

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(for the three month period from April 1, 2005 to June 30, 2005; in \$000's, except per unit amounts)

Executive Summary

Retrocom Mid-Market REIT (the "Trust") continues to experience improved results from the successful execution of its strategies, and continues to deliver stable cash flows from its diversified portfolio of real property assets to our unitholders.

The Trust's long term internal objectives are to increase our occupancy rate, raise our average net rent in place and lower our cost of debt. Our average net rent in place has increased for two consecutive quarters, up by \$0.38 per square foot over the first quarter, which was up \$0.16 per square foot over the fourth quarter, for a cumulative improvement of \$0.54 per square foot from Q4 to Q2. As we forecast in our last MD&A, the Trust's weighted average interest rate on debt dropped to 6.4% during the second quarter from 6.7% in the first quarter, and mortgage maturity terms were lengthened to 4.14 years in the second quarter from 2.9 years in the first quarter. While our occupancy rate has trended slightly downwards in 2005, we are confident that the third and fourth quarters of 2005 will deliver improved leasing results. Part of the decline in occupancy rate this quarter can be attributed to the disposal of our 50% interest in Northgate Shopping Centre, one of two properties sold in the second quarter. The Trust also sold Glenmore Commerce Court.

The year-to-date distributable income and distributable income per unit were \$5,940 and \$0.49 respectively for the period. On a fully diluted basis the distributable income per unit was \$0.47. The actual payout ratio in the second quarter was 102%, down from 108% in the first quarter, which was in turn down from 119% in the fourth quarter. Our cumulative payout ratio since inception is 100%. While we are pleased with the improvement in our payout ratio, we are still not satisfied as the ratio is higher than we would like it to be. This is due to results from a small number of under-achieving properties, which Management has plans to reformat or dispose of, and greater than expected Trust expenses. We have a strategy in place to deal with Trust expenses. There are no plans being considered to reduce distributions, and Management remains focused on improving efficiencies to further reduce our payout ratio.

During the second quarter of 2005, Management also worked diligently to close a significant acquisition (effective July 1st), from which we expect to see positive financial results in the third quarter and onwards. By aggressively executing our external growth strategy, we believe that this transaction will significantly lower our cost of debt, weighted average interest rate and increase the terms to expiry of our mortgages while providing potential for continued upside on occupancy and leasing rates. We believe that growth and stability will be realized through accretive acquisitions and that investing in quality assets demonstrating increased lease rate enhancement or occupancy improvement will bring economies of scale to the Trust, thereby improving our margins and overall financial performance.

By continuing to execute our strategic plan during the balance of 2005 we anticipate increased revenues, decreased operating costs and overall improved financial performance from the portfolio. Management remains confident that its decision to subcontract the leasing and property management function will improve occupancy rates and average net rent in place throughout the remainder of the year. Overall, we believe we will bring our payout ratio in line with expectations, and that our unitholders will see continued value in their Trust units.

On behalf of Management and the Trustees of Retrocom Mid-Market REIT, I look forward to your continued support of our efforts.



Michael Steplock
President & CEO
Retrocom Mid-Market REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following interim management's discussion and analysis of financial condition and results of operations ("MD&A") updates our annual MD&A for the three month period ended March 31, 2005, to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in our annual MD&A. This MD&A is dated as of August 12th, 2005.

This interim MD&A should be read in conjunction with the unaudited consolidated interim financial statements of Retrocom Mid-Market Real Estate Investment Trust (the "Trust" or the "REIT") and the notes thereto for the three months ended June 30, 2005 and 2004 and six months ended June 30, 2005, and the period from March 22, 2004 to June 30, 2004, the audited consolidated financial statements of the REIT and the notes thereto for the period from the commencement of operations on March 22, 2004 to December 31, 2004, the REIT's annual information form dated March 31, 2005 and the REIT's short form prospectus dated July 20, 2005 (the "Prospectus").

The MD&A contains forward-looking information based on management's best estimates and the current operating environment. These forward-looking statements are related to, but not limited to, the Trust's operations, anticipated financial performance, economic conditions, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such factors include, but are not limited to, economic, competitive and commercial real estate conditions.

Overview

The Trust is an unincorporated open-ended real estate investment trust created pursuant to a Declaration of Trust dated December 15, 2003. The Trust is governed by the laws of Ontario. The units of the Trust trade on the Toronto Stock Exchange under the symbol RMM.UN.

The Trust completed its Initial Public Offering ("IPO") of 11,069,000 units on March 22, 2004 for gross proceeds of \$110,690. On April 13, 2004, the Trust issued an additional 1,107,000 units for gross proceeds of \$11,070 pursuant to the exercise of an over allotment option granted as part of the IPO. Total proceeds from the IPO and the over allotment, net of issue costs, were \$108,389 and were used to acquire a geographically diversified portfolio throughout Canada. As at June 30, 2005 the portfolio consisted of 30 retail, 2 office and 2 light industrial properties comprising approximately 3.7 million square feet of gross leasable area. There are 12,176,000 issued and outstanding units of the Trust as at June 30, 2005.

Subsequent to June 30, 2005, the Trust completed an acquisition in which it raised approximately \$51,521 through the issuance of 6,245,000 units at \$8.25 per unit, and the issuance of \$20,000 of 7.5% unsecured, convertible, subordinated debentures (the "Public Offering"). The total purchase price of the acquisition was \$182,000 and was satisfied by cash of approximately \$62,000, the assumption of existing mortgages on the acquired properties of approximately \$90,000 and the issuance of \$30,000 of 4.5% secured, non-callable convertible, subordinate debentures to the vendor. The net proceeds from the Public Offering were used to acquire an interest in seven shopping centres comprising a total of approximately 1,824,359 square feet of leasable area.

The objectives of the Trust are to generate stable and growing cash distributions for its unitholders, to enhance the value of the Trust's assets and maximize long term unit value, and to expand the asset base of the Trust and its Distributable Income through accretive acquisitions.

The Trust's business depends primarily on three types of contracts: (1) lease agreements, which generate rental revenues and transfer virtually all of the risk of variable operating expenses to the tenants; (2) loan agreements, which determine interest expense using fixed and variable rates and loan principal repayments; and (3) management agreements, which determine certain operating expenses and general and administrative expenses. The terms of each of the agreements are generally greater than one year in length.

Actual Financial Results with Comparison by Quarter

The following table shows the quarterly results of the Trust since the beginning of operations on March 22, 2004:

| | in \$000's | in \$000's | in \$000's | in \$000's | in \$000's | in \$000's | in \$000's |
|---|--|-----------------------|-----------------------|--------------------------|---------------------------|-----------------------|------------------------|
| | Cumulative Results of Operations | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended | 10 Day Period Ended |
| | March 22, 2004 to June 30, 2005 | June 30, 2005 (1) | March 31, 2005 (2) | December 31, 2004 (3) | September 30, 2004 (4) | June 30, 2004 (5) | March 31, 2004 (6) |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Rental Revenue and Other Income | \$ 51,839 | \$ 10,288 | \$ 10,519 | \$ 10,338 | \$ 9,550 | \$ 10,119 | \$ 1,026 |
| Expenses | | | | | | | |
| Operating | 22,123 | 4,154 | 4,806 | 4,710 | 3,974 | 4,024 | 456 |
| Trust Expenses | 3,030 | 731 | 575 | 784 | 354 | 380 | 206 |
| | <u>25,153</u> | <u>4,885</u> | <u>5,380</u> | <u>5,494</u> | <u>4,328</u> | <u>4,404</u> | <u>662</u> |
| Income before Interest, Depreciation & Amortization | 26,686 | 5,403 | 5,138 | 4,844 | 5,222 | 5,715 | 364 |
| Add: Gain on Disposal of IPP (8) | 131 | - | - | 131 | - | - | - |
| Less: Interest | (11,452) | (2,409) | (2,362) | (2,289) | (2,144) | (2,028) | (220) |
| Depreciation & Amortization | (23,877) | (4,129) | (4,271) | (6,081) | (4,472) | (4,649) | (275) |
| Loss before Discontinued Operations | (8,512) | (1,135) | (1,495) | (3,395) | (1,394) | (962) | (131) |
| Gain on Disposal of Discontinued Operations | 273 | 273 | - | - | - | - | - |
| Income (Loss) from Discontinued Operations | 48 | 82 | 9 | (54) | (45) | 48 | 8 |
| Net Loss | (8,191) | (780) | (1,486) | (3,449) | (1,439) | (914) | (123) |
| Add Back: | | | | | | | |
| Depreciation & Amortization (7) | 24,569 | 4,135 | 4,383 | 6,214 | 4,690 | 4,850 | 297 |
| Gain on Disposal of IPP | (404) | (273) | - | (131) | - | - | - |
| Amortization of Fair Value | | | | | | | |
| Adjustment of Debt | (107) | (18) | (21) | (22) | (26) | (20) | - |
| Distributable Income | <u>\$ 15,867</u> | <u>\$ 3,064</u> | <u>\$ 2,876</u> | <u>\$ 2,612</u> | <u>\$ 3,225</u> | <u>\$ 3,916</u> | <u>\$ 174</u> |
| Distributable Income per Unit: | | | | | | | |
| Basic | \$1.31 | \$0.25 | \$0.24 | \$0.21 | \$0.26 | \$0.33 | \$0.02 |
| Fully Diluted | \$1.28 | \$0.24 | \$0.23 | \$0.21 | \$0.26 | \$0.32 | \$0.02 |
| Total Payout to Unitholders | \$ 15,884 | \$ 3,119 | \$ 3,119 | \$ 3,119 | \$ 3,119 | \$ 3,119 | \$ 289 |
| Payout Ratio | 100% | 102% | 108% | 119% | 97% | 80% | 166% |

Notes

- 1 Based on the unaudited financial statements for the three months ended June 30, 2005.
 - 2 Based on the unaudited financial statements for the three months ended March 31, 2005. *
 - 3 Based on the unaudited financial statements for the three months ended December 31, 2004. *
 - 4 Based on the unaudited financial statements for the three months ended September 30, 2004. *
 - 5 Based on the unaudited financial statements for the three months ended June 30, 2004. *
 - 6 Based on the unaudited financial statements for the 10 day period ended March 31, 2004. *
 - 7 Amounts in the three months ended June 30 and September 30, 2004 have been adjusted from the previous filings to reflect the additions and deductions to Distributable Income, as defined in the REIT's Declaration of Trust. The addback of Depreciation and Amortization includes Depreciation and Amortization which is included in Income (Loss) from Discontinued Operations.
 - 8 Income-Producing Properties.
- * These Financial Statements have been revised to reflect the discontinue operations treatment of properties sold or held for sale.

Comparison of the Three Months Ended June 30, 2005 to the Three Months Ended June 30, 2004

The Trust's financial results for the three months ended June 30, 2005 compared to the three month period ended June 30, 2004 are summarized below:

| | in \$000's | in \$000's | in \$000's |
|---|--|--|---|
| | Three Months Ended June 30, 2005 (1) (unaudited) | Three Months Ended June 30, 2004 (2) (unaudited) | Variance to Comparable Period (unaudited) |
| Rental Revenue and Other Income | \$ 10,288 | \$ 10,119 | \$ 169 |
| Expenses | | | |
| Operating | 4,154 | 4,024 | (130) |
| Trust Expenses | 731 | 380 | (351) |
| | <u>4,885</u> | <u>4,404</u> | <u>(481)</u> |
| Income before Interest, Depreciation & Amortization | 5,403 | 5,715 | (312) |
| Less: Interest | (2,409) | (2,028) | (381) |
| Depreciation & Amortization | (4,129) | (4,649) | 520 |
| Loss Before Discontinued Operations | (1,135) | (962) | (173) |
| Discontinued Operations | | | |
| Net Income | 82 | 48 | 34 |
| Gain on Sale | 273 | - | 273 |
| Net Income (Loss) | <u>(780)</u> | <u>(914)</u> | <u>134</u> |
| Add Back: | | | |
| Depreciation & Amortization | 4,135 | 4,850 | (715) |
| Less: Gain on Disposal of IPP | (273) | - | (273) |
| Adjustment of Debt | (18) | (20) | 2 |
| Distributable Income (3) | <u>\$ 3,064</u> | <u>\$ 3,916</u> | <u>\$ (852)</u> |
| Distributable Income per Unit: | | | |
| Basic | \$ 0.25 | \$ 0.33 | |
| Fully Diluted | \$ 0.24 | \$ 0.32 | |
| Total Payout to Unitholders | \$ 3,119 | \$ 3,119 | |
| Payout Ratio | 102% | 80% | |
| Weighted Average Units Outstanding | | | |
| Basic | 12,176,000 | 12,017,857 | |
| Fully Diluted | 12,588,500 | 12,430,357 | |

Notes

- 1 Based on the unaudited financial statements for the three months ended June 30, 2005.
- 2 Based on the unaudited financial statements for the three months ended June 30, 2004 which have been adjusted to reflect the discontinued operations.
- 3 Distributable Income is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Distributable Income is presented to reflect the ability of the Trust to earn income and to make distributions of cash to unitholders and therefore is considered a measure of cash available for distribution. Distributable Income as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and accordingly may not be comparable to distributable income reported by other such issuers. Generally, Distributable Income differs from Net Income, a GAAP measure, in that for any period, Net Income is adjusted for depreciation and amortization and other non-cash operating expenses and non-recurring items.

Total Operating Revenues and Expenses

Rental revenues include net rents, property tax and operating cost recoveries, and other miscellaneous income from tenants. The unfavourable variance in Rental Revenue and Other Income excluding recoveries is largely due to the aggregate of a one time lease surrender payment in 2004 and the sale of a portion of one property in the fourth quarter of 2004 offset against the increased rental revenue from the Ontario Acquisition (consisting of seven properties in Kingston, previously discussed in our fourth quarter 2004 MD&A "The Ontario Acquisition") in the fourth quarter of 2004. The favourable variance in Tax and Cost Recoveries is the result of the Ontario Acquisition, a one time chargeback to a tenant and the increase in recoverable expenses net of decreased occupancy in certain properties. The components of the aggregate rental revenue are as follows:

| Revenue Segmentation | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | Variance Favourable/(Unfavourable) |
|---|----------------------------------|----------------------------------|------------------------------------|
| Rental Revenue and Other Income, Excluding Recoveries | \$ 6,843 | \$ 7,041 | \$ (198) |
| Tax and Cost Recoveries | 3,445 | 3,078 | 367 |
| Total Rental Revenue and Other Income | \$ 10,288 | \$ 10,119 | \$ 169 |

The components of the operating expenses are as follows:

| Operating Expense Segmentation | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | Variance (Favourable)/Unfavourable |
|---|----------------------------------|----------------------------------|------------------------------------|
| Recoverable Taxes and Operating Costs | \$ 3,619 | \$ 3,525 | \$ 94 |
| Non-Recoverable Costs (Property G&A and Management) | 535 | 499 | 36 |
| Total Operating Expenses | \$ 4,154 | \$ 4,024 | \$ 130 |

The unfavourable variance of \$94 in Recoverable Taxes and Operating Costs are the result of the increase in number of properties in the portfolio as a result of the Ontario Acquisition in the fourth quarter of 2004 (net of one time repair and maintenance expenditures in 2004). The unfavourable variance of \$36 in Non-Recoverable costs is also the result of the Ontario Acquisition.

Net Operating Income

| | Three Months Ended June 30 | | | | Variance to Comparative Period Favourable/(Unfavourable) |
|-----------------------------|----------------------------|--------------|-----------------|--------------|--|
| | 2005 | | 2004 | | |
| Operating Revenue | \$ 10,288 | 100% | \$ 10,119 | 100% | \$ 169 |
| Operating Expenses | 4,154 | 40.4% | 4,024 | 39.8% | (130) |
| Net Operating Income | \$ 6,134 | 59.6% | \$ 6,095 | 60.2% | \$ 39 |

Operating revenue from properties excludes all corporate revenues, and operating expenses includes property operating expenses from properties, property taxes and ground rent. Net operating income was \$6,134 for three months ended June 30, 2005 as compared to \$6,095 in the same period of 2004.

Trust Expenses

The Trust Expenses which include Trustees' and Officers' insurance, legal and audit fees, asset management fees, Trustee expenses and general and administration costs were \$351 greater than in the comparative period. This variance relates to additional professional fees and consulting costs incurred to comply with financial and regulatory requirements. Management intends to make changes necessary to reduce these expenses going forward.

Interest Expense

Interest Expense of \$2,409 is \$381 greater than in the comparative three month period due to the addition of the seven mortgaged properties from the Ontario Acquisition in the fourth quarter of 2004 and the increased interest cost associated with greater utilization of the line of credit in 2005.

Depreciation and Amortization

Depreciation and Amortization of \$4,129 is \$520 less than in the comparative three month period in 2004 due to greater depreciation of in-place lease values and leasing costs in 2004 compared to 2005.

Distributable Income

The distributable income and distributable income per unit for the three month period ended June 30, 2005 is \$852 and \$0.08 less than in the comparative period of the previous year. On a fully diluted basis the distributable income per unit had a negative variance of \$0.08. The actual payout ratio in the second quarter was 102% (2004 - 80%), down from 108% in the prior quarter. The payout ratio has an unfavourable variance as a result of: (i) one time lease surrender revenue in 2004; (ii) trust expenses due to financial reporting requirements; and (iii) the increased interest cost associated with the higher Line of Credit.

Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated as defined in the Declaration of Trust. Distributable income may not be comparable to similar measures used by other trusts. The Trust defines distributable income fully in Note 3 of the section entitled "Comparison of the Three Months Ended June 30, 2005 to the Three Months Ended June 30, 2004". As shown in the table in the aforesaid section, depreciation and amortization of buildings, tenant improvements, in-place lease value, above and below market lease rate amortization, and the net premium on long term debt is added back to net income, and gains on the sale of assets is deducted from net income, to determine distributable income. Other adjustments may be applicable in future years if, for example, the Trust were to incur losses on the sale of assets, or future income taxes.

Comparison of the Six Months Ended June 30, 2005 to the 101 Day Period Ended June 30, 2004

The Trust's financial results for the six months ended June 30, 2005 compared to the 101 day period ended June 30, 2004 are summarized below:

| | in \$000's | in \$000's | In \$000's |
|--|--|--|---|
| | Six Months Ended June 30, 2005 (1) (unaudited) | 101 Day Period Ended June 30, 2004 (2) (unaudited) | Variance to Comparable Period (unaudited) |
| Rental Revenue and Other Income | \$ 20,806 | \$ 11,146 | \$ 9,661 |
| Expenses | | | |
| Operating | 8,961 | 4,482 | (4,479) |
| Trust Expenses | 1,306 | 586 | (720) |
| | <u>10,267</u> | <u>5,068</u> | <u>(5,201)</u> |
| Income before Interest, Depreciation & Amortization | 10,539 | 6,078 | 4,460 |
| Less: Interest | (4,771) | (2,248) | (2,523) |
| Depreciation & Amortization | (8,400) | (4,924) | (3,476) |
| Loss Before Discontinued Operations | (2,632) | (1,094) | (1,539) |
| Discontinued Operations | | | |
| Net Income | 91 | 56 | 35 |
| Gain on Sale | 273 | - | 273 |
| Loss | <u>(2,268)</u> | <u>(1,038)</u> | <u>(1,231)</u> |
| Add Back: | | | |
| Depreciation & Amortization | 8,518 | 5,147 | 3,371 |
| Gain on Disposal of IPP | (273) | - | (273) |
| Adjustment of Debt | (39) | (20) | (19) |
| Distributable Income (3) | <u>\$ 5,938</u> | <u>\$ 4,089</u> | <u>\$ 1,850</u> |
| Distributable Income per Unit: | | | |
| Basic | \$ 0.49 | \$ 0.35 | |
| Fully Diluted | \$ 0.47 | \$ 0.34 | |
| Total Payout to Unitholders | \$ 6,238 | \$ 3,408 | |
| Payout Ratio | 105% | 83% | |
| Weighted Average Units Outstanding | | | |
| Basic | 12,176,000 | 11,923,911 | |
| Fully Diluted | 12,588,500 | 12,336,411 | |

Notes

- 1 Based on the unaudited financial statements for the six months ended June 30, 2005.
- 2 Based on the unaudited financial statements for the period from March 22, 2004 to June 30, 2004 which have been adjusted to reflect the discontinued operations.
- 3 Distributable Income is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Distributable Income is presented to reflect the ability of the Trust to earn income and to make distributions of cash to unitholders and therefore is considered a measure of cash available for distribution. Distributable Income as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and accordingly may not be comparable to distributable income reported by other such issuers. Generally, Distributable Income differs from Net Income, a GAAP measure, in that for any period, Net Income is adjusted for depreciation and amortization and other non-cash operating expenses and non-recurring items.

As the Trust began operations on March 22, 2004, the comparison of the actual financial results for the six month period ended June 30, 2005 with the financial results for the 101 day period ended June 30, 2004 would not be meaningful and therefore has not been analyzed.

Liquidity and Capital Resources

The Trust expects to be able to meet all of its obligations and to finance its future growth through the use of (i) conventional mortgage debt secured by income-producing properties, (ii) secured short-term financing through its revolving credit facility of up to \$15,000 (with certain security terms being met), (iii) cash flow from operations and (iv) the issuance of new equity.

The ratio of debt to gross book value was 54.8% as at June 30, 2005, comparing favourably to the 60% maximum stipulated by the Trust's Declaration of Trust. Gross book value is defined as the book value of the Trust's assets plus accumulated amortization and depreciation relating to the properties. Based on its June 30, 2005 financial position, the Trust estimates that, at the maximum debt to gross book value, it has approximately \$36,400 available to fund future investing activity.

As at June 30, 2005, the Trust had drawn \$9,457 on its operating line of credit. The line currently has a maximum limit of \$15,000 (subject to certain security provisions). At June 30, 2005 the operating line was secured for \$11,000 maturing September 15, 2005. Management is currently in discussions with the lender to extend the term. Subsequent to June 30, 2005, the operating line was paid down by approximately \$8,300.

During the three month period ended June 30, 2005, the Trust generated \$2,887 cash from operations which was used to fund working capital of \$4,173. The Trust generated approximately \$5,054 from financing activities which was offset by debt payments of \$1,254, unitholders distributions of \$3,119 and the payment of \$3,852 to reduce the operating line. Investing activities included receipt of \$2,036 from the sale of income producing properties and the payment of \$3,841 for deposits and other costs associated with the subsequent acquisition of the seven shopping centres. In addition, \$1,129 was used for deferred costs (explained below). Overall the Trust's cash position increased by \$973 for the period and the cash balance at June 30, 2005 was \$1,641.

Capital Expenditures

In accordance with its objectives, the Trust distributes a high percentage of its operating cash flow to unitholders. As such, it does not retain a material amount of operating cash. The Trust expects it will require capital in the future for acquisitions, developments, expansion of existing assets and to maintain the existing asset base.

Deferred leasing costs may include leasing commissions, allowances paid to tenants to induce leasing activity, and expenditures by the Trust to prepare space for occupancy by a tenant. The Trust incurred \$1,129 for deferred leasing costs during the second quarter of 2005 the majority of which relates to a one time cost relative to the construction of a new retail pad at one property, Lansdowne Place. The timing of such expenditures depends on contractual conditions in a lease rather than on the timing of the leasing process.

Deferred recoverable operating costs include expenditures that are generally recoverable from tenants under the terms of their leases. Such expenditures may include items such as parking lot resurfacing, common area maintenance, and roof repairs. These items are recoverable over a number of years and

are therefore recorded as a deferred cost. During the quarter, the Trust recovered \$67 from tenants and did not incur any recoverable operating costs.

PORTFOLIO CHARACTERISTICS AND FINANCIAL CONDITION

Income-Producing Properties

Income-producing properties and assets held for sale represent 93.0% of total assets as at June 30, 2005 (96.5% as at March 31, 2005 and 97.2% as at December 31, 2004). GAAP requires that the Trust regularly evaluate the recoverability of each individual real estate asset on a net carrying amount basis, and does not permit the netting of unrealized gains and losses on an aggregate asset basis. The Trust recognizes the impairment of an asset when the asset's carrying value exceeds the total undiscounted future cash flows anticipated from the use and eventual sale of the asset. The Trust will recognize the impairment by measuring the amount by which the carrying value exceeds the fair value of the asset. During the second quarter of 2005 we have not recognized any impairment provision on our income producing assets. The fair value of the Trust's income producing properties is in excess of the carrying value of these assets. The balance of the Trust's assets is comprised of cash, amounts receivable, and other assets. The property portfolio currently comprises 34 properties spread across Canada and, as such, represents a high degree of geographic and market diversification, as demonstrated below:

GEOGRAPHIC DISTRIBUTION OF PORTFOLIO AS AT JUNE 30, 2005

| Province / Territory | # of Properties | Gross Leasable Area (GLA) (sq. ft.) | % of Total GLA (1) | Occupied Area (sq.ft.) (1) | % of Provincial GLA | Average Net Rent in Place | % of Total Gross Revenues (2) |
|----------------------|-----------------|-------------------------------------|--------------------|----------------------------|---------------------|---------------------------|-------------------------------|
| British Columbia | 7 | 733,719 | 20.0 % | 648,198 | 88.3 % | \$ 8.05 | 18.5 % |
| Alberta | 4 | 442,707 | 12.1 % | 335,044 | 75.7 % | \$ 12.06 | 14.3 % |
| Saskatchewan | 4 | 485,437 | 13.2 % | 463,176 | 95.4 % | \$ 7.66 | 15.7 % |
| Manitoba | 3 | 213,235 | 5.8 % | 207,996 | 97.5 % | \$ 8.44 | 7.2 % |
| Ontario | 12 | 1,277,818 | 34.8 % | 1,156,667 | 90.5 % | \$ 7.60 | 30.2 % |
| Quebec | 1 | 58,234 | 1.6 % | 54,508 | 93.6 % | \$ 10.63 | 1.8 % |
| New Brunswick | 1 | 200,418 | 5.5 % | 189,010 | 94.3 % | \$ 9.69 | 4.8 % |
| Nova Scotia | 1 | 154,865 | 4.2 % | 152,558 | 98.5 % | \$ 12.07 | 4.9 % |
| Yukon | 1 | 100,789 | 2.7 % | 74,697 | 74.1 % | \$ 11.67 | 2.5 % |
| | 34 | 3,667,222 | 100.0 % | 3,281,854 | 89.5 % | \$ 8.67 | 100.0 % |

PORTFOLIO DISTRIBUTION BY ASSET CLASS AS AT JUNE 30, 2005

| Asset Class | # of Properties | Gross Leasable Area (GLA) (sq.ft.) | % of Total GLA (1) | Occupied Area (sq.ft.) (1) | % of Asset Class GLA | Average Net Rent in Place | % of Total Gross Revenues (2) |
|-------------|-----------------|------------------------------------|--------------------|----------------------------|----------------------|---------------------------|-------------------------------|
| Retail | 30 | 3,043,273 | 83.0 % | 2,774,428 | 91.2 % | \$ 9.00 | 86.8 % |
| Office | 2 | 115,117 | 3.1 % | 113,656 | 98.7 % | \$ 14.42 | 6.9 % |
| Industrial | 2 | 508,832 | 13.9 % | 393,769 | 77.4 % | \$ 4.68 | 6.3 % |
| | 34 | 3,667,222 | 100.0 % | 3,281,854 | 89.5 % | \$ 8.67 | 100.0 % |

- Notes 1 Two properties were disposed of during the 2nd quarter – the REIT's 50% interest in Northgate Shopping Centre in Winnipeg, MB was sold May 31, and the REIT's 100% ownership of Glenmore Commerce Court in Edmonton, AB was disposed of June 30th. Neither property has been included in these calculations. The Trust exercised a Put option, putting Maple Park Shopping Centre back to Retrocom Growth Fund; this property has been left in the portfolio analysis as the transaction has not closed.
- 2 Total GLA and Occupied Areas set forth above have been amended slightly with the presentation in the Prospectus to better reflect current rent rolls across the portfolio, and reflect the assumption of a 100% interest in all of the properties. As such overall GLA has decreased from 3,970,186 sq. ft. last quarter to 3,667,222 sq. ft.
- 3 Total gross revenues used in the geographic and asset class distribution calculation include non-cash items such as straight-lined rents and amortization of above and below market leases.

Total occupied area as at June 30, 2005 of 3,281,854 sq. ft. equates to 89.5% of the portfolio, in contrast to 92.3% as reported at March 31, 2005, 93.9% as reported at December 31, 2004, 91.1% as reported at September 30, 2004, 93.2% as reported at June 30, 2004, 93.5% as reported at March 31, 2004, and 93.3% as at February 1, 2004 as set out in the Prospectus. The total occupied area unfavourable variance of 2.8% (which equates to 102,682 sq. ft.) from March 31, 2005 is primarily attributable to the expiry of a large but temporary tenant at Wetaskiwin and to the loss of a tenant at Pickering. Management is in the process of exploring alternate solutions regarding Pickering. In addition, the sale of Northgate Shopping Centre through an exercised put option by the co-owner of Northgate had a negative effect on our occupancy rates. Overall, Management is satisfied with its leasing strategy and is confident that its leasing efforts will come to fruition in the third and fourth quarters of 2005.

The weighted average remaining lease term at quarter end across all asset classes amounted to 4.22 years, compared to 4.34 years at the end of the first quarter.

| LEASE EXPIRIES BY CALENDAR YEAR | | | TOP FIVE TENANTS BY ANNUAL GROSS REVENUE | | |
|---------------------------------|------------------------|----------------|--|------------------------|---|
| Year | Occupied Area (sq.ft.) | % of Total GLA | Tenant | Occupied Area (sq.ft.) | Tenant Revenue as a % of Annual Gross Revenue |
| Jun. 30, 2005 Expiry | 4,590 | 0.1% | 1 | Wal-Mart | 396,510 5.7% |
| 2005 | 397,943 | 10.9% | 2 | Loblaws / Extra Foods | 200,578 5.5% |
| 2006 | 427,598 | 11.7% | 3 | Zellers | 334,334 5.1% |
| 2007 | 549,692 | 15.0% | 4 | Safeway | 115,640 3.4% |
| 2008 | 387,569 | 10.6% | 5 | Canadian Tire | 87,767 3.0% |
| 2009 | 238,752 | 6.5% | | | |
| Thereafter | 1,275,709 | 34.8% | | | |
| Current Vacancy | 385,368 | 10.5% | | | |
| | 3,667,222 | 100.00% | | 1,134,829 | 22.7% |

- Notes 1 Total GLA and Leased Areas set forth above have been amended slightly with the presentation in the Prospectus to better reflect current rent rolls across the portfolio, and reflect the assumption of a 100% interest in all of the properties. In particular, the GLA has been reduced from first quarter by the disposition of the Northgate and Glenmore properties. The Trust exercised a Put option, putting Maple Park Shopping Centre back to Retrocom Growth Fund; this property has been left in the portfolio analysis as the transaction has not closed.
- 2 The GLA and Tenant Revenues (expressed as a percentage of total revenues) specifically set forth in the summary of the Five Top Tenants Based on Annual Gross Revenue reflect the actual ownership interest.

The future financial performance of the income-producing properties is a function of a number of factors including occupancy rates, trends in rental rates, releasing or renewing currently leased space, and the increases in rent that are contained in the terms of the various leases.

The Trust projects a positive outlook for leasing. Average Net Rent in Place over the prior quarter increased for the second consecutive quarter, increasing by \$0.38 per square foot over the first quarter rent. This indicates that space across the portfolio is being leased at higher average rents in the second quarter compared to the previous quarter. The Trust anticipates that increases will continue quarter-over-quarter as it continues to focus on leasing space, disposing of non-performing properties and reformatting specific properties as per Management's strategy.

Indebtedness and Other Obligations

| Year | Mortgages (1) | Property Management | Asset Management | Total |
|------------------------|---------------|---------------------|------------------|------------|
| | | Fees (2) | Fees (3) | |
| 2005 remainder of year | 13,856 | 837 | 417 | 15,110 |
| 2006 | 17,505 | 1,675 | 834 | 20,014 |
| 2007 | 19,744 | 1,675 | 834 | 22,253 |
| 2008 | 15,939 | 1,675 | 834 | 18,448 |
| 2009 | 46,227 | 1,675 | 834 | 48,736 |
| Thereafter | 29,250 | n/a | n/a | 29,250 |
| | \$ 142,521 | \$ 7,537 | \$ 3,753 | \$ 153,811 |

- Notes
- 1 Excludes operating line of credit and properties held for sale.
 - 2 Based on 4% of the 2005 Forecasted Gross Revenue excluding the properties that were sold in the second quarter.
 - 3 Estimate based on 0.3% Gross Book Value of Assets as of June 30, 2005. This figure does not include the properties that were acquired July 26, 2005.

The Trust had \$142,695 of mortgages payable (\$146,524 including mortgages on properties held for sale), including a debt premium of \$174 as at June 30, 2005 (\$131,939 mortgages payable and debt premium of \$261 as at June 30, 2004) bearing a weighted average interest rate of 6.4% (6.7% as at March 31, 2005). During the three month period ended June 30, 2005, the Trust paid \$1,254 toward principal amounts on mortgages. The majority of lenders have recourse to the assets of the Trust. Mortgages payable have a weighted average term to maturity of 4.1 years (3.3 years as at June 30, 2004). The increase in the weighted average term to maturity and decrease in weighted average interest are the result of active mortgage renewals by management.

The Trust has a mortgage of \$6,600 due on September 30, 2005, in which extension terms are being discussed with the lender and two mortgages totaling approximately \$3,927 due in December of 2005.

Commitments

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 is available for the purpose of satisfying these obligations and the estimated market values of these assets are in excess of the obligation secured.

The mortgage on one property has been cross-collateralized with indebtedness owed by the co-owner on two other properties in which the Trust does not have an interest. The co-owner agreed to indemnify the Trust against any losses that the Trust may incur in connection with a default by the co-owner 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 co-owner under the cross-collateralized loan is not covered by the indemnity.

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.

Related Party Transactions

The Trust had the following significant related party transactions:

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. Subsequent to the period, the amount has been paid.

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.

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 \$175, 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 space of 21,860 square feet was partly subleased (14,400 square feet) at June 30, 2005. Subsequent to June 30, 2005, the remaining 7,500 square feet of headlease space was subleased

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 (2004 - \$nil and \$nil, respectively) during the three months and six months ended June 30, 2005.

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 assets held for sale.

The Trust entered into an option agreement with RGF1 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.

Risks and Uncertainties

The Trust is exposed to interest rate risk on its mortgages payable and operating line of credit. This risk is limited by the Declaration of Trust which restricts total debt to no more than 60% of gross book value (65% including convertible debentures), and limits the amount of indebtedness that may be incurred at floating rates and the amount of short-term debt that may be incurred.

The Trust manages its exposure to loan maturity risk by limiting the amount of secured debt on any one income-producing property to not more than 75% of the value. Loan terms include principal repayments thereby reducing the amount of debt due on loan maturity. Moreover, loan maturities are uniformly spread over future years thereby reducing the Trust's exposure to interest rate fluctuations.

The value of the Trust's income-producing properties depends on the credit and financial stability of the Trust's tenants. Tenants may decide not to renew leases upon scheduled maturities or worse, may default on their obligation to pay rent during the leases. The Trust has more than 600 tenants thereby achieving a diversification of its revenues and limiting its exposure to any one tenant. The Trust's largest tenant represents no more than 6% of gross rentals from income-producing properties, and thorough credit assessments are conducted in respect of all new leasing. Furthermore, the Trust will limit its economic dependence on any one tenant to 20% of unitholder equity.

For a more complete discussion of the risks and uncertainties associated with the Trust's activities, see the Trust's most recent annual information form available on SEDAR at www.sedar.com.

Accounting Estimates

Management makes accounting estimates and assumptions with respect to the net recoverable amounts from income-producing properties, the useful economic life of depreciable assets, and the amount of recoveries from tenants of certain operating expenses and property taxes. These estimates and assumptions could affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. For an explanation of these assumptions and estimates, please refer to our interim and year end financial statements.

Subsequent Event

See overview for the acquisition of seven shopping malls.

Additional Information

Additional information relating to Retrocom Mid-Market REIT, including the REIT's Annual Information Form, is available on SEDAR at www.sedar.com.