

PRESIDENT'S LETTER TO UNITHOLDERS

Dear Fellow Unitholders:

As you will have seen from our recent press releases, the Board of Trustees and employees of Retrocom Mid-Market Real Estate Investment Trust are working hard to enhance Unitholder value. Lately, I have been asked frequently exactly what “enhancing unit value” means. Let me explain.

Following the successful IPO of the units in March 2004 at a price of \$10.00 per unit, the units traded in a \$9.00 to \$10.00 range during 2004. In early 2005, they briefly exceeded \$10.00, but during the remainder of 2005, there was continuous decline in the unit price from around \$10.00 at the beginning of the year to an issue price of \$8.25 at the time of the supplementary offering in July 2005 to just under \$7.00 late in the year.

This was an enigma. We did not believe that the real estate itself had declined in value - arguably it might well have increased in value as market capitalization rates declined - and the property performance was as we expected. Indeed, we had been successful in increasing the occupancy rate and average net rental rate across the portfolio and had also managed to reduce our average cost of debt while extending the average term of debt by refinancing.

The Board and Management were, and are still, of the view that there is a real disconnect between the unit value and the value of the underlying real estate. As the Trust continued to report results, the unit price continued to decline and in mid November 2005, a cut in the distributions to \$0.82/unit was announced, followed in late November 2005 by a decision to appoint a Special Committee of the Board to develop a plan to improve Unitholder value.

After having interviewed six potential advisors, the Committee appointed TD Securities as Financial Advisors to assist with a review of strategies available to the REIT to enhance the value of the REIT's units. On February 27, 2006, TD Securities was asked to begin a process to solicit proposals leading to a sale of, or merger with, the REIT or to a strategic partnership with a party interested in contributing assets or otherwise making an equity investment in the REIT.

In parallel with the appointment of TD Securities, the Special Committee also looked closely at the REIT's ongoing operations to establish what could be done internally to help the Trust maximize unit value. In this, we have met with advisors, analysts and Unitholders who have provided a consistent message of what we must do internally to enhance our unit value.

Based on these discussions, and our own reading of the market, we have developed an Internal Restructuring Plan (IRP) to improve the way the Trust currently operates.

The IRP has a series of key actions:

- First, the IRP called for the internalization of Management. On February 7 and February 28, 2006, the Trust announced that it had taken steps to internalize its asset management functions. The Asset and Property Management Agreements

with R.I.M.I. were terminated and a number of Officers and Trustees retired or resigned. An in-house Management Team was created and I have been honoured to assume leadership responsibilities as Interim Chief Executive Officer.

This decision was made to better align the goals of the Trust with those of its Management Team and will reduce the on-going administration costs. Additionally, the internalization of Management naturally provides for more options in any potential transaction scenario contemplated as part of the strategic process with TD Securities.

- Next, the IRP required the collapsing of the Long Term Incentive Plan (LTIP) and the return of any unpaid units of the 807,000 units previously issued under the LTIP. The maintenance of the LTIP had an ongoing cost to the REIT that we felt was unjustifiable in the current financial situation. The collapsing of the LTIP will return almost 800,000 units back to treasury and is anticipated to save the Trust over \$635,000 in annual distributions in 2006 based on the REIT's current level of distributions. While distributions on LTIP units came back to the Trust in the form of loan repayments, over the longer term, the LTIP did have a negative impact on Unitholders' equity and distribution cash flow. Therefore, cancelling the LTIP will stop the dilution of Unitholders' equity and will assist in maintaining the Trust's cash flow.
- Next, we felt that there had been a lack of strategic direction regarding the future of the Trust's portfolio. The Trust had been formed to purchase and own retail properties in secondary markets, i.e. not within the major metropolitan centres. As the portfolio grew, this objective was not being met, and several "non-core" properties in very small markets (100 Mile House, Smithers and Terrace in BC and Glenmore and Brooks, Alberta) or non-retail properties (Pickering Industrial, Lakeshore Industrial or Queens Plate Drive Offices in the Greater Toronto area), had come into the portfolio.

These properties were identified as either not falling squarely within the core definition of the Trust's target properties or, because their local market is so small, the properties require more management and are more leasing intensive than our other centres, and would generally be better managed by local interests.

The IRP called for Management to refocus on our original objective and, as such, we are currently listing these non-core properties for sale. We have already sold the Glenmore, Brooks and Pickering properties and are currently under discussions regarding the sale of the Lakeshore property.

This is not a fire sale, but a process to return the Trust to its original intended objective of owning mid-market retail properties.

As the Trust's Management's Discussion and Analysis for fiscal 2005 sets out, the Trust's long-term occupancy goal of 96% is attainable as the properties are performing as expected and currently the portfolio stands at an occupancy rate of 92%. By selling non-core assets, we are intensifying our focus on retail properties

and the sales proceeds will provide the funds to reinvest in our remaining properties, which in turn will support our efforts at achieving our long-term occupancy goals, which we believe should enhance cash flow and operating results.

We have the funds to take the necessary steps to retain current tenants, to improve the aesthetics and functionality of our centres and provide inducements to attract tenants, and as a result improve the occupancy and cash flow of the portfolio. We believe that this will in turn attract community shoppers and stabilize each of our assets. Equally important to the Trust, we also believe we will have sufficient capital to continue to look for further strategic acquisitions.

- In parallel with the sale of non-core assets, the IRP called for an increase in the REIT's working line, and terms have been agreed to for an increase in the line by over 60%. This, together with the proceeds from sales of non-core properties, will be sufficient to allow us to undertake a leasing and refurbishment plan and, when appropriate, acquire additional accretive properties.

In addition to these strategies identified in the IRP, we are continuing the process of soliciting proposals, with the assistance of TD Securities, for a transaction leading to a sale of, or merger with, the REIT, or to a strategic partnership with a party interested in contributing assets or otherwise making an equity investment in the REIT.

We have, therefore, developed a two stage strategy – internal improvements through the IRP and a sale, merger or other restructuring through the efforts of TD Securities.

Already, the benefits of the IRP, are being felt in our Administrative Costs. For example, by internalizing Management, we anticipate an annual savings in excess of \$0.75 million for the next fiscal year. Any savings in Administrative Costs will flow directly to the bottom line and will result in increased cash flow for the Trust while aligning the interests of Management with those of Unitholders.

It is important that we stress that these actions are being taken to improve the ongoing operations of the Trust, and that we are not limiting the options of the Trust to a potential sale, merger, strategic partnership or other investment in the Trust. Unitholders may rest assured, therefore, that whatever the nature of a transaction, or indeed if no transaction takes place at all, Management is operating this business to enhance both its short term and long-term value, while ensuring that our actions are consistent with any potential transaction that may occur to the benefit of our Unitholders.

Management's confidence in the value of the Trust's portfolio is supported by the consistent results of the Trust's properties. Recently, the value of the underlying real estate has been overshadowed by the discussions of Special Committees, Financial Advisors and potential transactions etc., but there have been many significant accomplishments during the year:

- The successful growth strategy, as demonstrated by the \$184 million dollar acquisition and integration in the third Quarter of 2005 of seven retail properties

(the “Q3 2005 Acquisition”). This transaction represents an annualized 57% net asset base growth rate;

- The occupancy rate for properties held in the Trust’s portfolio as ongoing operations is 92.0%, which is below our long-term objective of 96% but is still a positive improvement over last year’s performance;
- The Trust’s weighted average cost of debt currently stands at 6.1%, an improvement of almost three quarters of a percent over that of last year, with the average term of the mortgages lengthened to 5.2 years in the fourth Quarter of 2005 from 3.2 in the same period last year; and
- The Trust’s average net rent in place improving to \$9.33 per square foot, compared to \$8.13 per square foot at the end of last year.

Although these results indicate an improving portfolio, the new Management Team strongly believes it can do better to improve results in key areas. As I described above, we have already begun to make improvements in the Administrative Costs of operating the Trust, and we believe that we can continue this improvement through the proactive management of the portfolio, including the disposition of non-core assets, accretive transactions and continued focus on reducing our borrowing costs.

However, there are one-time costs associated with this work that we are currently undertaking, and overhead expenses increased in the last quarter, mainly due to a non-cash expense for the second tranche of the LTIP (which has subsequently been cancelled), higher legal and audit fees, and the costs of the Special Committee.

While these one time expenses were a necessary expenditure in the quest to maximise Unitholder Value, Management will continue to work to reduce the ongoing expenses, while trying to control the costs of the transition to internal management, as well as those of the Financial Advisor and the Special Committee.

We expect that these costs will begin to trend downwards, and we will begin to see success in cost reduction after the first and second quarters as we work through our strategies with our advisors. With the internalization of Management, we have positioned ourselves for a substantial reduction in annual administrative costs to operate the REIT as we progress into 2006.

The 2005 distributable income and distributable income per unit were \$12,096 and \$0.81 respectively for the year. On a fully diluted basis, the distributable income per unit was \$0.69. The actual payout ratio for the year was 126%, up from 97% in 2004. The increase in the distribution payout ratio was primarily caused by timing issues surrounding our disposition and acquisition activity and higher costs, as noted above. Properties held for disposition comprise a tangible component of the Trust’s portfolio and the equity and yield from these dispositions will be replaced in the coming quarters. Our cumulative payout ratio since inception is 110%.

However, a payout ratio of over 100% is clearly unsustainable in the long-term, and for this reason, the Board reduced the Distributions in mid-November 2005 from \$1.025 per unit to

\$0.82 per unit on an annualized basis. This reduction in distributions came into effect only in December 2005, so the impact of the reduction was very limited during 2005.

For comparison purposes, and on a pro-forma basis, had the RioCan acquisitions taken place on January 1, 2005 and the reduced distributions of \$0.82 per unit been in effect for the entire year, the payout ratio would have been 98%. For the 2006 financial year, we anticipate that the 2006 payout ratio will further decline from this 98% level as a result of the reduced G&A expenses and the improvements in operation of the properties described earlier. Based on the anticipated performance of the Trust's portfolio, we do not believe there will be a need to further reduce distributions in the near term.

Unitholders can rest assured that the underlying asset value of their units is solid, and that Management remains committed to improving Unitholder value and is working on a two phase approach:

- First, we are working with TD Securities as Financial Advisors with a task of seeking innovative financing solutions to maximise value by sale or financial structuring; and
- Secondly, we are improving the internal operations of the REIT through the following initiatives:
 - Actively selling non-core assets, and redeploying proceeds toward accretive transactions that will enhance the value of the REIT;
 - Maximizing the potential of each property through the development of stand-alone pads, expansions, and the repositioning of specific properties;
 - Implementing strategies to further reduce property and Trust expenses;
 - Enhancing our leasing program to encompass transactions that may require a longer payback but enhance the value of the property;
 - Improving the general aesthetics of some of our properties to make them appeal more to the specific neighbourhood or area shopping experience; and
 - Engaging energy retrofit programs to increase the energy efficiency of our properties, thereby reducing operating costs and ultimately allowing for increased Distributable Income.

This is a comprehensive plan and one that we believe will achieve positive results for Unitholders. However, it would be wrong to assume that any plan can be implemented overnight. We expect that results will be seen during the second quarter of 2006, but the full benefits will not be seen until the third and fourth quarters of this year.

Sincerely,

Walter Davies

Walter Davies F.R.I.C.S.
Chief Executive Officer

This document may contain forward-looking statements, which although based on Management's best estimates as well as the current operating environment are subject to risks and uncertainties. As such, terms such as "anticipate", "believe", "expect", "plan" or other similar words should be taken as forward-looking statements. As a result of these potential uncertainties, any future results could differ materially from the predictions listed herein. Although Retrocom makes every effort to meet our predictions as listed in this document, we are unable to control certain circumstances such as economic, competitive or commercial real estate conditions.