

## RETROCOM MD&A

This Management's Discussion and Analysis ("MD&A") encompasses fiscal 2005, from January 1, 2005 to December 31, 2005 inclusive, and the fourth quarter of 2005, the period from October 1, 2005 to December 31, 2005 inclusive. In this document, the terms "Retrocom", "the Trust", "the REIT", "RMMR", "we", "us" and "our" will refer to the Retrocom Mid-Market Real Estate Investment Trust. This document is an update of the previous MD&A for the period of July 1, 2005 to September 30, 2005. These two documents should be read in conjunction with one another for an accurate picture of Retrocom's operating conditions. Other documents that should be consulted include the audited and the unaudited consolidated financial statements of the REIT (and the notes thereto) for both the third quarter as well as the year to date reports for 2004 and 2005 along with the short form prospectus dated July 20, 2005. The MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles. This MD&A is dated as of March 31, 2006.

Contained within this MD&A is information based on 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", "intend" 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 we make 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. All amounts in this MD&A are expressed in Canadian dollars. All figures in this MD&A do not include any assets or results from Discontinued Operations unless otherwise noted.

## OVERVIEW

Retrocom is an unincorporated open-ended real estate investment trust created pursuant to a Declaration of Trust dated as of December 15, 2003, as amended and restated as of March 22, 2004. We are governed under the laws set forth by the Province of Ontario. Units of the Trust are listed on the Toronto Stock Exchange under the symbol RMM.UN.

As of December 31, 2005, the Trust owned 38 primarily retail properties (of which three are co-owned); excluding properties classified as discontinued operations. The 38 properties have a gross leaseable area of approximately 5.1 million square feet encompassing over 800 individual tenancies. These properties are geographically diverse within the country, being located in eight provinces and the Yukon Territory. At present, the average occupied percentage of Gross Leaseable Area ("GLA") is 92.0%, with our top ten nationally recognized tenants occupying 39.6% of our space. These same ten tenants contributed \$21.7 million or 41.8% of our total portfolio annual gross rental revenue in 2005.

## STRATEGY & OUTLOOK

The Trust is primarily a retail property real estate investment trust. We own shopping centres, malls and plazas in secondary and tertiary markets across Canada. Our properties, summarized below, provide our Unitholders with a solid underlying valuation and a stable income stream. Management's goal is to maximize both the potential value of the portfolio and the income stream derived from it.

In the fourth quarter, the Board of Trustees established an independent Special Committee to investigate ways to enhance unitholder value. After interviewing six investment advisors, the Special Committee retained TD Securities Inc. as its financial advisor to assist with its review of strategies available to the REIT in its efforts to enhance the value of the REIT's units. On February 27, 2006, the REIT announced that the Special Committee and the Board of Trustees of the REIT would commence 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. The soliciting of proposals would be in addition to, and in conjunction with, other alternatives, including the disposition of "non-core" assets in order to provide funding to renovate or redevelop existing "core" properties, as described further below.

Subsequent to December 31, 2005 the Board also began a strategy to improve the ongoing operations of the Trust and a decision was made to internalize its asset management functions which had been carried out by an external asset manager since the REIT's initial public offering ("IPO"). As a result, effective February 28, 2006, the asset and property management agreements with Retrocom Investment Management Inc. ("RIMI") were terminated and certain related officers and trustees of the REIT either retired or resigned. Mr. Walter Davies, a Trustee, was appointed Interim Chief Executive Officer of the REIT with a mandate to develop and supervise an internal management team.

As a further step in reducing administration costs, the Board has announced its intention to cancel the Long Term Incentive Plan ("LTIP") and return to treasury all units that remain unpaid out of the 807,000 units in the aggregate that have been issued thereunder. The maintenance of the LTIP has an ongoing cost to the REIT that cannot be justified given the current financial situation. This will result in almost 800,000 units being returned back to treasury for cancellation and will save over \$650,000 in annual distributions. While these distributions came back to the REIT in the form of loan repayments under the LTIP, over the longer term the LTIP had an adverse impact on Unitholders' equity and distributable cash flow. Therefore, cancelling the LTIP will stop the dilution of Unitholders' equity and will assist in maintaining the REIT's cash flow.

It is our belief that the foregoing changes will contribute to administration cost savings to the REIT in excess of \$750,000 per annum over the next three years and will better align the objectives of Management and Unitholders. However, in order to internalize the management function and cancel the LTIP, certain one-time costs, including the payment of the termination fee to RIMI of \$750,000, are required. These costs will be included in the financial results of the first quarter of 2006. Additionally, all agreements with Retrocom Growth Fund Inc. (“RGFI”), including the head leases, have been settled with the exception of the Strategic Acquisition Agreement, which has no financial exposure to the REIT, and the REIT’s guarantee of one of RGFI’s mortgages we believe that is adequately protected by the underlying value of the real estate.

Strategies being reviewed by the internal management team with respect to the REIT’s retail properties include:

- Repositioning targeted properties;
- Increasing rental rates charged to tenants;
- Increasing occupancy to achieve our long term objective of 96%;
- Developing additional rentable GLA where excess land permits;
- Lengthening the terms of leases across the portfolio;
- Reducing the cost of mortgage debt;
- Strengthening our tenant base;
- Implementing an energy retrofit program;
- Increasing the REIT’s operating line to provide resources to repair or renovate our properties;
- Engaging action plans to further reduce property and Trust expenses; and
- Improving the appearance and structure of our properties.

In addition to implementing these strategies, Management also believes that there previously had been a lack of strategic direction regarding the future of the portfolio. The Trust had been formed primarily to purchase and own retail properties in middle 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 in Alberta) and non-retail properties (Pickering Industrial, 501 Lakeshore and Woodbine Place in the Greater Toronto Area) remained in the portfolio.

Management is now re-focusing on our original objective, as sales packages are being prepared for these non-core properties, and we have already sold the Glenmore, Brooks and Pickering properties and sale discussions are under way on the 501 Lakeshore property. This is not a fire sale, but a process to return the Trust to its original objective of owning mid-market retail properties.

Management has also developed specific repositioning plans in conjunction with our property managers for several targeted properties remaining in our portfolio. Properties we intend to sell will be replaced with retail assets acquired as part of our external growth strategy. Alternatively, and in line with Management's internal growth strategy, proceeds from such dispositions may be used to help finance our property repositioning or releasing plans.

The Trust incurred deferred leasing costs of approximately \$2.1 million over the twelve month period ended December 31, 2005. These costs were incurred in order to bring new tenants into our properties, and include expenses such as leasing commissions, allowances paid to tenants to induce leasing activity or expenditures paid by the Trust to prepare space for occupancy by a tenant. The timing of such expenditures depends on the contractual conditions in a lease rather than on the timing of the leasing process.

## PORTFOLIO SUMMARY

The portfolio is currently comprised of 38 properties, not including Discontinued Operations, and the analysis in this MD&A is based on those 38 properties. Management continues to seek further accretive opportunities going into 2006, in addition to focusing our internal strategy to increase rents, improve occupancy rates, lengthen lease terms and improve the properties' overall value and yields.

By disposing of non-core properties, acquiring properties and proactively managing the portfolio, the average net rent in place has been steadily rising for four consecutive quarters. The Q4 average net rent in place was \$9.33, up by \$0.10 over the third quarter. This was an improvement of \$0.56 per square foot over the second quarter, which was itself up \$0.38 per square foot over the first quarter, which in turn was up \$0.16 per square foot over the fourth quarter of 2004 – a cumulative \$1.20 per square foot or 14.7% increase in net rent in place during 2005.

Occupancy rates of the properties held in the Trust's portfolio classified as ongoing operations currently stand at 92.0%, an improvement over Q3's rate of 91.5%, which in turn was better than Q2's occupancy rate of 89.5%. Management has been able to increase the occupancy rate despite the acquisition in Q3 (the "Q3 2005 Acquisition") of the seven shopping malls from RioCan REIT, which had an initial occupancy rate of 89.0%. Excluding the Q3 2005 Acquisition, the portfolio's occupancy rate this quarter would have been 93.3%.

The tables below summarize the REIT's properties by geographic location and also by asset class.

## GEOGRAPHIC DISTRIBUTION OF PORTFOLIO AS AT DECEMBER 31, 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	6	586,335	11.5%	527,126	89.9%	\$ 8.58	10.0 %
Alberta	3	343,295	6.7%	314,572	91.6 %	\$ 12.61	8.4 %
Saskatchewan	7	1,490,582	29.1 %	1,330,054	89.2 %	\$ 9.78	31.1 %
Manitoba	3	213,235	4.2 %	213,098	99.9 %	\$ 8.83	4.7 %
Ontario	14	1,883,116	36.8 %	1,767,588	93.9 %	\$ 8.32	33.5 %
Quebec	2	139,846	2.7 %	127,519	91.2 %	\$ 8.94	2.3 %
New Brunswick	1	200,418	3.9 %	197,741	98.7 %	\$ 10.02	3.3 %
Nova Scotia	1	156,248	3.1 %	153,387	98.2 %	\$ 11.89	3.1 %
Yukon	1	100,789	2.0 %	74,697	74.1 %	\$ 11.67	3.6 %
	38	5,113,864	100.0 %	4,705,782	92.0%	\$ 9.33	100.0 %

## PORTFOLIO DISTRIBUTION BY ASSET CLASS AS AT DECEMBER 31, 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	35	4,637,071	90.7 %	4,284,588	92.4 %	\$ 9.58	93.1 %
Office	2	113,130	2.2 %	111,387	98.5 %	\$ 14.47	4.2 %
Industrial	1	363,663	7.1 %	309,807	85.2 %	\$ 4.02	2.7 %
	38	5,113,864	100.0 %	4,705,782	92.0 %	\$ 9.33	100.0 %

Notes 1 Total GLA and Occupied Areas set forth above reflect current rent rolls across the portfolio, and the assumption of a 100% interest in all of the properties. As such, overall GLA has decreased from 5,115,851 sq. ft. last quarter to 5,113,864 sq. ft. this quarter.

2 Total gross revenues used in the geographic and asset class distribution calculations include non-cash items such as straight-lined rents and amortization of above and below market leases.

## PORTFOLIO CHARACTERISTICS & FINANCIAL CONDITIONS

As of December 31, 2005 and 2004, income producing properties represented 96.8% and 97.0%, respectively, of the REIT's total assets.

As mentioned previously, the Trust's portfolio includes 38 primarily retail properties consisting of 35 retail, one industrial and two office properties. At present, over 4.7 million square feet of the Trust is occupied, equating to 92.0% of our GLA. Our historical occupancy rates are as follows:

<u>Quarter</u>	<u>Occupancy Rate</u>
Fourth Quarter, 2005	92.0%
Third Quarter, 2005	91.5%
Second Quarter, 2005	89.5%
First Quarter, 2005	92.3%
Fourth Quarter, 2004	93.9%
Third Quarter, 2004	91.1%
Second Quarter, 2004	93.2%
First Quarter, 2004	93.5%

Due to successes with our leasing teams, we have seen a positive variance of 0.5% between this quarter and the last (an improvement of approximately 25,600 square feet).

## LEASE EXPIRIES BY CALENDAR

Year	Occupied Area (sq.ft.) (1)	% of Total GLA (1)
2005 (Dec. 31 expiry)	108,440	2.1%
2006	497,558	9.7%
2007	678,175	13.3 %
2008	568,716	11.1 %
2009	603,472	11.8%
2010	843,339	16.5 %
2011	231,264	4.5 %
2012	342,195	6.7 %
2013	131,725	2.6 %
2014	184,620	3.6 %
2015	101,161	2.0 %
Thereafter	413,129	8.1 %
Current Vacancy	410,069	8.0 %
	5,113,864	100.00 %

## TOP FIVE TENANTS BY GROSS REVENUE

Tenant	Occupied Area (sq.ft.)	Tenant Revenue as a % of Annual Gross Revenue (2)
1 Zellers	670,968	6.0 %
2 Loblaws / Extra Foods	184,191	4.9 %
3 Wal-Mart	543,866	4.5 %
4 Galaxy Cinemas	127,778	3.2 %
5 Shoppers Drug Mart	64,185	3.0 %
	1,590,988	21.6 %

- Notes
- 1 Total GLA and Occupied Areas set forth above reflect current rent rolls across the portfolio, and the assumption of a 100% interest in all of the properties. In particular, this analysis excludes the discontinued property in Pickering.
  - 2 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.

Management of the Trust currently believes there is a positive outlook for leasing. Average net rent in place in Q4 2005 was \$9.33 per square foot, as compared to Q4 2004 which was \$8.13 per square foot. Space across the portfolio is being leased at higher average rents in the fourth quarter as compared to the third. The Trust anticipates that this increase will continue quarter-over-quarter, and, therefore, we are continuing to focus on leasing space, repositioning of targeted properties and reformatting specific properties. In 2005 the Trust spent over \$2 million to attract tenants, and in 2006, Management is budgeting a significant increase to this amount to bolster our occupancy levels and overall portfolio performance.

## DISTRIBUTABLE INCOME (NON-GAAP MEASURE)

Distributable Income is a measure of a Trust's ability to both earn and then distribute monetary returns to its unitholders. It is also meant to be a measure of a Trust's operating performance. Since Distributable Income is not recognized as a generally accepted accounting principle ("GAAP") it should therefore not be used as an alternative to net earning or cash flow from operating activities that are determined under GAAP as a measure of corporate performance.

Distributable Income is defined in the REIT's Declaration of Trust and is calculated by adjusting consolidated net income for: (i) depreciation and amortization of buildings, tenant improvements, in-place lease value, above and below market lease rate

amortization, and (ii) items not representative of on-going operations, such as gains or losses on sale of assets and mark to market adjustments on long-term debt is added back to net income. Other adjustments may be applicable, as determined by a majority of the Trustees. As such, beginning in the third quarter of fiscal 2005, we have adjusted the definition of Distributable Income to include the following:

- The addition of an interest subsidy received monthly from the vendor as part of the Q3 2005 Acquisition;
- The removal of results from properties classified as Discontinued Operations; and
- The one-time addition of net income from the Q3 2005 Acquisition for the period from July 1 to July 25, 2005 as per the purchase agreement, but not allowable under GAAP.

For the three months ended December 31, 2005, Retrocom's Distributable Income decreased by \$17,000 and Distributable Income per unit decreased by \$0.07 and \$0.10 per unit on both a basic and fully diluted basis, respectively, from the same period in 2004. The actual payout ratio in the fourth quarter was 165.0% as compared with 119.0% in the fourth quarter of 2004.

In the third quarter MD&A we announced that the distribution to Unitholders would be cut to \$0.82 per unit, effective beginning in December. If this cut had been in effect for 2005 in its entirety, and if the Q3 2005 Acquisition had been in effect since January 1, 2005, the annual payout ratio would have been 97.9%.

The unfavourable variance of the payout ratio in Q4 2005 as compared to Q4 2004 is a result of:

1. Cash flow issues relating to the timing of properties currently under contract for disposition, where the equity has not yet been redeployed to earn a return;
2. Higher Trust expenses mainly due to increased asset management costs related to the Q3 2005 Acquisition, trustee and professional fees relating to the creation of the Special Committee, a non-cash expense for adjustments to reflect market conditions and value of non-property assets and a one-time non-cash expense relating to the LTIP;
3. Underperforming properties, the majority of which have been sold or classified as Discontinued Operations; and
4. The increased interest costs associated with the mortgages assumed and the public debentures issued in connection with the Q3 2005 Acquisition.

For the twelve months ended December 31, 2005, Retrocom's Distributable Income decreased by \$620,000 and Distributable Income per unit decreased by \$0.24 and \$0.33 per unit on a basic and a fully diluted basis, respectively, from the grossed up period in 2004. The actual payout ratio year to date is 126.0% as compared with 97.0% in 2004.

The unfavourable variance of the payout ratio in 2005 as compared to 2004 is a result of:

1. The 2004 year included a one-time lease surrender fee of \$550,000 which, when grossed up, appears as \$704,000 in the comparative period;
2. Higher Trust expenses mainly due to increased asset management costs, trustee and professional fees relating to the creation of the Special Committee, a non-cash expense for adjustments to reflect market conditions and value of non-property assets and one-time non-cash fees relating to the LTIP;
3. Underperforming properties, the majority of which have been sold or classified as Discontinued Operations; and
4. The increased interest cost associated with the mortgages assumed and the public debentures issued in connection with the Q3 2005 Acquisition and the greater use of the line of credit.

Going forward, Management is undertaking the following initiatives:

- Redeploying the proceeds from the properties sold to date and properties expected to be sold in the future to generate additional revenues not included in Q4 Distributable Income;
- Improving occupancy and leasing rates; and
- Decreasing our Trust expenses through the internalization of the management functions.

## FINANCIAL RESULTS

The following table highlights the actual financial results with a comparison by quarter since the beginning of the Trust's operations on March 22, 2004.

Revenue and operating expenses from continuing operations have increased significantly over the past eight quarters because of the two acquisitions, namely the seven Ontario properties acquired in the fourth quarter of 2004 (hereafter referred to as the "Ontario Acquisition") and the Q3 2005 Acquisition in July 2005.

Net income from continuing operations has fluctuated over time as a result of the acquisitions noted above, the seasonality of expenses for Canadian real estate properties and the increase in Trust expenses due to regulatory filings and one-time charges.

## ACTUAL FINANCIAL RESULTS WITH COMPARISON BY QUARTER

	in \$000's December 31, 2005 (1) (unaudited)	in \$000's Sept. 30, 2005 (2) (unaudited)	in \$000's June 30, 2005 (3) (unaudited)	in \$000's March 31, 2005 (4) (unaudited)	in \$000's Dec. 31, 2004 (5) (unaudited)	in \$000's Sept. 30, 2004 (6) (unaudited)	in \$000's June 30, 2004 (7) (unaudited)	in \$000's March 31, 2004 (8) (unaudited)
Rental Revenue and Other Income	\$17,507	\$14,928	\$9,538	\$9,971	\$9,824	\$8,516	\$9,555	\$964
Expenses								
Operating	\$8,574	\$6,918	\$4,000	\$4,517	\$4,747	\$3,739	\$3,901	\$429
Trust Expenses	\$1,875	\$903	\$731	\$576	\$784	\$354	\$380	\$206
	<u>\$10,449</u>	<u>\$7,821</u>	<u>\$4,731</u>	<u>\$5,093</u>	<u>\$5,531</u>	<u>\$4,093</u>	<u>\$4,281</u>	<u>\$635</u>
Income before Interest, Depreciation & Amortization	\$7,058	\$7,107	\$4,807	\$4,878	\$4,293	\$4,423	\$5,274	\$329
Add: Gain on Disposal of IPP (10)	\$0	\$0	\$0	\$0	\$131	\$0	\$0	\$0
Less: Interest	(\$4,180)	(\$3,743)	(\$2,226)	(\$2,204)	(\$2,138)	(\$1,981)	(\$1,886)	(\$201)
Depreciation & Amortization	(\$7,043)	(\$5,719)	(\$3,972)	(\$3,920)	(\$4,085)	(\$3,747)	(\$3,164)	(\$122)
Income (Loss) before Discontinued Operations	(\$4,165)	(\$2,355)	(\$1,390)	(\$1,246)	(\$1,799)	(\$1,305)	\$224	\$6
Gain (Loss) on Disposal of Discontinued Operations	(\$116)	(\$1,432)	\$273	\$0	-	\$0	\$0	\$0
Income (Loss) from Discontinued Operations	(\$402)	(\$448)	\$337	(\$241)	(\$1,650)	(\$133)	(\$1,138)	(\$129)
Net Loss	(\$4,683)	(\$4,235)	(\$780)	(\$1,487)	(\$3,449)	(\$1,438)	(\$914)	(\$123)
Add Back:								
Depreciation & Amortization (9)	\$6,739	\$5,612	\$4,097	\$4,378	\$6,214	\$4,690	\$4,850	\$297
Gain on Disposal of IPP	\$0	\$0	\$0	\$0	(\$131)	\$0	\$0	\$0
Gain (Loss) on Disposal of Discontinued Operations	\$116	\$1,432	(\$273)	\$0	\$0	\$0	\$0	\$0
Income (Loss) from Discontinued Operations (12)	\$387	\$275	(\$178)	\$0	\$0	\$0	\$0	\$0
Adjustment for Q3 2005 Acquisition (13)		\$606						
Amortization of Fair Value								
Adjustment of Debt (11)	\$36	\$94	(\$18)	(\$21)	(\$22)	(\$26)	(\$20)	\$0
Distributable Income (14)	<u>\$2,595</u>	<u>\$3,784</u>	<u>\$2,848</u>	<u>\$2,870</u>	<u>\$2,612</u>	<u>\$3,226</u>	<u>\$3,916</u>	<u>\$174</u>
Income (Loss) Before Discontinued Operations per Unit:								
Basic and Fully Diluted	(\$0.23)	(\$0.23)	(\$0.09)	(\$0.10)	(\$0.15)	(\$ 0.11)	\$0.02	\$0.00
Distributable Income per Unit (14):								
Basic	\$0.14	\$0.23	\$0.23	\$0.24	\$0.21	\$0.26	\$0.33	\$0.02
Fully Diluted	\$0.11	\$0.18	\$0.23	\$0.23	\$0.21	\$0.26	\$0.32	\$0.02
Total Payout to Unitholders	\$4,275	\$4,719	\$3,119	\$3,119	\$3,119	\$3,119	\$3,119	\$289
Payout Ratio	165%	125%	109%	109%	119%	97%	80%	166%

## Notes

- 1 Based on the unaudited financial statements for the three months ended December 31, 2005.
- 2 Based on the unaudited financial statements for the three months ended September 30, 2005.
- 3 Based on the unaudited financial statements for the three months ended June 30, 2005. \*
- 4 Based on the unaudited financial statements for the three months ended March 31, 2005. \*
- 5 Based on the unaudited financial statements for the three months ended December 31, 2004. \*
- 6 Based on the unaudited financial statements for the three months ended September 30, 2004. \*
- 7 Based on the unaudited financial statements for the three months ended June 30, 2004. \*
- 8 Based on the unaudited financial statements for the 10-day period ended March 31, 2004. \*
- 9 Amounts in the three months ended June 30 and March 31, 2005 and 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.
- 10 Income producing properties.
- 11 Includes Interest Rate Subsidy received from Vendor on Q3 2005 Acquisition lowering cash payments required under conventional debt.
- 12 An adjustment for Discontinued Operations is only made in the quarter in which the property is determined to be discontinued. The amount for Discontinued Operations excludes depreciation and amortization as the amount allowable as an addback is included in the depreciation and amortization addback.
- 13 The Adjustment for the Q3 2005 Acquisition is effective July 1, 2005 and as such the revenue and expenses from the properties were received by the Trust. The distributions paid to Unitholders in this quarter were based on the Trust owning the properties from July 1, 2005.
- 14 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.
  - \* These results have been revised to reflect the current properties that have now been classified as Discontinued Operations.

## RESULTS OF OPERATIONS

### Comparison of the Three Months Ended December 31, 2005 to the Three Months Ended December 31, 2004

The following table shows the REIT's financial statements for the three-month period ended on December 31, 2005 with a comparison to the same period in 2004.

	in \$000's	in \$000's	in \$000's
	Three months ended December 31, 2005 (1)	Three months ended December 31, 2004 (2)	Variance to Comparative Period favourable / (unfavourable)
	(unaudited)	(unaudited)	(unaudited)
Rental Revenue and Other Income	\$17,507	\$9,824	\$7,683
Expenses			
Operating	\$8,574	\$4,747	(\$3,827)
Trust Expenses	\$1,875	\$784	(\$1,091)
	\$10,449	\$5,531	(\$4,918)
Income before Interest, Depreciation & Amortization	\$7,058	\$4,293	\$2,765
Add: Gain on Disposal of IPP (5)	0	\$131	(\$131)
Less: Interest	(\$4,180)	(\$2,138)	(\$2,042)
Depreciation & Amortization	(\$7,043)	(\$4,085)	(\$2,958)
Loss before Discontinued Operations	(\$4,165)	(\$1,799)	(\$2,366)
(Loss) on Disposal of Discontinued Operations	(\$116)	\$0	(\$116)
Loss from Discontinued Operations	(\$402)	(\$1,650)	\$1,248
Net Loss	(\$4,683)	(\$3,449)	(\$1,234)
Add Back:			
Depreciation & Amortization	\$6,739	\$6,214	\$525
Gain on Disposal of IPP	\$0	(\$131)	\$131
Loss on Disposal of Discontinued Operations	\$116	\$0	\$116
(Loss) from Discontinued Operations (3)	\$387	\$0	\$387
Amortization of Fair Value			
Adjustment of Debt (4)	\$36	(\$22)	\$58
Distributable Income (6)	\$2,595	\$2,612	(\$17)
<b>Income (Loss) Before Discontinued Operations per Unit:</b>			
<b>Basic and Fully Diluted</b>	(\$0.23)	(\$0.15)	(\$0.08)
<b>Distributable Income per Unit (6):</b>			
Basic	\$0.14	\$0.21	(\$0.07)
Fully Diluted	\$0.11	\$0.21	(\$0.10)
Total Payout to Unitholders	\$4,275	\$3,119	\$1,156
Payout Ratio	165%	119%	
Weighted Average Units Outstanding			
Basic	18,427,896	12,176,000	
Fully diluted	24,058,029	12,588,500	

Notes

- 1 Based on the unaudited financial statements for the three months ended December 31, 2005.
- 2 Based on the unaudited financial statements for the three months ended December 31, 2004 which have been adjusted to reflect the Discontinued Operations.
- 3 An adjustment for Discontinued Operations is only made in the quarter in which the property is determined to be discontinued. The amount for Discontinued Operations excludes depreciation and amortization as the amount allowable as an addback is included in the depreciation and amortization addback.
- 4 Includes Interest Rate Subsidy received from Vendor on Q3 2005 Acquisition lowering cash payments required under conventional debt.
- 5 Income producing properties.
- 6 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.

Retrocom recorded net operating income (revenue less operating expenses) of approximately \$8.9 million in Q4 as compared to approximately \$5.1 million for the same period of 2004. This change in net operating income is due primarily to the Q3 2005 Acquisition.

**Revenue**

Rental revenue is comprised of net rents, property tax and operating cost recoveries, as well as other miscellaneous income from tenants. For the three months ended December 31, 2005, rental revenues were approximately \$17.5 million. During the fourth quarter of 2004, this figure was at approximately \$9.8 million. The favourable variance of approximately \$7.7 million is predominantly due to the increased rental revenue from the Q3 2005 Acquisition which makes up approximately \$7.6 million of the increase.

**Operating Expenses**

Operating Expenses are comprised of amounts recoverable from tenants (including property taxes, repairs and maintenance, utilities and insurance) and non-recoverable expenses (including property management fees). The unfavourable variance in operating expenses, which include both recoverable and non-recoverable expenses, of approximately \$3.8 million is primarily the result of the Q3 2005 Acquisition which makes up \$3.5 million of the variance.

**Trust Expenses**

During the fourth quarter of 2005 the Trust saw an increase in "Trust expenses", which encompass items such as insurance, legal, audit and asset management fees along with general and administrative expenses associated with the continued operation of the Trust. For the most recently ended period, the Trust's general and administrative expenses were approximately \$1.1 million more than for the same period last year. Approximately \$140,000 of this variance results from the increased asset management fee resulting from the Q3 2005 Acquisition.

Current quarter Trust expenses, which also include expenses and compensation for the Trustees and Officers of the REIT, were greater than in prior periods as a result of trustee and professional fees incurred in connection with the formation of the Special Committee and one-time non-cash expenses of approximately \$110,000 relating to the LTIP. In addition, this variance is as a result of additional professional fees and consulting costs incurred to comply with financial and regulatory requirements and a non-cash expense for adjustments to reflect market conditions and value of non-property assets. However, Management is currently making the necessary changes to reduce these expenses in the near future, primarily through the internalization of the management functions and the cancellation of the LTIP.

### **Interest Expense**

As expected, interest expenses for the fourth quarter of 2005, as compared to the same period last year, have increased by approximately \$2.0 million to approximately \$4.2 million. This increase relates solely to our growth since inception as it is due to the addition of the six mortgaged properties and the convertibles debentures relating to the Q3 2005 Acquisition.

### **Comparison of the Twelve Months Ended December 31, 2005 to the 285-Day Period Ended December 31, 2004**

The following table illustrates the Trust's financial results for the twelve months ended December 31, 2005 compared to the 285-day period ended December 31, 2004.

	in \$000's	in \$000's	in \$000's	in \$000's	in \$000's
	Actual Twelve months ended December 31, 2005 (1)	Actual 285 Day Period ended December 31, 2004 (2)	Variance to Comparative Period favourable/ (unfavourable) (unaudited)	Grossed Up Actual Nine Months and 10 days ended December 31, 2004 (unaudited)	Variance to Grossed Up Comparative Period favourable/ (unfavourable) (unaudited)
	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Rental Revenue and Other Income	\$51,944	\$28,858	\$23,086	\$36,958	\$14,986
Expenses					
Operating	\$24,010	\$12,814	(\$11,196)	\$16,411	(\$7,599)
Trust Expenses	\$4,085	\$1,724	(\$2,361)	\$2,208	(\$1,877)
	\$28,095	\$14,538	(\$13,557)	\$18,619	(\$9,476)
Income before Interest, Depreciation & Amortization	\$23,849	\$14,320	\$9,529	\$18,339	\$5,510
Add: Gain on Disposal of IPP (5)	\$0	\$131	(\$131)	\$168	(\$168)
Less: Interest	(\$12,353)	(\$6,206)	(\$6,147)	(\$7,949)	(\$4,404)
Depreciation & Amortization	(\$20,654)	(\$11,118)	(\$9,536)	(\$14,238)	(\$6,416)
Loss before Discontinued Operations	(\$9,158)	(\$2,873)	(\$6,285)	(\$3,680)	(\$5,478)
(Loss) on Disposal of Discontinued Operations	(1,274)	\$0	(\$1,274)	\$0	(\$1,274)
(Loss) from Discontinued Operations	(\$753)	(\$3,050)	\$2,297	(\$3,906)	\$3,153
Net Loss	(\$11,185)	(\$5,923)	(\$5,262)	(\$7,586)	(\$3,599)
Add Back:					
Depreciation & Amortization	\$20,826	\$16,051	\$4,775	\$20,557	\$269
Gain (Loss) on Disposal of IPP	\$0	(\$131)	\$131	(\$168)	\$168
Gain (Loss) on Disposal of Discontinued Operations	\$1,274	\$0	\$1,274	\$0	\$1,274
Income (Loss) from Discontinued Operations (3)	\$484	\$0	\$484	\$0	\$484
Adjustment for Q3 2005 Acquisition (6)	\$606	\$0	\$606	\$0	\$606
Amortization of Fair Value				\$0	
Adjustment of Debt (4)	\$91	(\$68)	\$159	(\$87)	\$178
Distributable Income (7)	\$12,096	\$9,929	\$2,167	\$12,716	(\$620)
Income (Loss) Before Discontinued Operations per Unit:					
Basic and Fully Diluted	(\$0.70)	(\$0.24)	(\$0.46)	(\$0.31)	(\$0.39)
Distributable Income per Unit (7):					
Basic	\$0.81	\$0.82	\$0.01	\$1.06	(\$0.25)
Fully Diluted	\$0.69	\$0.80	(\$0.11)	\$1.02	(\$0.33)
Total Payout to Unitholders	\$15,232	\$9,646	\$5,586	\$12,354	\$2,878
Payout Ratio	126%	97%		97%	
Payout per Unit	\$1.02	\$0.81		\$1.03	
Weighted Average Units Outstanding					
Basic	14,898.163	12,086.663		12,086.663	
Fully Diluted	17,559.936	12,499.163		12,499.163	
Total Assets	\$403,132	\$254,906			
Long Term Financial Liabilities	\$268,841	\$121,666			

## Notes

- 1 Based on the audited financial statements for the twelve months ended December 31, 2005.
- 2 Based on the audited financial statements for the period from March 22, 2004 to December 31, 2004 which have been adjusted to reflect the Discontinued Operations.
- 3 An adjustment for Discontinued Operations is only made in the quarter in which the property is determined to be discontinued. The amount for Discontinued Operations excludes depreciation and amortization as the amount allowable as an addback is included in the depreciation and amortization addback.
- 4 Includes Interest Rate Subsidy received from Vendor on Q3 2005 Acquisition lowering cash payments required under conventional debt.
- 5 Income producing properties.
- 6 The adjustment for the Q3 2005 Acquisition is effective July 1, 2005 and, as such, the revenue and expenses from the properties were received by the Trust. The distributions paid to Unitholders in this quarter were based on the Trust owning the properties from July 1, 2005.
- 7 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.

During the twelve months ended December 31, 2005, Retrocom recorded net operating income (revenue less operating expenses) of approximately \$27.9 million as compared to approximately \$20.5 million for the grossed up period of 2004. This change in net operating income is due primarily to the inclusion of income from a full year of the Ontario Acquisition and the Q3 2005 Acquisition.

### Revenue

For the twelve months ended December 31, 2005, rental revenues were approximately \$51.9 million. During the grossed up twelve months ended December 31, 2004, this figure was at approximately \$37.0 million. The favourable variance of approximately \$14.9 million is predominantly due to the inclusion of income from a full year of the Ontario Acquisition and the Q3 2005 Acquisition which account for approximately \$2.1 million and \$12.8 million of the difference, respectively.

### Operating Expenses

The unfavourable variance in operating expenses of approximately \$7.6 million over the grossed up 2004 period is mostly the result of the Ontario Acquisition and the Q3 2005 Acquisition which account for approximately \$800,000 and \$6.0 million of the difference, respectively. The remainder of the difference relates to increased utility costs, repair costs and two seasons of snow removal costs in 2005. The increase in these costs has resulted in an equal increase in cost and tax recovery income.

### Trust Expenses

During the twelve months ended December 31, 2005 the Trust saw an increase of approximately \$1.9 million in its general and administrative expenses over the grossed up period ended December 31, 2004. This increase is made up of the following items which are net of the reduction of other Trust expenses:

- Asset management fees relating to the fourteen additional properties in the portfolio at this time which accounts for approximately \$325,000;
- Additional professional fees and consulting costs of approximately \$530,000 incurred to comply with financial and regulatory requirements;
- Audit and accounting costs of approximately \$520,000;
- Legal costs of approximately \$50,000;
- Trustee costs relating to the creation of the Special Committee and Q3 2005 Acquisition of approximately \$115,000;
- One-time non-cash charges of approximately \$110,000 relating to the LTIP; and
- Non-cash expense of approximately \$350,000 for adjustments to reflect market conditions and value of non-property assets.

### Interest Expenses

Interest Expenses for the twelve months ended December 31, 2005, as compared to the grossed up period ended December 31, 2004 have grown by approximately \$4.4 million to approximately \$12.4 million. This increase in our expenses is a result of the addition of the thirteen mortgaged properties during the last quarter of 2004 and the third quarter of 2005 totaling approximately \$3.0 million, debenture interest relating to the Q3 2005 Acquisition of approximately \$670,000 and the increased interest cost associated with the greater utilization of the line of credit in 2005 of approximately \$350,000.

## LIQUIDITY & CAPITAL RESOURCES

We are pleased by the confidence recently placed in the Trust by a Canadian chartered bank, as demonstrated by an agreement to provide a \$35 million revolving operating line that will mature in one year's time. This facility will replace our previous operating line and has many of the same terms and conditions as that facility. The new operating line provides us the flexibility we require as we go through the process of increasing Unitholder value and we continue the process of attracting new tenants, spending on capital items, repositioning and the potential acquisition and disposition of targeted properties.

The Trust currently anticipates meeting all future obligations. In order to finance the future growth of the REIT, and to continue to meet all of our current financial obligations, the Trust relies on the following sources of cash flow:

1. Conventional mortgage debt secured by income producing properties;
2. Secured short-term financing through our revolving credit facility of up to \$35 million; and

3. Cash flow from operations and the sale of the non-core properties noted above which is expected to be approximately \$18 million after repayment of debt.

In order to maintain our finances, Management has chosen, as set forth in the Declaration of Trust, to limit the percentage of debt to gross book value to 65% (60% if no convertible debentures are outstanding). As of the fourth quarter ended December 31, 2005, this figure stood lower than the Declaration of Trust's target at 63.4%. 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 the current financial position, Management believes that, should we exercise our full debt to gross book value, we would have approximately \$20.4 million with which to fund further acquisitions. This number is expected to rise to \$36.2 after the sale of the non-core properties. The Trust does not have any development obligations for any of its properties at December 31, 2005 outside of maintenance costs in the normal course of business.

Management has been following a strategy to lower the cost of debt, and the Trust's weighted average cost of debt currently stands at 6.1%, an improvement over 2004's Q4 rate of 6.7%. Mortgage maturity terms were also lengthened to 5.2 years in the fourth quarter of 2005, from 3.2 years in the fourth quarter of 2004.

At the end of the most recent quarter ended December 31, 2005, the Trust had drawn \$5.1 million from its operating line of credit. The line currently has a maximum limit of \$15 million, subject to certain security provisions. At December 31, 2005 the operating line was secured for \$9.8 million maturing March 31, 2006. This operating line will be replaced by the \$35 million operating line discussed above and will also be secured for \$10.2 million and will mature March 31, 2007.

During 2005 the Trust generated approximately \$43.3 million from its financing activities. These funds have been generated in the following manner:

- Approximately \$47.1 million was generated as a result of the Q3 2005 Acquisition, including proceeds from the issuance of units;
- \$13.3 million was generated from additional secured debt financing;
- \$19.3 million was generated from the issuance of convertible debentures;
- \$5.7 million was used to pay down the Trust's secured debt financing;
- \$15.1 million was distributed back to our Unitholders;
- \$6.3 million was used as a payment to reduce the operating line;
- \$8.9 million was used to discharge disposed mortgages; and
- \$0.4 million was used in properties characterized as Discontinued Operations.

During 2005 the Trust used approximately \$50.0 million for investing activities. The Trust's investing activities included the receipt of \$15.5 million from the sale of

income producing properties as well as a payment of \$61.5 million for income producing properties (net of debt assumed) related to the Q3 2005 Acquisition. Cash used for additions to income producing properties and deferred costs were \$0.8 and \$3.2 million, respectively. Overall, the Trust's cash position increased by \$1.1 million for the year, and the cash balance at December 31, 2005 was \$2.1 million.

## INDEBTEDNESS & OTHER OBLIGATIONS

The Q3 2005 Acquisition was financed through the issuance of \$20 million principal amount of 7.5% convertible unsecured subordinated debentures, the issuance of a \$30 million non-callable secured convertible subordinated debenture at 4.5% to the vendor, the assumption of \$90 million of mortgages, and the issuance of 6.245 million units at a price of \$8.25 per unit, which yielded gross proceeds of \$51.5 million. These significant changes to the capital structure have been incorporated into this year's results.

During the most recent quarter ended December 31, 2005 the Trust had approximately \$219.7 million of mortgages payable including a debt premium of \$1.9 million and a weighted average interest rate of 6.4%. As part of the Q3 2005 Acquisition, the Trust obtained an interest rate subsidy as the mortgages assumed in the acquisition bore interest at above market rates. After giving effect to the subsidy, mortgages payable bear a weighted average interest rate of 6.1%. At the end of fiscal 2004 these figures amounted to \$121.7 million in mortgages payable with a debt premium of \$212,000, and an interest rate of 6.7%.

During the quarter ended December 31, 2005 the Trust paid \$1.9 million towards principal amounts on mortgages. The majority of lenders have recourse to the assets of the Trust. As at December 31, 2005, mortgages payable have a weighted average term to maturity of 5.2 years (at this same time last year the term was 3.2 years). The increase in the weighted average lease term, as well as the fall in the weighted average interest rate are the results of active renewals by Management and the terms of the mortgages assumed upon the closing of the Q3 2005 Acquisition.

There are two mortgages coming due in March 2006 totaling approximately \$8.0 million that have been extended to the end of April 2006 and will be refinanced by the new operating facility. This was done to allow short-term financial flexibility for the Trust as it goes through its efforts to enhance Unitholder value.

Year	Mortgages (1)	Property Management	Asset Management	Total
		Fees (2)	Fees (3)	
2006	23,820	2,801	432	27,053
2007	36,459	2,801	0	39,260
2008	18,322	2,801	0	21,123
2009	51,807	2,801	0	54,608
2010	9,560	2,801	0	12,361
Thereafter	77,802	n/a	n/a	77,802
	\$ 217,770	\$ 14,005	432	232,207

- Notes
- 1 Excludes operating line of credit and properties held for sale.
  - 2 Based on 4.0% of the Gross Revenue from Q4 of 2005 annualized, which excludes properties held for sale or included in Discontinued Operations.
  - 3 Effective February 28, 2006, asset management fees are no longer paid.

## 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 obligations secured. The mortgage on one property has been cross-collateralized with indebtedness owned 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 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 indemnity.

As a result of the sale of Maple Park, the Trust has a contingent liability as guarantor for the mortgage assumed by the purchaser. The Trust's contingent liability is to be secured by the registration of a collateral mortgage registered against the property.

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 the financial statements.

## UNITHOLDERS' EQUITY AND CONVERTIBLE DEBENTURES

At December 31, 2005, the REIT had 18.44 million Units outstanding as well as \$50 million in convertible debentures. Further details with respect to Unitholder equity and the convertible debentures can be found in Notes 12 and 19, respectively, of the REIT's audited financial statements for the year ended December 31, 2005 and the period from March 22, 2004 to December 31, 2004.

## RELATED PARTY TRANSACTIONS

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

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).

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.

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.

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. 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.

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.

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.

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.

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.

Given that RIMI will no longer be providing asset and property management services after February 28, 2006, the above transactions with RIMI will either cease to exist or will no longer be considered as related party transactions.

## RISKS & UNCERTAINTIES

Throughout the normal course of operations the Trust is exposed to interest rate risk on its mortgages payable and operating line of credit. This risk is limited by provisions in the Declaration of Trust which restrict the total debt to no more than 60% of gross book value (65% including convertible debentures), and limit the amount of indebtedness that may be incurred at floating rates as well as 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 its 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 our exposure to interest rate fluctuations.

The value of the REIT'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. At present, we have more than 800 tenants, thereby achieving a diversification of revenues and limiting our exposure to potential damages by any one tenant. To help further secure our stability the Trust's largest tenant represents no more than 6% of gross rentals from income producing properties, and thorough credit assessments are conducted with respect to all new leasing. Furthermore, the Trust limits its economic dependence on any one tenant to 20.0% of unitholder equity.

For a more complete discussion of the risks and uncertainties associated with the REIT's activities, see the Trust's most recent annual information form available on SEDAR at [www.sedar.com](http://www.sedar.com).

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

A detailed description of our accounting policies is set out in Note 2 to our audited financial statements for the year ended December 31, 2005 and the period from March 22, 2004 to December 31, 2004.

Specifically, provisions set forth in GAAP require that the Management of the REIT regularly evaluate the recoverability of each individual property held in its portfolio. These evaluations are based on a net carrying amount basis and do not permit the netting of unrealized gains and losses on an aggregate asset basis. The future financial performance of 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 recognizes an asset as being impaired when its carrying value exceeds the total undiscounted future cash flows anticipated from the use and eventual sale of the property. Thus, impairment is judged by measuring the amount by which the carrying value exceeds the fair value of the asset.

During the fourth quarter of 2005 no properties have been declared as impaired. Therefore, the fair value of the Trust's income producing properties is in excess of the carrying value of the assets themselves. For properties classified as Discontinued Operations, the Trust has reported a provision, where appropriate.

In the preparation of the accounting statements, 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. Actual results may differ from those estimates under different assumptions and conditions. For an

explanation of these significant accounting policies, assumptions and estimates, please refer to our interim and year-end financial statements and related Management Discussion and Analyses also available on SEDAR.

It is the responsibility of the Trust's management and board of trustees to maintain appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Trust have evaluated, or caused the evaluation of the effectiveness of the Trust's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) for the year ended December 31, 2005, and have concluded that such disclosure controls and procedures are operating effectively.

### 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](http://www.sedar.com).