

Consolidated Financial Statements of

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

Year ended December 31, 2005 and period from  
March 22, 2004 to December 31, 2004



**KPMG LLP**  
**Chartered Accountants**  
Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2  
Canada

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## AUDITORS' REPORT

To the Unitholders of Retrocom Mid-Market Real Estate Investment Trust

We have audited the consolidated balance sheets of Retrocom Mid-Market Real Estate Investment Trust as at December 31, 2005 and 2004 and the consolidated statements of income, unitholders' equity and cash flows for the year ended December 31, 2005 and the period from March 22, 2004 to December 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the period from March 22, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

March 30, 2006

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets  
(In thousands of dollars)

December 31, 2005 and 2004

	2005	2004
<b>Assets</b>		
Income-producing properties (note 4)	\$ 316,876	\$ 178,266
Deferred costs (note 5)	16,332	9,954
Intangible assets (note 6)	56,902	31,809
Amounts receivable (note 7)	9,072	4,541
Other assets	1,854	1,342
Cash	2,096	909
Discontinued operations (note 20)	4,075	28,085
	<b>\$ 407,207</b>	<b>\$ 254,906</b>

## Liabilities and Unitholders' Equity

### Liabilities:

Mortgages payable (note 8)	\$ 219,677	\$ 121,666
Secured operating line (note 9)	5,095	11,371
Convertible debentures (note 19)	19,360	-
Convertible debentures issued to vendor (note 19)	29,804	-
Intangible liabilities (note 10)	2,505	1,959
Accounts payable and other liabilities (note 11)	11,120	7,803
Distributions payable	1,219	1,039
Discontinued operations (note 20)	3,701	18,076
	<b>292,481</b>	<b>161,914</b>
Unitholders' equity	114,726	92,992
Commitments and contingencies (note 18)		
Subsequent events (notes 9, 13, 16 and 18)		
	<b>\$ 407,207</b>	<b>\$ 254,906</b>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Patrick J. Lavelle Trustee

Christopher J. Cann Trustee

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

	2005	2004
Rental revenue:		
Minimum rent	\$ 33,478	\$ 19,312
Recoveries from tenants	18,317	9,253
	<u>51,795</u>	<u>28,565</u>
Expenses:		
Operating	24,010	12,814
Interest:		
Long-term debt	10,394	6,020
Other	1,959	186
Depreciation	4,831	2,743
Amortization	15,823	8,375
Trust	4,085	1,724
	<u>61,102</u>	<u>31,862</u>
Loss from operations	(9,307)	(3,297)
Gain (loss) on disposal of income-producing properties (note 20)	(1,274)	131
Other income and interest	149	292
	<u>(10,432)</u>	<u>(2,874)</u>
Loss before discontinued operations	(10,432)	(2,874)
Loss on discontinued operations (note 20)	(753)	(3,050)
Loss for the period	<u>\$ (11,185)</u>	<u>\$ (5,924)</u>
Basic and diluted loss per unit (note 12)		
Before discontinued operations	\$ (0.70)	\$ (0.24)
After discontinued operations	(0.75)	(0.49)
Weighted average number of units outstanding (note 12)	14,898,163	12,086,663

See accompanying notes to consolidated financial statements.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

	2005	2004
<b>Trust Units</b>		
Balance, beginning of period	\$ 108,389	\$ 110,690
Units issued	51,521	–
Units issued under over-allotment	–	11,070
Issue costs	(2,318)	(7,125)
Offering costs	(2,064)	(6,246)
Conversion value of debentures	904	–
DRIP units issued	135	–
<b>Balance, end of period</b>	<b>\$ 156,567</b>	<b>\$ 108,389</b>
<b>Value associated with LTIP units</b>		
LTIP units under subscription	\$ 7,021	\$ 4,300
LTIP instalment loan receivable, beginning of period	\$ (3,923)	\$ (4,125)
LTIP units issued November 30, 2005	(2,611)	–
Interest on instalment loan receivable	(160)	(125)
Distributions applied against instalment loan receivable	443	327
<b>LTIP instalment loan receivable, end of period</b>	<b>\$ (6,251)</b>	<b>\$ (3,923)</b>
<b>Deficit</b>		
Balance, beginning of period	\$ (5,924)	\$ –
Loss for the period	(11,185)	(5,924)
<b>Balance, end of period</b>	<b>\$ (17,109)</b>	<b>\$ (5,924)</b>
<b>Cumulative distributions to unitholders</b>		
Balance, beginning of period	\$ (9,850)	\$ –
Distributions to unitholders, net of interest on instalment loan	(15,652)	(9,850)
<b>Balance, end of period</b>	<b>\$ (25,502)</b>	<b>\$ (9,850)</b>
<b>Total unitholders' equity</b>	<b>\$ 114,726</b>	<b>\$ 92,992</b>

See accompanying notes to consolidated financial statements.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows  
(In thousands of dollars)

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (11,185)	\$ (5,924)
Items not affecting cash:		
Gain/loss on disposal of income-producing properties	1,274	(131)
Depreciation and amortization	20,654	11,118
Straight-line rent	(722)	(476)
Amortization of above- and below-market rents, net	(241)	(183)
Amortization of mortgage premium	(332)	(68)
Accretion expense	68	-
Option benefit granted under Long-Term Incentive Plan	109	175
	9,625	4,511
Change in other non-cash operating items	(1,380)	1,041
Discontinued operations	(440)	4,908
	7,805	10,460
Financing activities:		
Proceeds of issuance of units, net of issue costs	47,139	105,389
Convertible debentures, net of issuance costs	19,250	-
Secured debt financing	13,318	51,222
Secured debt repayment	(5,716)	(3,660)
Operating line draw	(6,276)	11,371
Distributions to unitholders	(15,055)	(8,609)
Discontinued operations - repayments	(438)	(344)
Discontinued operations - discharge of mortgages	(8,934)	-
	43,288	155,369
Investing activities:		
Acquisition of income-producing properties	(61,529)	(163,472)
Proceeds of sale of discontinued operations	15,487	2,275
Additions to income-producing properties	(759)	(1,343)
Additions to deferred costs	(3,208)	(2,277)
	(50,009)	(164,817)
Increase in cash	1,084	1,012
Cash, beginning of period	1,012	-
Cash, end of period	\$ 2,096	\$ 1,012
Supplemental cash flow information:		
Interest paid	\$ 12,542	\$ 6,805
Mortgages assumed on acquisition	89,713	91,590
Working capital assumed on acquisition	2,452	1,683
Units issued to Retrocom Growth Fund Inc. ("RGFI")	-	3,000

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)

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 1. Basis of presentation:

Retrocom Mid-Market Real Estate Investment Trust (the "Trust") is an unincorporated open-ended real estate investment trust and was created pursuant to the Declaration of Trust dated December 15, 2003, when 10 trust units were issued for \$100 cash. The Trust commenced operations on March 22, 2004 (the "Closing"). The Trust issued trust units for cash pursuant to an initial public offering (the "IPO") and utilized the proceeds as partial consideration for income-producing properties acquired. The unitholders have the right to require the Trust to redeem their units on demand.

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 the lower of 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 a income-producing property exceeds its fair value.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 2. Significant accounting policies (continued):

### (b) Accounting for acquisitions of income-producing properties:

The purchase price is allocated to land, buildings, recoverable improvements, tenant improvements and intangible assets, such as the value of the above- and below-market leases, the in-place leases and tenant relationships, if any.

In-place lease costs are determined based on the estimates of the costs that would be incurred to put the existing lease in place under the same terms and conditions. These costs include the lease commission, tenant inducements and other fees incurred to initiate leases, such as legal and tenant co-ordination costs. Also, the value of in-place leases includes the present value of the foregone rental income to lease the buildings to the occupancy level on acquisition.

The value ascribed to above- and below-market in-place leases is determined based on the present value of the difference between the rents payable under the respective lease and the estimated market rents for each in-place lease.

Purchased intangible assets and liabilities subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any impairment loss recognized is recorded to the related depreciation or amortization expense.

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

---

Buildings	Over estimated useful life, generally 40 years
Building improvements and recoverable improvements	Over remaining useful life
Tenant improvements	Over remaining average term of leases
Acquired in-place leases	Over remaining average term of leases
Above- and below-market in-place leases to remaining term	Recorded as either an increase (below-market leases) or decrease (above-market leases) to revenue over remaining term of individual lease

---

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 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)

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 2. Significant accounting policies (continued):

### (g) Asset retirement obligations:

The Trust recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Trust concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation, if any, is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate.

### (h) Long-Term Incentive Plan:

The Trust accounts for its Long-Term Incentive Plan ("LTIP") using the fair value-based method, under which a compensation cost is recognized, at the time of vesting, for the fair value of the participants' rights under the LTIP. The units are treated as options for accounting purposes. As the units issued under the LTIP are treated as options for accounting purposes, they are included in the calculation of diluted net income per unit.

### (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)

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

### 3. Acquisitions:

On July 26, 2005 the Trust completed the purchase of seven income-producing properties: Elgin Mall, Mountainview Mall and Orangeville Mall in Ontario; Plaza LaSarre in Quebec; and Southland Mall, South Hill Mall and Town 'N' Country Mall in Saskatchewan. These acquisitions have been recorded by the purchase method, with the results of operations included in these consolidated financial statements from the date of acquisition. The net assets acquired were as follows:

During the period ended December 31, 2004, the Trust acquired properties as part of its IPO (including approximately \$162,100 of assets acquired from RGFI), and in October 2004, acquired a portfolio of assets. Certain of these properties have been sold or classified as held for sale during 2005 (note 20).

	2005	2004
Land	\$ 37,130	\$ 40,868
Buildings	105,552	165,649
In-place leases	37,536	44,451
Tenant improvements	4,531	8,778
Recoverable improvements	1,462	1,975
Deferred costs	72	-
Above-market rent leases	506	855
Below-market rent leases	(1,068)	(2,551)
Working capital assumed	(2,452)	(1,683)
	<u>183,269</u>	<u>258,342</u>
Less:		
Assumed mortgages	(89,713)	(91,590)
Mortgage premium, net of amortization	(2,027)	(280)
Convertible debentures issued to vendor	(30,000)	-
	<u>(121,740)</u>	<u>(91,870)</u>
Purchase price paid in cash	<u>\$ 61,529</u>	<u>\$ 166,472</u>

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

## 4. Income-producing properties:

2005	Cost	Accumulated depreciation	Net book value
Land	\$ 72,940	\$ –	\$ 72,940
Buildings	249,381	7,418	241,963
Building improvements	2,104	131	1,973
	<u>\$ 324,425</u>	<u>\$ 7,549</u>	<u>\$ 316,876</u>

2004	Cost	Accumulated depreciation	Net book value
Land	\$ 35,811	\$ –	\$ 35,811
Buildings	143,830	2,681	141,149
Building improvements	1,343	37	1,306
	<u>\$ 180,984</u>	<u>\$ 2,718</u>	<u>\$ 178,266</u>

## 5. Deferred costs:

2005	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 3,299	\$ 389	\$ 2,910
Deferred financing costs	1,873	438	1,435
Recoverable improvements	4,075	865	3,210
Tenant improvements on income-producing property acquisitions	12,521	3,744	8,777
	<u>\$ 21,768</u>	<u>\$ 5,436</u>	<u>\$ 16,332</u>

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

## 5. Deferred costs (continued):

2004	Cost	Accumulated amortization	Net book value
Deferred leasing costs incurred through leasing activity	\$ 1,176	\$ 107	\$ 1,069
Deferred financing costs	453	73	380
Recoverable improvements	2,195	381	1,814
Tenant improvements on income-producing property acquisitions	8,063	1,372	6,691
	<u>\$ 11,887</u>	<u>\$ 1,933</u>	<u>\$ 9,954</u>

## 6. Intangible assets:

2005	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 75,109	\$ 19,088	\$ 56,021
Above-market in-place leases	1,315	434	881
	<u>\$ 76,424</u>	<u>\$ 19,522</u>	<u>\$ 56,902</u>

2004	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 37,992	\$ 6,835	\$ 31,157
Above-market in-place leases	845	193	652
	<u>\$ 38,837</u>	<u>\$ 7,028</u>	<u>\$ 31,809</u>

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

## 7. Amounts receivable:

	2005	2004
Tenant receivables	\$ 3,141	\$ 1,381
Amount receivable from RGFI (note 16)	405	1,257
Amounts receivable from other vendors	1,308	1,076
Straight-line rent	1,198	476
Interest subsidy	1,732	-
Other	1,288	351
	<u>\$ 9,072</u>	<u>\$ 4,541</u>

## 8. 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 10.0% (2004 - 4.7% and 10.0%) per annum, with a weighted average interest rate per annum of 6.4% (2004 - 6.7%) and mature at various dates between 2006 and 2015. The Trust assumed seven mortgages payable as part of an acquisition and obtained an interest subsidy from the vendor as the mortgages bear interest at above-market rates (note 7). After giving effect to the subsidy, mortgages payable bear a weighted average interest rate of 6.1%. Substantially all mortgages require monthly principal and interest payments. Future payments, excluding the unamortized premium of \$1,907 (2004 - \$212), are as follows:

2006	\$ 23,820
2007	36,459
2008	18,322
2009	51,807
2010	9,560
Thereafter	77,802
	<u>\$ 217,770</u>

As at December 31, 2005, the fair market value of the mortgages was \$220,163 (2004 - \$139,551).

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

## 9. Secured operating line:

The Trust has an operating line of up to \$9,800 (2004 - \$11,500), which expires on March 31, 2006. Draws on this facility are subject to certain security provisions and financial covenants. Interest is at prime rate plus 100 basis points. As at December 31, 2005, \$5,095 (2004 - \$11,371) was drawn on the operating line.

Subsequent to December 31, 2005, the Trust replaced the operating line with a new facility of up to \$35,000, which expires on March 31, 2007. This facility is secured with specific charges on certain properties. Interest is at prime plus 100 basis points.

## 10. Intangible liabilities:

2005	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 3,362	\$ 857	\$ 2,505

2004	Cost	Accumulated amortization	Net book value
Below-market in-place leases	\$ 2,334	\$ 375	\$ 1,959

## 11. Accounts payable and other liabilities:

	2005	2004
Accounts payable and accrued liabilities	\$ 10,334	\$ 6,301
Tenant deposits	81	316
Deferred revenue	705	1,186
	\$ 11,120	\$ 7,803

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

## 12. Trust units:

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

The unitholders have the right to require the Trust to redeem their units on demand. Upon receipt of the redemption notice by the Trust, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit ("Redemption Price") as determined by a market formula. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

### (a) Units issued and outstanding:

	2005		2004	
	Units	Amount	Units	Amount
Balance, beginning of period	12,176,000	\$ 108,389	–	\$ –
Offering, net of issue costs	6,245,000	47,139	11,069,000	97,319
Units issued under over-allotment	–	–	1,107,000	11,070
Issued under distribution reinvestment plan (b)	19,763	135	–	–
Conversion value of debentures	5,088,991	904	–	–
<b>Balance, end of period</b>	<b>23,529,754</b>	<b>\$ 156,567</b>	<b>12,176,000</b>	<b>\$ 108,389</b>

The weighted average number of fully-diluted units for the year ended December 31, 2005 is 17,559,936 units (2004 - 12,499,163 units). The convertible debentures are currently anti-dilutive; therefore, fully diluted net loss per unit is the same as basic net 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)

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 12. Trust units (continued):

(c) Per unit calculation:

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

## 13. Long-Term Incentive Plan:

Certain trustees and officers of the Trust and certain Retrocom Investment Management Inc. ("RIMI") employees have been provided an LTIP, under which the participants subscribed for units of the Trust. Participants are required to pay interest and to apply cash distributions received by them, in respect of the LTIP, towards payments of that interest and instalments. Participants may prepay any remaining instalments at their discretion and/or remove any fully paid units. If a participant fails to pay interest and/or any remaining instalments, the Trust may elect to reacquire or sell the units in satisfaction of the outstanding amounts.

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.

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% (2004 - 10.25%); expected volatility of between 15% and 20% (2004 - 12% and 14%); risk-free interest rate of 4.06% (2004 - 4.17%); expected life of 10 years (2004 - 10 years); and average expected tenure of 8 years (2004 - 8 years). The fair value also includes the estimated present value of the 1.25% (2004 - 1.5%) benefit at an assumed market rate of return of between 5% to 5.25% (2004 - 4.0% to 4.5%).

Compensation cost of \$109 (2004 - \$175), attributable to the LTIP, is charged against earnings during the period with a corresponding amount included in unitholders' equity as units under subscription. The unit instalment loans receivable are recognized as a deduction from units under subscription. Distributions received under the LTIP units are charged to unitholders' equity and interest at the rate of 4% (2004 - 3%) received under the LTIP is credited to distributions.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

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

Subsequent to December 31, 2005, the Trust announced its intention to cancel the LTIP. The Trust anticipates no additional costs to be incurred on the cancellation of the LTIP.

## 14. Segment disclosure:

The Trust owns, manages and operates shopping centres located throughout Canada. Management, when measuring the Trust's performance, does not distinguish or group its operations on a geographical or any other basis. Accordingly, the Trust has a single reportable segment for disclosure purposes in accordance with generally accepted accounting principles.

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

## 15. Risk management and fair values:

### (a) Risk management:

In the normal course of business, the Trust is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

#### (i) Interest rate risk:

Floating rate debt is restricted to the Trust's secured operating line and five mortgages of \$18,970 as at December 31, 2005 (2004 - \$25,195). The Trust structures its financings so as to stagger the maturities of its mortgages, thereby minimizing exposure to future interest rate fluctuations.

#### (ii) Credit risk:

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Trust mitigates the risk of credit loss by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. Thorough credit assessments are conducted in respect of all new leasing.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 15. Risk management and fair values (continued):

### (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.

## 16. Related party transactions:

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

- (a) The Trust retained RIMI to provide advisory, asset management and administration services to the Trust. The agreement had a five-year term expiring in 2009 and was renewable upon mutual agreement. For the year ended December 31, 2005, the Trust incurred \$1,395 (2004 - \$665) in asset management and acquisition advisory fees. Of this, \$113 (2004 - \$92) is included in accounts payable and other liabilities. Additionally, the Trust reimbursed RIMI for certain costs in the amount of \$185 (2004 - nil).
- (b) The Trust also retained RIMI to provide property management and construction development 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 received from O&Y a one-time lump-sum payment for transition costs of \$500 and will receive an ongoing payment of 20% of the property management fee paid by the Trust. The Trust incurred \$1,679 of property management and construction development fees during the year (2004 - \$1,343) of which \$179 (2004 - \$65) is included in accounts payable and other liabilities. The Trust also reimbursed the property manager for certain costs.

RIMI also rents office space at Woodbine Place and 501 Lakeshore Road East. Rental revenue for the year ended December 31, 2005, was \$206 (2004 - \$21) and \$16 (2004 - \$21) is included in amounts receivable. In addition, nil (2004 - \$34) in tenant improvements was paid by the Trust on account of these rentals.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 16. Related party transactions (continued):

- (c) Subsequent to December 31, 2005, the Trust terminated all agreements with RIMI and paid RIMI a termination fee of \$750 and incurred additional termination costs of approximately \$300.
- (d) RGFI was initially considered a related party due to its ownership of units of the Trust. 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 continues to guarantee the Maple Park mortgage (note 18(c)). This settlement resulted in the Trust recording a net gain of \$171, and a receivable from RGFI of \$405, including a note receivable of \$269 which bears interest at 6% per annum, payable monthly, with a five-year term. Leasing costs and capital costs charged to RGFI for the year ended December 31, 2005 total nil (2004 - \$5,101). Effective the date of the settlement, RGFI is no longer considered a related party.
- (e) 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 year ended December 31, 2005, under the head leases is \$271 (2004 - \$830). These head lease arrangements have now been terminated as part of the settlement with RGFI (note 16(d)).
- (f) 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 \$21 (2004 - \$62) during the year ended December 31, 2005. This agreement has been terminated as part of the settlement with RGFI (note 16(d)).
- (g) 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 income-producing property (note 18(c)).

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 16. Related party transactions (continued):

(h) Accounts payable and other liabilities at December 31, 2005 includes nil (2004 - \$423) for accrued legal fees paid to a law firm with a partner that is a trustee of the Trust.

## 17. Co-ownership activities:

As at December 31, 2005, the Trust holds 50% interest in three income-producing properties (2004 - four). During the year, the Trust sold its interest in Northgate Shopping Centre (note 20), following the exercise of the split option by the co-owner. The following amounts are proportionately consolidated in the Trust's financial statements:

	2005	2004
Assets	\$ 17,116	\$ 16,850
Liabilities	10,055	10,210
Revenue	\$ 2,762	\$ 2,049
Expenses	2,707	1,969

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)

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 18. Commitments and contingencies:

Other than disclosed elsewhere in these 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 financial statements.
- (c) At the time of the IPO, the Trust acquired Maple Park Shopping Center with a right to require RGFI to repurchase the property. In February 2005, the Trust guaranteed the mortgage on this property. In June 2005, the Trust exercised this put option, but continued to guarantee the mortgage on the property in the amount of approximately \$2,300.

Subsequent to year end, the lender has advised RGFI and the Trust of its intention to demand repayment of the mortgage in full by May 31, 2006. In the event that RGFI is unable to repay the mortgage, the Trust will be required to honour its guarantee. In that event, the Trust can assume the rights of the lender and enforce its security. The property is currently listed for sale and management believes that its fair market value will exceed the mortgage balance outstanding.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 19. Convertible debentures:

- (a) On July 26, 2005, the Trust issued \$20,000 principal amount of unsecured, convertible, subordinated, seven year debentures ("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 December 31, 2005, the debentures balance outstanding include debt of \$19,360 and equity of \$672.

Interest expense has been calculated and accreted on the debt portion using a discount rate of approximately 8.10% for an interest expense of \$672 for the year ended December 31, 2005. During the year ended December 31, 2005, none of the Debentures holders exercised their option to convert the units.

As at December 31, 2005, the fair market value of these Debentures was \$20,440.

- (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 December 31, 2005, the Debentures balance outstanding includes debt of \$29,804 and equity of \$232. The Debentures are currently anti-dilutive.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## 19. Convertible debentures (continued):

The interest expense has been calculated and accreted on the debt portion using a discount rate of 4.8% for an interest expense of \$621 for the year ended December 31, 2005. During the year ended December 31, 2005, the holder of the convertible debentures has not exercised its option to convert the units.

As at December 31, 2005, the fair market value of these convertible debentures issued to vendor was \$29,016.

## 20. Discontinued operations:

During the year, the Trust completed the sale of Northgate Shopping Centre, Glenmore Commerce Court, Maple Park and Pickering Industrial Park as well as meeting the criteria to report its operations as discontinued operations, and comparative figures have been reclassified. In addition, the assets and liabilities of Cassils Centre Mall have been reclassified as assets held for sale at December 31, 2005, which was sold subsequent to year end, with a gain of approximately \$200.

The consideration received on the sale of Northgate Shopping Centre consisted of cash proceeds of \$2,189 net mortgage debt assumed of \$3,298, and resulted in a gain on disposition of \$266, which has been included as a gain on sale under discontinued operations.

The consideration received on the sale of Glenmore Commerce Court consisted of cash proceeds of \$3,120, prior to mortgage repayment of \$1,472, and resulted in a gain on disposition of \$486, which has been included as a gain on sale under discontinued operations.

The consideration received on the sale of Maple Park was \$2,513, net of working capital and mortgage debt assumed of \$2,338 (note 16(g)) and a gain of \$171.

The Pickering Industrial Plaza was sold on December 21, 2005 for cash proceeds of \$10,178 (prior to mortgage repayment of \$7,462, the Trust also received a vendor take-back mortgage receivable of \$1,800). The Trust has recorded a loss on this transaction of \$2,197.

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

## 20. Discontinued operations (continued):

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

	2005	2004
<b>Assets:</b>		
Income-producing properties	\$ 3,539	\$ 24,806
Deferred costs	123	780
Intangible assets	369	2,064
Other	44	435
	<b>\$ 4,075</b>	<b>\$ 28,085</b>
<b>Liabilities:</b>		
Mortgages payable	\$ 3,343	\$ 17,352
Other liabilities	358	724
	<b>\$ 3,701</b>	<b>\$ 18,076</b>
<b>Rental revenue:</b>		
Minimum rent	\$ 1,555	\$ 2,557
Recoveries from tenants	1,371	1,706
	<b>\$ 2,926</b>	<b>\$ 4,263</b>
<b>Expenses:</b>		
Operating	\$ 1,989	\$ 1,827
Interest on long-term debt	819	807
Depreciation	166	398
Amortization	705	4,281
	<b>\$ 3,679</b>	<b>\$ 7,313</b>
<b>Discontinued operations:</b>		
Gain (loss) on disposal of income-producing properties	\$ (1,274)	\$ 131
Loss from discontinued operations	(753)	(3,050)
	<b>\$ (2,027)</b>	<b>\$ (2,919)</b>

# RETROCOM MID-MARKET REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2005 and period from March 22, 2004 to December 31, 2004

---

## **21. Comparative figures:**

Certain of the 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2005.