	(Unaudited)	
Assets		
Income-producing properties (note 4)	\$ 248,791	\$ 238,793
Deferred costs (note 5)	14,912	15,492
Intangible assets (note 6)	36,159	36,690
Amounts receivable (note 7)	9,191	9,043
Investments (note 22)	2,396	—
Other assets	2,034	1,345
Cash	1,133	1,023
Discontinued operations (note 20)	38,343	73,230
	\$ 352,959	\$ 375,616
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 8)	\$ 151,773	\$ 148,549
Secured operating line (note 9)	23,650	29,679
Convertible debentures (note 19)	18,820	19,428
Convertible debentures issued to vendor (note 19)	29,896	29,877
Intangible liabilities (note 10)	1,200	1,287
Accounts payable and other liabilities (note 11)	10,171	10,877
Distributions payable	2,778	895
Discontinued operations (note 20)	21,154	49,481
	259,442	290,073
Unitholders' equity	93,517	85,543
Commitments and contingencies (notes 12, 17 and 18)		
	\$ 352,959	\$ 375,616

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

	Three months ended March 31,	
	2007	2006
	(Unaudited)	
Rental revenue:		
Minimum rent	\$ 8,267	\$ 8,251
Recoveries from tenants and other	5,065	5,110
	13,332	13,361
Expenses:		
Operating	6,859	6,544
Interest:		
Long-term debt	2,186	2,289
Other	1,460	928
Depreciation	1,201	1,186
Amortization	3,401	3,593
Trust (note 16(a) and (b))	993	1,987
	16,100	16,527
Loss from operations	(2,768)	(3,166)
Other income and interest	114	98
Loss before discontinued operations	(2,654)	(3,068)
Gain (loss) from discontinued operations (note 20)	13,447	(349)
Net income (loss) for the period and comprehensive income (loss)	\$ 10,793	\$ (3,417)
Basic and diluted earnings (loss) per unit (note 12(c)):		
Before discontinued operations	\$ (0.14)	\$ (0.17)
After discontinued operations	0.58	(0.19)
Weighted average number of units outstanding (note 12(c))	18,517,927	18,446,951

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

	Three months ended March 31,	
	2007	2006
	(Unaudited)	
Trust Units		
Balance, beginning of period	\$ 157,058	\$ 156,567
DRIP units issued	–	129
Balance, end of period	\$ 157,058	\$ 156,696
Value associated with LTIP units		
LTIP units under subscription	\$ 7,021	\$ 7,021
LTIP instalment loan receivable, beginning of period	\$ (5,845)	\$ (6,251)
Interest on instalment loan receivable	(58)	(61)
Distributions applied against instalment loan receivable	121	165
LTIP instalment loan receivable, end of period	\$ (5,782)	\$ (6,147)
Deficit		
Balance, beginning of period:		
As originally reported	\$ (31,965)	\$ (17,109)
Impact of change to comply with new accounting standards (note 3)	(41)	–
As restated	(32,006)	(17,109)
Net income (loss) for the period	10,793	(3,417)
Balance, end of period	\$ (21,213)	\$ (20,526)
Cumulative distributions to unitholders		
Balance, beginning of period	\$ (40,726)	\$ (25,502)
Distributions to unitholders, net of interest on instalment loan	(2,841)	(3,887)
Balance, end of period	\$ (43,567)	\$ (29,389)
Total unitholders' equity	\$ 93,517	\$ 107,655

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of dollars)

	Three months ended March 31,	
	2007	2006
	(Unaudited)	
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the period	\$ 10,793	\$ (3,417)
Items not affecting cash:		
Gain on disposal of income-producing properties	(12,861)	(69)
Depreciation and amortization	4,602	4,779
Straight-line rent	(147)	(137)
Amortization of above- and below-market rents, net	(83)	(88)
Amortization of mortgage premium	(123)	(162)
Accretion expense	37	35
Additions to deferred leasing costs	(646)	(338)
Additions to recoverable improvements	(83)	(2)
Change in other non-cash operating items	(1,301)	(752)
Discontinued operations	(2,432)	1,348
	(2,244)	1,197
Financing activities:		
Secured debt repayment	(1,244)	(1,388)
Discharge of mortgage	(3,496)	-
Operating line draw (repayment), net	(6,173)	3,357
Deferred financing costs	-	(3)
Distributions to unitholders	(895)	(3,683)
Discontinued operations - repayments	(502)	(554)
Discontinued operations - discharge of mortgages	(7,617)	(3,335)
	(19,927)	(5,606)
Investing activities:		
Acquisition of 50% interest in income-producing properties	(5,976)	-
Proceeds of sale of discontinued operations	28,258	3,946
Additions to income-producing properties	(1)	(68)
Discontinued operations	-	(51)
	22,281	3,827
Increase (decrease) in cash	110	(582)
Cash, beginning of period	1,023	139
Cash (bank indebtedness), end of period	\$ 1,133	\$ (443)
Supplemental cash flow information:		
Interest paid	\$ 4,770	\$ 4,683
Mortgage assumed on acquisition of 50% interest in income-producing properties (note 21)	8,060	-
Mortgage assumed by purchaser on the disposition of in income-producing properties	19,757	-

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)

Three months ended March 31, 2007 and 2006
(Unaudited)

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 "Closing"). 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 12).

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)

Three months ended March 31, 2007 and 2006
(Unaudited)

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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

2. Significant accounting policies (continued):

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	Recorded as either an increase (below-market leases) or decrease (above-market leases) to revenue over remaining term of individual lease

(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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

2. Significant accounting policies (continued):

(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).

(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 period. Actual results could differ from those estimates.

(f) Income taxes:

The Trust is an unincorporated open-ended investment trust created by the Declaration of Trust. The Trust will be taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, the Trust is required to make distributions not less than the amount necessary to ensure that the Trust will not be liable to pay income taxes (note 23).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

2. Significant accounting policies (continued):

(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.

(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 net income 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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
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3. Changes in accounting policies:

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.

(a) 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. Financial instruments classified as held to maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in comprehensive income.

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 three months ended March 31, 2007.

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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

3. Changes in accounting policies (continued):

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.

(b) 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, 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.

(c) 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 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 and comprehensive income.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

3. Changes in accounting policies (continued):

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; and to classify deferred financing costs net against the relevant host contract within the liability portion of the consolidated balance sheets.

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

In addition, Emerging Issues Committee Abstract ("EIC") 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 on January 1, 2007. This abstract addressed various issues surrounding the recognition, classification and presentation of convertible debentures. There was no impact on the interim consolidated financial statements as a result of the adoption of this abstract.

4. Income-producing properties:

March 31, 2007	Cost	Accumulated depreciation	Net book value
Land	\$ 60,696	\$ —	\$ 60,696
Buildings	197,367	10,755	186,612
Building improvements	1,508	25	1,483
	<u>\$ 259,571</u>	<u>\$ 10,780</u>	<u>\$ 248,791</u>

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

4. Income-producing properties (continued):

December 31, 2006	Cost	Accumulated depreciation	Net book value
Land	\$ 58,405	\$ –	\$ 58,405
Buildings	189,186	9,559	179,627
Building improvements	801	40	761
	<u>\$ 248,392</u>	<u>\$ 9,599</u>	<u>\$ 238,793</u>

5. Deferred costs:

March 31, 2007	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 7,320	\$ 1,023	\$ 6,297
Recoverable improvements	4,791	1,020	3,771
Tenant improvements on income-producing property acquisitions	8,979	4,135	4,844
	<u>\$ 21,090</u>	<u>\$ 6,178</u>	<u>\$ 14,912</u>

December 31, 2006	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 6,362	\$ 773	\$ 5,589
Deferred financing costs	1,768	754	1,014
Recoverable improvements	4,742	944	3,798
Tenant improvements on income-producing property acquisitions	9,182	4,091	5,091
	<u>\$ 22,054</u>	<u>\$ 6,562</u>	<u>\$ 15,492</u>

Effective January 1, 2007, deferred financing costs are deducted from the specific debt carrying values to which they relate (notes 3, 8 and 19).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

6. Intangible assets:

March 31, 2007	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 58,627	\$ 22,860	\$ 35,767
Above-market in-place leases	629	237	392
	\$ 59,256	\$ 23,097	\$ 36,159

December 31, 2006	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 59,414	\$ 23,084	\$ 36,330
Above-market in-place leases	568	208	360
	\$ 59,982	\$ 23,292	\$ 36,690

7. Amounts receivable:

	March 31, 2007	December 31, 2006
Tenant receivables	\$ 4,202	\$ 3,508
Amount receivable from Retrocom Growth Fund Inc.	—	605
Amounts receivable from other vendors	378	378
Accrued rents receivable, straight-line rent	1,435	1,288
Interest subsidy (a)	866	1,072
Other (b)	2,310	2,192
	\$ 9,191	\$ 9,043

(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 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 2007 and 2014.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

7. Amounts receivable (continued):

(b) Other amounts receivable include a \$2,035 vendor take-back receivable ("VTB") (December 31, 2006 - \$1,990) from a purchaser of a property disposed of in 2005. The VTB accrues interest at 10.25% per annum, payable on maturity at December 21, 2007.

8. Mortgages payable:

	March 31, 2007	December 31, 2006
Mortgages payable	\$ 150,674	\$ 147,367
Mark-to-market adjustment	1,377	1,182
Deferred financing costs, net of accumulated amortization of \$907	(278)	-
	<u>\$ 151,773</u>	<u>\$ 148,549</u>

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 9.84% (December 31, 2006 - 5.15% and 9.84%) per annum, with a weighted average interest rate per annum of 6.45% (December 31, 2006 - 6.38%) and mature at various dates between 2007 and 2015. 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 subsidy, mortgages payable excluding the deferred financing costs bear a weighted average interest rate of 6.17% (December 31, 2006 - 6.02%). Substantially all mortgages require monthly principal and interest payments.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

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8. Mortgages payable (continued):

Future payments are as follows:

Years ending December 31:

2007 (remainder)	\$ 18,179
2008	4,913
2009	53,171
2010	8,938
2011	2,053
2012	9,366
Thereafter	54,054
	<hr/> \$ 150,674

As at March 31, 2007, the fair market value of the mortgages was \$152,698 (December 31, 2006 - \$150,089).

The fair market value of the mortgages payable have been determined by discounting the cash flow of these mortgages using estimated market rates for debt with similar terms and security as at March 31, 2007.

9. Secured operating line:

The Trust has an operating line of up to \$28,000 (December 31, 2006 - \$35,000), which expires on March 31, 2008. Draws on this facility are subject to the Trust providing appropriate security. At March 31, 2007, approximately \$27,723 was available, of which \$23,650 (December 31, 2006 - \$29,679) was drawn on the operating line. This facility is secured with specific charges on certain properties. Interest is at prime plus 100 basis points. The maximum limit of the operating line will be reduced to \$20,000 on June 30, 2007 and \$15,000 on September 30, 2007.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

10. Intangible liabilities:

March 31, 2007	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,195	\$ 995	\$ 1,200

December 31, 2006	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,230	\$ 943	\$ 1,287

11. Accounts payable and other liabilities:

	March 31, 2007	December 31, 2006
Accounts payable and accrued liabilities	\$ 9,792	\$ 10,473
Tenant deposits	371	397
Deferred revenue	8	7
	\$ 10,171	\$ 10,877

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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12. 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:

	Three months ended March 31,			
	2007		2006	
	Units	Amount	Units	Amount
Balance, beginning of period	18,517,927	\$ 157,058	18,440,763	\$ 156,567
Issued under distribution reinvestment plan (b)	–	–	18,429	129
Balance, end of period	18,517,927	\$ 157,058	18,459,192	\$ 156,696

(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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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12. Trust units (continued):

(c) Per unit calculation:

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

The diluted 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 net loss per unit is the same as basic loss per unit.

(d) Unitholder Rights Plan:

In November 2005, the Trust adopted a Unitholder Rights Plan to ensure that permitted bids, which are takeover 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) The Trust's trustees have discretion in declaring distributions. The Trust is required to make distributions to unitholders not less than its taxable income in accordance with the Declaration of Trust.

13. 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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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(Unaudited)

13. Long-Term Incentive Plan (continued):

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 March 31, 2007 was \$5.53 (December 31, 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 is estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 12.4% (December 31, 2006 - 12.4%); expected volatility of between 15% and 20% (December 31, 2006 - 15% and 20%); risk-free interest rate of 4.06% (December 31, 2006 - 4.06%); expected life of 10 years (December 31, 2006 - 10 years); and average expected tenure of 8 years (December 31, 2006 - 8 years). The fair value also includes the estimated present value of the 1.25% (December 31, 2006 - 1.25%) benefit at an assumed market rate of return of between 5.00% and 5.25% (December 31, 2006 - 5.00% and 5.25%).

Compensation cost of nil (December 31, 2006 - nil), attributable to the LTIP, is charged against earnings during the period 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% (December 31, 2006 - 4%) received under the LTIP is credited to distributions.

During 2006, the Trust announced its intention to cancel the LTIP subject to any required regulatory and unitholder approval. The Trust anticipates no cash outflow to be incurred on the cancellation of the LTIP.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

14. 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.

15. 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 (December 31, 2006 - two mortgages) which total \$25,022 as at March 31, 2007 (December 31, 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.

(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)

Three months ended March 31, 2007 and 2006
(Unaudited)

16. 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 financial statements, the Trust had the following significant related party transactions:

- (a) Effective February 28, 2006, the Trust terminated its assets management services agreement with RIMI. As part of the settlement, the Trust paid RIMI a one-time termination fee of \$750, and has 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 three months ended March 31, 2006, the Trust incurred \$205 in asset management and acquisition advisory fees.

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

The Trust also retained RIMI to provide property management services. The agreement had an initial term of five years. On December 14, 2004, RIMI subcontracted some of the property management and construction development for the Trust to O&Y Enterprise GP Inc. RIMI received an ongoing payment of 20% of the property management fee paid by the Trust. The Trust incurred nil of property management and construction development fees during the three months ended March 31, 2007 (2006 - \$364), of which nil (December 31, 2006 - \$65) is included in accounts payable and other liabilities. The Trust also reimbursed the property manager for certain costs.

RIMI also rents office space at Woodbine Place and 501 Lakeshore Road East. Rental revenue for the three months ended March 31, 2007 was nil (2006 - \$34), of which nil (December 31, 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)

Three months ended March 31, 2007 and 2006
(Unaudited)

17. 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 21). At the same time, the Trust sold its 50% interest in Les Promenades St. Francois in Laval, Quebec (note 20). The following amounts are proportionately consolidated in the Trust's financial statements:

	March 31, 2007	December 31, 2006
Assets	\$ –	\$ 16,472
Liabilities	–	9,806

	Three months ended March 31,	
	2007	2006
Revenue	\$ 696	\$ 724
Expenses	471	684
Income from operations	225	40

	Three months ended March 31,	
	2007	2006
Cash provided by (used in):		
Operating activities	\$ 235	\$ 341
Financing activities	(52)	(49)
Investing activities	(76)	(177)

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

18. Commitments and contingencies:

Other than disclosed elsewhere in these 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 properties. These guarantees will remain until the debt is modified, refinanced or extinguished. The Trust has recourse under these guarantee in the event of default by the purchaser, in which case the Trust would have a claim against the underlying property. The estimated amount of debt subject to such guarantees at March 31, 2007 is \$28,717 (December 31, 2006 - \$7,592), with an estimated weighted average remaining term of 6.21 years (December 31, 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 financial statements.
- (d) The Trust entered into certain contracts relating to acquisitions and dispositions disclosed elsewhere (note 20).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

19. 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 were 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 March 31, 2007, the debentures balance outstanding includes debt of \$19,445 and equity of \$672 (December 31, 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 \$375 (2006 - \$399) for the three months ended March 31, 2007. During the three months ended March 31, 2007, none of the debenture holders exercised their option to convert the units.

Included in the convertible debentures balance are deferred financing costs of \$625, which is net of accumulated amortization of \$208 (note 3).

As at March 31, 2007, the fair market value of these debentures was \$20,000 (December 31, 2006 - \$19,600).

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

19. 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 March 31, 2007, the debentures balance outstanding includes debt of \$29,896 and equity of \$232 (December 31, 2006 - \$29,877 and \$232, respectively). 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 \$337 (2006 - \$356) for the three months ended March 31, 2007. During the three months ended March 31, 2007, the holder of the convertible debentures has not exercised its option to convert the units.

As at March 31, 2007, the fair market value of these convertible debentures issued to vendor was \$28,302 (December 31, 2006 - \$27,705).

20. Discontinued operations:

On March 2, 2007, the Trust sold Maple Park Shopping Centre, Evergreen Office and Shopping Centre, and Millwoods Mainstreet Shopping Centre to Sunstone Realty Group ("Sunstone"). On March 30, 2007, a second group of properties, including Smithers Shopping Centre, Cariboo Mall and Terrace Shopping Centre 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 properties resulted in a total gain on disposition of \$12,034, which has been included in 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)

Three months ended March 31, 2007 and 2006
(Unaudited)

20. Discontinued operations (continued):

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 21). The sale of Les Promenades St. Francois resulted in a gain on disposition of \$827, which has been included in a gain on sale under discontinued operations.

On March 22, 2007, the Trust entered into an agreement to sell Woodbine Place. The agreement is conditional on financing and final due diligence and is expected to close in May 2007.

As the Trust announced in February 2007, it entered into a conditional agreement with a purchaser to sell Driftwood Mall, located in Courtenay, B.C. This agreement is conditional on financing and final due diligence and is expected to close in late May 2007.

Also, in the first quarter of 2007, the Trust decided to sell, and commenced the process to dispose of, six properties, all located in Kingston, Ontario.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

20. Discontinued operations (continued):

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

	March 31, 2007	December 31, 2006
Assets:		
Income-producing properties	\$ 29,569	\$ 60,715
Deferred costs	1,349	2,880
Intangible assets	2,513	4,639
Other	4,912	4,996
	\$ 38,343	\$ 73,230
Liabilities:		
Mortgages payable	\$ 18,673	\$ 46,587
Other liabilities	2,481	2,894
	\$ 21,154	\$ 49,481
	Three months ended March 31,	
	2007	2006
Rental revenue:		
Minimum rent	\$ 1,801	\$ 2,426
Recoveries from tenants	1,018	1,392
	\$ 2,819	\$ 3,818
Expenses:		
Operating	\$ 1,402	\$ 1,684
Interest on long-term debt	653	946
Depreciation	45	384
Amortization	133	1,222
	\$ 2,233	\$ 4,236
Discontinued operations:		
Gain on disposal of income-producing properties	\$ 12,861	\$ 69
Income (loss) from discontinued operations	586	(418)
	\$ 13,447	\$ (349)

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

21. 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 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 asset 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		9,176
In-place leases		2,147
Above-market rent leases		61
Below-market rent leases		(27)
		<hr/>
		13,534
Add (deduct):		
Closing adjustments		502
Assumed mortgages		(8,060)
		<hr/>
Purchase price paid in cash	\$	5,976

22. Investments:

Investments consist of \$2,396 (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 \$2,198, maturing in 2009.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

23. Income taxes:

The Trust currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and, as discussed in note 2(f), does not record a provision for income taxes on income earned by the Trust, its subsidiary trust and flow-through entities. On March 29, 2007, the federal government tabled a bill (the "bill") in the House of Commons to implement a new tax on distributions from publicly listed or traded trusts and partnerships referred to as "specified investment flow-throughs" ("SIFT").

Under the bill, certain distributions from a SIFT trust or partnership will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, the bill provides that distributions paid by a SIFT as returns of capital will not be subject to the tax.

The bill provides that a SIFT that was publicly listed before November 1, 2006 (an "Existing Trust") would become subject to the tax on distributions commencing in 2011. However, an Existing Trust may become subject to this tax prior to 2011 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.

Under the bill, the new taxation regime will not apply to a real estate investment trust that meets certain conditions relating to the nature of its income and investments (the "REIT Conditions"). Unless an Existing Trust is able to meet all the REIT Conditions, the bill, if enacted, would subject an Existing Trust to tax commencing in 2011, which would adversely impact the level of cash otherwise available for distribution.

As the bill is currently drafted, the Trust does not meet the REIT Conditions, which contain a number of technical provisions that do not fully accommodate common real estate properties and business structures. If the bill is enacted as currently drafted, the Trust would become subject to tax on certain income and, at the date of substantive enactment, the Trust would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse in or after 2011, with a corresponding charge to income for the period.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2007 and 2006
(Unaudited)

23. Income taxes (continued):

In respect of assets and liabilities of the Trust, its subsidiary trust and flow-through entities, the net book value for accounting purposes of those net assets exceeds their tax basis by an amount of approximately \$15,000 (December 31, 2006 - \$22,000).

It is possible that changes or clarifications will be made to the bill prior to its enactment. If the bill is not changed or clarified, the Trust may be able to restructure its affairs in order to minimize, or if possible eliminate, the impact of the bill. There can be no assurances, however, that changes will be made to the bill or that the Trust would be able to restructure such that the Trust would not be subject to the tax contemplated by the bill.

24. Comparative figures:

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