

Consolidated Financial Statements of

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets  
(In thousands of dollars)

	June 30, 2006	December 31, 2005
	(Unaudited)	
<b>Assets</b>		
Income-producing properties (note 3)	\$ 300,079	\$ 302,845
Deferred costs (note 4)	15,445	15,919
Intangible assets (note 5)	48,213	55,685
Amounts receivable (note 6)	10,316	8,731
Other assets	2,936	1,731
Cash	1,041	2,038
Discontinued operations (note 20)	3,394	20,258
	<u>\$ 381,424</u>	<u>\$ 407,207</u>
<b>Liabilities and Unitholders' Equity</b>		
Liabilities:		
Mortgages payable (note 7)	\$ 198,884	\$ 211,887
Secured operating line (note 8)	16,992	5,095
Convertible debentures (note 18)	19,393	19,360
Convertible debentures issued to vendor (note 18)	29,838	29,804
Intangible liabilities (note 9)	2,189	2,495
Accounts payable and other liabilities (note 10)	12,621	10,854
Distributions payable	1,217	1,219
Discontinued operations (note 20)	2,922	11,767
	<u>284,056</u>	<u>292,481</u>
Unitholders' equity	97,368	114,726
Commitments and contingencies (notes 11, 16 and 17)		
	<u>\$ 381,424</u>	<u>\$ 407,207</u>

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)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Rental revenue:				
Minimum rent	\$ 10,371	\$ 6,154	\$ 20,712	\$ 12,297
Recoveries from tenants	5,643	2,754	11,906	5,964
	16,014	8,908	32,618	18,261
Expenses:				
Operating	7,482	3,861	15,384	8,266
Interest:				
Long-term debt	3,011	1,852	6,085	3,701
Other	1,062	200	1,990	352
Depreciation	1,504	695	2,999	1,526
Amortization	4,388	2,993	9,058	5,769
Trust (note 15(a))	1,351	732	3,338	1,306
	18,798	10,333	38,854	20,920
Loss from operations	(2,784)	(1,425)	(6,236)	(2,659)
Gain (loss) on disposal of income-producing properties (note 20)	(3,850)	273	(3,781)	273
Other income and interest	116	165	207	281
Loss before discontinued operations	(6,518)	(987)	(9,810)	(2,105)
Income (loss) from discontinued operations (note 20)	(116)	206	(241)	(163)
Loss for the period	\$ (6,634)	\$ (781)	\$ (10,051)	\$ (2,268)
Basic and diluted loss per unit (note 11):				
Before discontinued operations	\$ (0.35)	\$ (0.08)	\$ (0.53)	\$ (0.17)
After discontinued operations	(0.36)	(0.06)	(0.54)	(0.19)
Weighted average number of units outstanding (note 11)	18,466,150	12,176,000	18,456,604	12,176,000

See accompanying notes to consolidated financial statements.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

	Six months ended June 30,	
	2006	2005
	(Unaudited)	
<b>Trust units</b>		
Balance, beginning of period	\$ 156,567	\$ 108,389
Issue costs	–	26
DRIP units issued	264	–
<b>Balance, end of period</b>	<b>\$ 156,831</b>	<b>\$ 108,415</b>
<b>Value associated with LTIP units</b>		
LTIP units under subscription	\$ 7,021	\$ 4,300
LTIP instalment loan receivable, beginning of period	\$ (6,251)	\$ (3,923)
Interest on instalment loan receivable	(123)	(78)
Distributions applied against instalment loan receivable	331	213
<b>LTIP instalment loan receivable, end of period</b>	<b>\$ (6,043)</b>	<b>\$ (3,788)</b>
<b>Cumulative loss</b>		
Balance, beginning of period	\$ (17,109)	\$ (5,924)
Loss for the period	(10,051)	(2,268)
<b>Balance, end of period</b>	<b>\$ (27,160)</b>	<b>\$ (8,192)</b>
<b>Cumulative distributions to unitholders</b>		
Balance, beginning of period	\$ (25,502)	\$ (9,850)
Distributions to unitholders, net of interest on instalment loan	(7,779)	(6,372)
<b>Balance, end of period</b>	<b>\$ (33,281)</b>	<b>\$ (16,222)</b>
<b>Total unitholders' equity</b>	<b>\$ 97,368</b>	<b>\$ 84,513</b>

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 June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (6,634)	\$ (781)	\$ (10,051)	\$ (2,268)
Items not affecting cash:				
Loss (gain) on disposal of income-producing properties	3,850	(273)	3,781	(273)
Depreciation and amortization	5,892	3,688	12,057	7,295
Straight-line rent	(105)	(135)	(269)	(290)
Amortization of above- and below- market rents, net	(51)	(49)	(117)	(92)
Amortization of mortgage premium	(175)	(18)	(347)	(38)
Accretion expense	32	—	67	—
	2,809	2,432	5,121	4,334
Change in other non-cash operating items	(227)	(3,546)	(1,345)	(4,142)
Discontinued operations	115	23	364	723
	2,697	(1,091)	4,140	915
Financing activities:				
Proceeds of issuance of units, net of issue costs	—	26	—	26
Secured debt financing	—	12,142	—	12,249
Secured debt repayments	(10,217)	(1,197)	(12,090)	(2,358)
Operating line draw (payment)	8,540	(3,852)	11,897	(1,915)
Distributions to unitholders	(3,626)	(3,119)	(7,309)	(6,239)
Discontinued operations - refinancing	—	1,200	—	1,200
Discontinued operations - repayments	(59)	(127)	(115)	(249)
Discontinued operations - discharge of mortgage	—	(3,298)	(3,335)	(3,298)
	(5,362)	1,775	(10,952)	(584)
Investing activities:				
Proceeds of sale of discontinued operations	3,845	5,486	7,791	5,486
Deposits and deferred acquisition costs	—	(3,841)	—	(3,841)
Addition to income-producing properties	(102)	(59)	(222)	(59)
Additions to deferred costs	(1,391)	(1,206)	(1,754)	(1,297)
	2,352	380	5,815	289
Increase (decrease) in cash	(313)	1,064	(997)	620
Cash, beginning of period	1,354	461	2,038	905
Cash, end of period	\$ 1,041	\$ 1,525	\$ 1,041	\$ 1,525
Supplemental cash flow information:				
Interest paid	\$ 4,008	\$ 2,490	\$ 8,691	\$ 5,002
Supplemental disclosure of non-cash transactions:				
Mortgage assumed on the acquisition of Maple Park	2,235	—	2,235	—
Mortgage assumed by purchaser on sale of 501 Lakeshore	7,709	—	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)

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 1. Basis of presentation:

Retrocom Mid-Market Real Estate Investment Trust (the "Trust") is an unincorporated open-ended real estate investment trust 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 11).

In December 2005, the Trust engaged TD Securities to advise the Special Committee of the Board of Trustees of the Trust to assist them in their review of potential value enhancing strategies. Potential strategies being considered may include maintaining the continuing operational status of the Trust and strategic dispositions or mergers.

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 and amortization.

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 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 and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 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.

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 depreciation or amortization expense.

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

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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

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# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 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:

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 and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 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 and they are included in the calculation of diluted loss per unit.

### (i) Variable interest entities ("VIE"):

The Canadian Institute of Chartered Accountants 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 and six months ended June 30, 2006 and 2005  
(Unaudited)

### 3. Income-producing properties:

June 30, 2006	Cost	Accumulated depreciation	Net book value
Land	\$ 70,504	\$ —	\$ 70,504
Buildings	237,428	9,840	227,588
Building improvements	2,136	149	1,987
	<u>\$ 310,068</u>	<u>\$ 9,989</u>	<u>\$ 300,079</u>

December 31, 2005	Cost	Accumulated depreciation	Net book value
Land	\$ 70,491	\$ —	\$ 70,491
Buildings	237,377	6,885	230,492
Building improvements	1,993	131	1,862
	<u>\$ 309,861</u>	<u>\$ 7,016</u>	<u>\$ 302,845</u>

### 4. Deferred costs:

June 30, 2006	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 4,125	\$ 624	\$ 3,501
Deferred financing costs	1,686	501	1,185
Recoverable improvements	4,402	1,073	3,329
Tenant improvements on income-producing property acquisitions	12,385	4,955	7,430
	<u>\$ 22,598</u>	<u>\$ 7,153</u>	<u>\$ 15,445</u>

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

## 4. Deferred costs (continued):

December 31, 2005	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 3,102	\$ 303	\$ 2,799
Deferred financing costs	1,617	361	1,256
Recoverable improvements	4,021	846	3,175
Tenant improvements on income-producing property acquisitions	12,433	3,744	8,689
	\$ 21,173	\$ 5,254	\$ 15,919

## 5. Intangible assets:

June 30, 2006	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 72,857	\$ 25,335	\$ 47,522
Above-market in-place leases	1,259	568	691
	\$ 74,116	\$ 25,903	\$ 48,213

December 31, 2005	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 73,108	\$ 18,304	\$ 54,804
Above-market in-place leases	1,315	434	881
	\$ 74,423	\$ 18,738	\$ 55,685

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

## 6. Amounts receivable:

	June 30, 2006	December 31, 2005
Tenant receivables	\$ 4,081	\$ 2,908
Amount receivable from Retrocom Growth Fund Inc. ("RGFI") (note 15(c))	405	405
Amounts receivable from other vendors	1,523	1,308
Accrued rents receivable, straight-line rent	1,396	1,090
Interest subsidy (a)	1,379	1,732
Other (b)	2,281	2,037
Allowances for uncollectible amounts	(749)	(749)
	<u>\$ 10,316</u>	<u>\$ 8,731</u>

- (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.
- (b) Other amounts receivable include a \$1,897 vendor take-back mortgage receivable ("VTB") (2005 - \$1,805) from a purchaser of a property disposed of in 2005. The VTB accrues interest at 10.25% per year, payable on maturity at December 21, 2007.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 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 5.2% and 9.8% (December 31, 2005 - 5.2% and 10.0%) per annum, with a weighted average interest rate per annum of 6.4% (December 31, 2005 - 6.4%) and mature at various dates between 2006 and 2015. After giving effect to the subsidy (note 6(a)), mortgages payable bear a weighted average interest rate of 6.0% (December 31, 2005 - 6.1%). Substantially all mortgages require monthly principal and interest payments. Future payments, excluding the unamortized premium of \$1,560 (December 31, 2005 - \$1,907), are as follows:

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2006 (remainder of year)	\$ 14,608
2007	36,057
2008	8,029
2009	51,677
2010	9,509
Thereafter	77,444
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	\$ 197,324

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As at June 30, 2006, the fair market value of the mortgages was \$194,013 (December 31, 2005 - \$220,163).

## 8. Secured operating line:

The Trust has an operating line of up to \$35,000 (December 31, 2005 - \$9,800), which expires on March 31, 2007. Draws on this facility are subject to the Trust providing appropriate security. At June 30, 2006, approximately \$20,000 was available, of which \$16,992 (December 31, 2005 - \$5,095) was drawn, on this operating line. This facility is secured with specific charges on certain properties. Interest is at prime plus 100 basis points.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

## 9. Intangible liabilities:

June 30, 2006	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 3,176	\$ 987	\$ 2,189

December 31, 2005	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 3,338	\$ 843	\$ 2,495

## 10. Accounts payable and other liabilities:

	June 30, 2006	December 31, 2005
Accounts payable and accrued liabilities	\$ 11,867	\$ 10,163
Tenant deposits	120	66
Deferred revenue	634	625
	\$ 12,621	\$ 10,854

## 11. Trust units:

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

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

## 11. Trust units (continued):

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:

	Six months ended June 30, 2006		Six months ended June 30, 2005	
	Units	Amount	Units	Amount
Balance, beginning of period	18,440,763	\$ 156,567	12,176,000	\$ 108,415
Issued under distribution reinvestment plan (b)	38,965	264	—	—
<b>Balance, end of period</b>	<b>18,479,728</b>	<b>\$ 156,831</b>	<b>12,176,000</b>	<b>\$ 108,415</b>

The weighted average number of fully diluted units for the six months ended June 30, 2006 is 24,352,595 units (June 30, 2005 - 12,588,500 units). The convertible debentures are currently anti-dilutive; therefore, fully diluted net loss per unit is the same as basic loss per unit.

### (b) Distribution reinvestment plan:

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

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 11. Trust units (continued):

### (c) Per unit calculation:

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

### (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 distribute to unitholders not less than 80% of the distributable cash as defined in the Declaration of Trust.

## 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 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 December 2, 2005, 394,500 units were issued at an average purchase price of \$6.62. On March 22, 2004, 412,500 units were issued at an average purchase price of \$10 per unit.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 12. Long-Term Incentive Plan (continued):

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%; expected volatility of between 15% and 20%; risk-free interest rate of 4.06%; expected life of 10 years; and average expected tenure of 8 years. The fair value also includes the estimated present value of the 1.25% benefit at an assumed market rate of return of between 5.00% to 5.25%.

Compensation costs, attributable to the LTIP, are charged against earnings with a corresponding amount included in unitholders' equity as units under subscription in the period in which they are issued. 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 4.00% received under the LTIP is credited to distributions.

During the first quarter of 2006, the Trust announced its intention to cancel the LTIP. The Trust anticipates no cash outflows to be incurred on the cancellation of the LTIP.

## 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 principles.

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

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 14. 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 three mortgages of \$22,234 as at June 30, 2006 (December 31, 2005 - \$18,970). 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 and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 15. 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 RIMI to provide asset management services to the Trust. The agreement had a five-year term expiring in 2009 and was renewable upon mutual agreement. The Trust incurred nil and \$205 for the three months and six months ended June 30, 2006 (2005 - \$205 and \$413), respectively, in asset management and acquisition advisory fees. Of this, nil (December 31, 2005 - \$113) is included in accounts payable and other liabilities. Additionally, the Trust reimbursed RIMI for certain costs in the amount of \$39 and \$106 for the three months and six months ended June 30, 2006 (2005 - nil and nil), respectively.

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 settlement of \$750, and has paid asset management fees for March and April 2006 of \$199.

- (b) 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. ("O&Y"). RIMI receives an ongoing payment of 20% of the property management fee paid by the Trust. The Trust incurred nil and \$343 of property management and construction development fees during the three months and six months ended June 30, 2006 (2005 - \$205 and \$413), respectively, of which \$92 (December 31, 2005 - (\$179)) is included in amounts receivable. The Trust also reimbursed the property manager for certain costs.

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.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 15. Related party transactions (continued):

RIMI also rents office space at Woodbine Place and 501 Lakeshore Road East. Rental revenue for the three months and six months ended June 30, 2006 was nil and \$31 (2005 - \$52 and \$104), respectively, and \$18 (December 31, 2005 - \$16) is included in amounts receivable.

- (c) RGFI was initially considered a related party due to certain common trustees on the respective boards. Effective August 31, 2005, the Trust completed an arrangement with RGFI to settle the outstanding related party arrangements, including the head lease arrangements, interest and capital maintenance agreement, the Maple Park Put, the excess land acquisition at Pickering Plaza and the related working capital balances. The Trust continued to guarantee the Maple Park Shopping Center mortgage. This settlement resulted in a receivable from RGFI of \$405, including a note receivable of \$269 which bears interest at 6% per annum, payable monthly and the principal repayment due August 31, 2010. Leasing costs and capital costs charged to RGFI for the three months and six months ended June 30, 2006 total nil and nil (2005 - \$4 and \$48), respectively. Effective the date of the settlement, RGFI is no longer considered a related party.
- (d) At the time of the IPO, the Trust entered into six head lease arrangements with RGFI, a primary vendor of income-producing 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, 2006, under the head leases is nil and nil (2005 - \$82 and \$174), respectively. These head lease arrangements have now been terminated as part of the settlement with RGFI (note 15(c)).
- (e) 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 income-producing properties as the Trust has assumed on the initial acquisition. The mortgage on this income-producing 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 nil and nil (2005 - \$8 and \$16), respectively, during the three months and six months ended June 30, 2006. This agreement has been terminated as part of the settlement with RGFI (note 15(c)).

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

## 16. Co-ownership activities:

As at June 30, 2006, the Trust holds 50% interest in three income-producing properties (December 31, 2005 - three). During 2005, the Trust sold its interest in Northgate Shopping Centre following the exercise of the split option by the co-owner. The following amounts are proportionately consolidated in the Trust's financial statements:

	June 30, 2006	December 31, 2005
Assets	\$ 16,860	\$ 17,116
Liabilities	9,984	10,055

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenue	\$ 679	\$ 686	\$ 1,402	\$ 1,356
Expenses	653	641	1,336	1,307

The Trust is contingently liable for mortgage obligations of co-owners. In each case, the co-owner's share of the assets in each co-ownership is available for the purpose of satisfying these obligations and the estimated market values of these assets are 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)

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## **17. Commitments and contingencies:**

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

- (a) The mortgage on one income-producing property has been cross-collateralized with indebtedness 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, 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.
- (b) 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.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 18. Convertible debentures:

- (a) On July 26, 2005, the Trust issued \$20,000 principal amount of unsecured, convertible, subordinated, seven year debentures (the "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 expected to be \$9.25 per unit. The Debentures are currently anti-dilutive. At June 30, 2006, the Debentures balance outstanding include debt of \$19,393 (December 31, 2005 - \$19,360) and equity of \$672 (December 31, 2005 - \$672).

Interest expense has been calculated and accreted on the debt portion using a discount rate of approximately 8.1% for an interest expense of \$391 and \$790 (2005 - nil and nil), respectively, for the three months and six months ended June 30, 2006. During the three months and six months ended June 30, 2006, none of the Debentures holders exercised their option to convert the units.

As at June 30, 2006, the fair market value of these Debentures was approximately \$20,000 (December 31, 2005 - \$20,440).

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 18. 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 June 30, 2006, the debentures balance outstanding includes debt of \$29,838 (December 31, 2005 - \$29,804) and equity of \$232 (December 31, 2005 - \$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% for an interest expense of \$353 and \$709 (2005 - nil and nil), respectively, for the three months and six months ended June 30, 2006. During the three months and six months ended June 30, 2006, the holder of the convertible debentures has not exercised its option to convert the units.

As at June 30, 2006, the fair market value of these convertible debentures issued to a vendor was \$28,812 (December 31, 2005 - \$29,016).

## 19. Reacquisition and planned disposition of Maple Park Shopping Centre:

In May 2006, the Trust repurchased Maple Park Shopping Centre for a nominal amount plus the assumption of net working capital liability of \$291 and assumed the balance outstanding on the mortgage of \$2,235. Management believes that the fair value of the property exceeds the mortgage balance outstanding.

At the time of the repurchase, the Trust entered into an agreement with RGFI, whereby any gain on subsequent sale of the property to a third party, after repayment of the mortgage, will first be applied to accounts receivable from RGFI, any other costs incurred by the Trust, and any remaining gain will be allocated between the Trust at 75% and RGFI at 25%.

Subsequent to the reacquisition, the Trust has entered into an agreement to sell Maple Park to a third party subject to closing conditions. The sale is expected to close in the next quarter (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 and six months ended June 30, 2006 and 2005  
(Unaudited)

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## 20. Discontinued operations:

In February 2006, the Trust completed the sale of Cassils Centre Mall. The consideration received on the sale consisted of cash proceeds of \$3,946, prior to mortgage repayment of \$3,335, and resulted in a gain on disposition of \$69, which has been included as a gain on sale under discontinued operations.

In April 2006, the Trust completed the sale of 501 Lakeshore Road for total proceeds of \$11,554, prior to mortgage repayment of \$7,709. The sale resulted in a loss on disposition of \$3,850, which has been included in discontinued operations.

Summarized financial information relating to the sale of 501 Lakeshore Road and planned disposition of Maple Park in the current three-month period and other discontinued operations in previous periods is as follows:

	June 30, 2006	December 31, 2005
<b>Assets:</b>		
Income-producing properties	\$ 2,506	\$ 17,571
Deferred costs	94	536
Intangible assets	—	1,586
Other	794	565
	<hr/>	<hr/>
	\$ 3,394	\$ 20,258
<b>Liabilities:</b>		
Mortgages payable	\$ 2,209	\$ 11,134
Other liabilities	713	633
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	\$ 2,922	\$ 11,767

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Three months and six months ended June 30, 2006 and 2005  
(Unaudited)

## 20. Discontinued operations (continued):

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
<b>Rental revenue:</b>				
Minimum rent	\$ 202	\$ 881	\$ 539	\$ 1,985
Recoveries from tenants	96	770	335	1,426
	\$ 298	\$ 1,651	\$ 874	\$ 3,411
<b>Expenses:</b>				
Operating	\$ 210	\$ 535	\$ 528	\$ 1,449
Interest on long-term debt	80	442	242	906
Depreciation	56	198	131	402
Amortization	68	270	214	817
	\$ 414	\$ 1,445	\$ 1,115	\$ 3,574
<b>Discontinued operations:</b>				
Gain (loss) on disposal of income-producing properties	\$ (3,850)	\$ 273	\$ (3,781)	\$ 273
Income (loss) from discontinued operations	(116)	206	(241)	(163)
	\$ (3,966)	\$ 479	\$ (4,022)	\$ 110