

Consolidated Financial Statements of

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

Three months ended June 30, 2005 and 2004 and six months
ended June 30, 2005 and period from March 22, 2004
to June 30, 2004
(Unaudited)

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of dollars)
(Unaudited)

	June 30, 2005	December 31, 2004 (Audited)
Assets		
Income-producing properties (note 3)	\$ 190,449	\$ 192,353
Deferred costs (note 4)	10,030	10,149
Intangible assets (note 5)	27,514	32,550
Deposits and deferred acquisition costs (note 19)	3,841	—
Amounts receivable (note 6)	9,918	4,807
Other assets	2,350	1,346
Cash	1,641	1,012
Discontinued operations (note 20)	7,064	12,689
	\$ 252,807	\$ 254,906

Liabilities and Unitholders' Equity

Liabilities:		
Mortgages payable (note 7)	\$ 142,695	\$ 131,705
Secured operating line (note 8)	9,457	11,371
Intangible liabilities (note 9)	1,771	1,978
Accounts payable and other liabilities (note 10)	9,242	8,403
Distributions payable	1,039	1,039
Discontinued operations (note 20)	4,090	7,418
	168,294	161,914
Unitholders' equity	84,513	92,992
Commitments and contingencies (note 18)		
Subsequent events (note 19)		
	\$ 252,807	\$ 254,906

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

	Three months ended June 30,		Six months ended June 30,	Period from March 22, 2004 to June 30, 2004
	2005	2004	2005	
Rental revenue	\$ 10,120	\$ 9,557	\$ 20,522	\$ 10,578
Expenses:				
Operating	4,154	4,024	8,961	4,482
Interest	2,409	2,028	4,771	2,248
Depreciation and amortization	4,129	4,649	8,400	4,924
Trust expenses	731	380	1,306	586
	11,423	11,081	23,438	12,240
Loss from operations	(1,303)	(1,524)	(2,916)	(1,662)
Other income and interest	168	562	284	568
Loss before discontinued operations	(1,135)	(962)	(2,632)	(1,094)
Discontinued operations (note 20):				
Gain on sale of income-producing property	273	—	273	—
Income from discontinued operations	82	48	91	56
	355	48	364	56
Loss for the period	\$ (780)	\$ (914)	\$ (2,268)	\$ (1,038)
Basic and diluted loss per unit:				
Before discontinued operations	\$ (0.093)	\$ (0.080)	\$ (0.022)	\$ (0.092)
After discontinued operations	(0.064)	(0.076)	(0.186)	(0.087)
Weighted average number of units outstanding (note 14)	12,176,000	12,017,857	12,176,000	11,923,911

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

	Six months ended June 30, 2005	Period from March 22, 2004 to June 30, 2004
Trust units		
Balance, beginning of period	\$ 108,389	\$ 110,690
Units issued under over-allotment	–	11,070
Issue costs	26	(9,226)
Transaction cost related to initial public offering	–	(3,581)
Balance, end of period	\$ 108,415	\$ 108,953
Value associated with LTIP units		
LTIP units under subscription	\$ 4,300	\$ 4,300
LTIP instalment loan receivable, beginning of period	\$ (3,923)	\$ (4,125)
Interest on instalment loan receivable	(78)	(33)
Distributions applied against instalment loan receivable	213	105
LTIP instalment loan receivable, end of period	\$ (3,788)	\$ (4,053)
Deficit		
Balance, beginning of period	\$ (5,924)	\$ –
Loss for the period	(2,268)	(1,038)
Balance, end of period	\$ (8,192)	\$ (1,038)
Cumulative distributions to unitholders		
Balance, beginning of period	\$ (9,850)	\$ –
Distributions to unitholders, net of interest on instalment loan	(6,372)	(3,379)
Balance, end of period	\$ (16,222)	\$ (3,379)
Total unitholders' equity	\$ 84,513	\$ 104,783

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	Period from March 22, 2004 to June 30, 2004
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (780)	\$ (914)	\$ (2,268)	\$ (1,038)
Items not affecting cash:				
Gain on disposal of income-producing property	(273)	—	(273)	—
Depreciation and amortization	4,129	4,649	8,400	4,924
Straight-line rent	(161)	(124)	(409)	(124)
Amortization of above- and below-market rents, net	(10)	(79)	(46)	(85)
Amortization of mortgage premium	(18)	(20)	(38)	(20)
Option benefit granted under Long-Term Incentive Plan	—	—	—	175
	2,887	3,512	5,366	3,832
Change in other non-cash operating items	(4,173)	3,631	(4,902)	4,091
Discontinued operations	191	550	612	747
	(1,095)	7,693	1,076	8,670
Financing activities:				
Proceeds of allotment units, net of commission	—	10,406	—	10,406
Proceeds of issuance of units, net of issue costs	26	(3,581)	26	98,547
Secured debt financing	13,342	—	13,449	39,819
Secured debt repayments	(1,254)	(838)	(2,421)	(932)
Secured operating line	(3,852)	(2,468)	(1,914)	163
Distributions to unitholders	(3,119)	(2,444)	(6,238)	(2,444)
Discontinued operations	(89)	(94)	(187)	7,500
	5,054	981	2,715	153,059
Investing activities:				
Acquisition of net assets on initial public offering	—	(2,386)	—	(154,978)
Proceeds of sale of income-producing properties	2,036	—	2,036	—
Additions to deferred costs	(1,129)	—	(1,220)	—
Deposits and deferred acquisition costs	(3,841)	—	(3,841)	—
Discontinued operations	(52)	(378)	(137)	(378)
	(2,986)	(2,764)	(3,162)	(155,356)
Increase in cash	973	5,910	629	6,373
Cash, beginning of period	668	463	1,012	—
Cash, end of period	\$ 1,641	\$ 6,373	\$ 1,641	\$ 6,373

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)
(In thousands of dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	Period from March 22, 2004 to June 30, 2004
	2005	2004	2005	
Supplemental cash flow information:				
Mortgages assumed on acquisition	\$ —	\$ —	\$ —	\$ 85,574
Interest paid	2,191	2,028	4,550	2,248

See accompanying notes to consolidated financial statements.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

1. Basis of presentation:

Retrocom Mid-Market Real Estate Investment Trust (the "Trust") 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 properties acquired.

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 the lower of cost less accumulated depreciation and net recoverable amount.

An impairment loss is required to be recognized when the carrying amount of any individual 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 a property exceeds its fair value.

(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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
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(Unaudited)

2. Significant accounting policies (continued):

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.

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.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

2. Significant accounting policies (continued):

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:

Tenant improvements, leasing costs and financing costs are amortized on a straight-line basis over the terms of the leases or mortgages to which they relate.

(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 intends to make distributions not less than the amount necessary to ensure that the Trust will not be liable to pay income taxes.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
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(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 period 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:

The Trust accounts for its Long-Term Incentive Plan ("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.

As the units issued under the LTIP are treated as options for accounting purposes, they are included in the calculation of diluted net income per unit.

3. Income-producing properties:

June 30, 2005	Cost	Accumulated depreciation	Net book value
Land	\$ 38,594	\$ —	\$ 38,594
Buildings	155,359	4,832	150,527
Building improvements	1,403	75	1,328
	<u>\$ 195,356</u>	<u>\$ 4,907</u>	<u>\$ 190,449</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 June 30, 2005 and 2004 and six months ended June 30, 2005
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(Unaudited)

3. Income-producing properties (continued):

December 31, 2004 (Audited)	Cost	Accumulated depreciation	Net book value
Land	\$ 38,594	\$ —	\$ 38,594
Buildings	155,359	2,907	152,452
Building improvements	1,343	36	1,307
	<u>\$ 195,296</u>	<u>\$ 2,943</u>	<u>\$ 192,353</u>

4. Deferred costs:

June 30, 2005	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 2,097	\$ 188	\$ 1,909
Deferred financing costs	836	183	653
Recoverable improvements	2,199	537	1,662
Tenant improvements on property acquisitions	8,222	2,416	5,806
	<u>\$ 13,354</u>	<u>\$ 3,324</u>	<u>\$ 10,030</u>

December 31, 2004 (Audited)	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 1,181	\$ 111	\$ 1,070
Deferred financing costs	454	74	380
Recoverable improvements	2,277	390	1,887
Tenant improvements on property acquisitions	8,222	1,410	6,812
	<u>\$ 12,134</u>	<u>\$ 1,985</u>	<u>\$ 10,149</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 June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

5. Intangible assets:

June 30, 2005	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 42,217	\$ 15,243	\$ 26,974
Above-market in-place leases	852	312	540
	\$ 43,069	\$ 15,555	\$ 27,514

December 31, 2004 (Audited)	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 42,368	\$ 10,475	\$ 31,893
Above-market in-place leases	852	195	657
	\$ 43,220	\$ 10,670	\$ 32,550

6. Amounts receivable:

	June 30, 2005	December 31, 2004 (Audited)
Tenant receivables	\$ 6,138	\$ 1,462
Amount receivable from Retrocom Growth Fund Inc. ("RGFI") (note 16)	1,709	1,405
Amounts receivable from other vendors	1,109	1,091
Straight-line rent	907	498
Other	55	351
	\$ 9,918	\$ 4,807

The amount receivable from RGFI is secured by a pledge of RGFI's interest in a parcel of land.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

7. Mortgages payable:

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% and 10% per annum (weighted average interest rate per annum of 6.4%) and mature at various dates between 2005 and 2015. Substantially, all mortgages require monthly principal and interest payments. Future payments, excluding the unamortized premium of \$174, are as follows:

2005 (remainder of the year)	\$	13,856
2006		17,505
2007		19,744
2008		15,939
2009		46,227
Thereafter		29,250
	\$	142,521

As at June 30, 2005, the fair market value of the mortgages was \$143,874.

8. Secured operating line:

The Trust has an operating line of up to \$11,000 which expires on September 15, 2005. Draws on this facility are subject to certain security provisions. Interest is at prime rate plus 100 basis points. As at June 30, 2005, \$9,457 was drawn on the operating line. Subsequent to period end, the operating line was paid down by approximately \$8,300 and the secured operating line was reduced to \$9,300 from \$11,000.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

9. Intangible liabilities:

June 30, 2005	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,316	\$ 545	\$ 1,771

December 31, 2004 (Audited)	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,360	\$ 382	\$ 1,978

10. Accounts payable and other liabilities:

	June 30, 2005	December 31, 2004 (Audited)
Accounts payable and accrued liabilities	\$ 8,500	\$ 6,736
Tenant deposits	403	374
Deferred revenue	339	1,293
	\$ 9,242	\$ 8,403

11. Units issued:

	June 30, 2005		June 30, 2004	
	Units	Amount	Units	Amount
Issuance of units pursuant to the IPO private placement and over-allotment, net of issue costs	12,176,000	\$ 108,415	12,176,000	\$ 104,953

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

12. 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 pre-pay any remaining instalments at their discretion. 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, and 412,500 units were issued March 22, 2004 at an average purchase price of \$10 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 10.25%; expected volatility of between 12% and 14%; risk-free interest rate of 4.17%; expected life of 10 years; and average expected tenure of eight years. The fair value also includes the estimated present value of the 1.5% benefit at an assumed market rate of return between 4.0% to 4.5% and assuming an average employee tenure of eight years.

Compensation cost of \$175, 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 3% 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)

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
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(Unaudited)

13. 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 principals.

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

14. Per unit calculations:

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

15. Risk management and fair value:

(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. 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)
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Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
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(Unaudited)

15. Risk management and fair value (continued):

(b) Fair values:

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

16. Related party transactions:

Other than the transactions disclosed elsewhere in these financial statements, the Trust had the following significant related party transactions:

(a) The Trust retained Retrocom Investment Management Inc. ("RIMI") to provide advisory, asset management and administration services to the Trust. The agreement has a five-year term expiring in 2009 and is renewable upon mutual agreement. The Trust has incurred \$205 and \$413, respectively, of fees for these services during the three months and six months ended June 30, 2005 (2004 - \$247 and \$267, respectively), of which \$67 (2004 - \$267) is included in accounts payable and other liabilities. Subsequently, the amount has been paid.

(b) The Trust also retained RIMI to provide property management and leasing services to the Trust. The agreement has an initial term of five years. On December 14, 2004, RIMI subcontracted substantially all of the property management and leasing services for the Trust to O&Y Enterprise GP Inc. The Trust incurred \$396 and \$774, respectively, of property management fees during the three and six months ended June 30, 2005 (2004 - \$336 and \$362, respectively). The Trust also reimbursed the property manager for certain costs.

RIMI also rents office space at two of the properties. Rental revenue for the three months and six months ended June 30, 2005 was \$52 and \$104, respectively (2004 - nil and nil, respectively) and \$8 (2004 - nil) is included in amounts receivable.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
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16. Related party transactions (continued):

- (c) At the time of the IPO, the Trust entered into six head lease arrangements with RGFI, a vendor of properties to the Trust, relating to 95,949 square feet of space. The total amount of revenue recorded during the three months and six months ended June 30, 2005 under the head leases is \$86 and \$222, respectively (2004 - \$277 and \$313, respectively). As at June 30, 2005, five of the head leases for a total of 74,049 square feet had been subleased. The remaining head lease has been subleased for 14,400 square feet. Subsequent to the period end, the remaining 7,500 square feet was subleased.
- (d) At the time of the IPO, the Trust entered into an interest and capital maintenance agreement with RGFI, whereby RGFI guaranteed to provide financing on the same amounts, terms and interest rate on one of the properties as the Trust has assumed on the initial acquisition. The mortgage on this property is for a period of five years, with a principal balance on closing of \$14,098 and an interest rate of 5.95%. The mortgage was financed at 5.7% and the Trust paid RGFI \$8 and \$16, respectively, during the three months and six months ended June 30, 2005 (2004 - nil and nil, respectively).
- (e) On June 15, 2005, the Trust exercised its right to require RGFI to repurchase its interest in Maple Park at the same price at which the Trust acquired the property. The property has been reclassified to discontinued operations (note 20).
- (f) The Trust entered into an option agreement with RGFI that will allow the Trust to acquire land for a price of \$3,600, which approximates its fair value. This option expires September 25, 2005.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005 and period from March 22, 2004 to June 30, 2004
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17. Co-ownership activities:

The Trust holds 50% interest in three income-producing properties. The following amounts are proportionately consolidated in the Trust's financial statements:

	June 30, 2005	December 31, 2004
		(Audited)
Assets	\$ 17,117	\$ 17,014
Liabilities	10,144	10,117

	Three months ended June 30,		Six months ended June 30,	Period from March 22, 2004 to June 30, 2004
	2005	2004	2005	2004
Revenue	\$ 686	\$ 65	\$ 1,356	\$ 708
Expenses	642	26	1,307	492

18. Commitments and contingencies:

- (a) The Trust is contingently liable for mortgage obligations of co-owners. In each case, the co-owners' share of the assets in each co-ownership are available for the purpose of satisfying these obligations and the estimated market values of these assets are in excess of the obligation secured.
- (b) The mortgage on one property has been cross-collateralized with indebtedness owed by the vendor on two other 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 losses that the Trust may incur in connection with a default by the vendor under the cross-collateralized loan, and has agreed to grant to the Trust a dilution right pursuant to which the vendor's co-ownership interest would be reduced and the Trust's interest correspondingly increased, to the extent that any default by the vendor under the cross-collateralized loan is not covered by the indemnity.

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18. Commitments and contingencies (continued):

(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.

19. Subsequent events:

The Trust raised approximately \$51,521 through the issuance of 6,245,000 units at \$8.25 per unit, and the issuance of \$20,000 of unsecured, convertible, subordinated debentures (the "Public Offering") on July 26, 2005.

The net proceeds from the Public Offering were used to acquire interest in seven income-producing properties.

At June 30, 2005, the Trust incurred \$3,841 towards the acquisition of the seven income-producing properties, including deposits of \$2,750 and third party professional fees of \$1,091.

20. Discontinued operations:

On April 29, 2005 and June 15, 2005, the Trust adopted formal plans to dispose of the assets and business operations of its interest in the Glenmore Commerce Court and Maple Park properties, respectively, meeting the criteria to report these properties as assets held for sale and discontinued operations. In addition, the Trust completed the sale of Northgate Shopping Centre during June of 2005, meeting the criteria to report its prior operations as discontinued operations. Accordingly, the operating results of the three properties have been classified under discontinued operations and comparative figures have been reclassified. In addition, the assets and liabilities of Glenmore Commerce Court and Maple Park have been reclassified as assets held for sale at June 30, 2005.

The consideration received on the sale of Northgate Shopping Centre consisted of cash proceeds of \$2,036, net of working capital and mortgage debt assumed of \$3,298 and resulted in a gain on disposition of \$273, 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)

Three months ended June 30, 2005 and 2004 and six months ended June 30, 2005
and period from March 22, 2004 to June 30, 2004
(Unaudited)

20. Discontinued operations (continued):

Summarized financial information relating to the discontinued operations, are as follows:

	Six months ended June 30, 2005	December 31, 2004 (Audited)
Assets	\$ 7,064	\$ 12,689
Mortgages payable	3,829	7,313
Other liabilities	261	105

	Three months ended June 30		Six months ended June 30, 2005	Period from March 22, 2004 to June 30, 2004
	2005	2004		
Revenue	\$ 440	\$ 674	\$ 1,149	\$ 756
Operating costs	174	331	566	371
Interest expense	89	108	188	118
Depreciation and amortization	95	187	304	211
Gain on sale of income-producing property	273	—	273	—
Income from discontinued operations	82	48	91	56