

RSM! Richter

First Report of RSM Richter Inc. In its capacity as the Proposal Trustee Re: Retrocom Growth Fund Inc.

RSM Richter Inc.
Toronto, August 24, 2006

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF
PROPOSAL OF
RETROCOM GROWTH FUND INC.**

**FIRST REPORT OF
RSM RICHTER INC.
AS PROPOSAL TRUSTEE**

AUGUST 24, 2006

1. INTRODUCTION

This report is filed by RSM Richter Inc. ("Richter") in its capacity as Proposal Trustee ("Trustee") of Retrocom Growth Fund Inc. (the "Company"), pursuant to a Notice of Intention to Make a Proposal ("NOI") filed by the Company with the Ontario Superior Court of Justice (the "Court") on August 1, 2006 ("Filing Date") under the *Bankruptcy and Insolvency Act*.

1.1 Purpose of this Report

This report is filed in support of the Company's motion for an extension of the time required to file its proposal to October 16, 2006. This report outlines the background information of the Company, the activities of the Company since the Filing Date and the anticipated transactions of the Company.

2. BACKGROUND OF THE COMPANY

The Company was established to invest in small and medium-sized companies involved in innovative building technologies and construction and real estate development. The Company is amalgamated under the laws of Canada and is registered as a labour-sponsored investment fund corporation under the *Community Small Business Investment Funds Act* (Ontario), and as a labour-sponsored venture capital corporation under the *Income Tax Act* (Canada).

In lieu of hiring its own employees, the Company has relied on third parties to manage its affairs. As such, the Company previously entered into a management agreement with Retrocom Investment Management Inc. (the “Manager” or “RIMI”), under which the Manager was engaged to manage the Company and to provide, among other things, investment and project advisory services and monitoring and promotional services to the Company.

3. ACTIVITIES OF THE COMPANY SINCE THE FILING DATE

Since the Filing Date, the Company has worked towards realizing on its various investments. Efforts have been made to secure purchasers for the Company’s real estate interests. The Company has also been in the process of updating its records to determine the quantum of its non-capital tax losses and to restore the operating status of one of its wholly-owned subsidiaries to facilitate the sale of one of its real estate interests.

4. PENDING REAL ESTATE DISPOSITIONS

The Company has negotiated the sale of two of its real estate interests, the sales of which are scheduled to close in late September, 2006.

The first property in question, owned by Newton Building Corporation (a wholly-owned subsidiary of the Company), is located in Midland, Ontario. An agreement of purchase and sale has been executed with a purchase price of \$1,900,000. The closing has been delayed as a result

of corporate filings that need to be made with respect to the subsidiary company. The process of updating the financial statements is underway, after which the tax returns will be filed and the subsidiary company's status as an operating company will be reinstated with the appropriate regulatory authority. The purchaser and the Company have previously agreed to extend the closing to the end of September, 2006. The net proceeds from the sale would be paid to the mortgagee.

The second property, which is owned by a wholly-owned subsidiary jointly with another party, is a mall located in Belleville, Ontario. An agreement of purchase and sale has been executed with a purchase price of \$13,300,000. The closing of the sale is scheduled to take place at the end of September, 2006, after the purchaser's due diligence proceedings are completed. Upon completion of this sale, the Company expects to receive approximately \$1 million, after discharging encumbrances on the Property.

The Company's board of directors ("Board") have approved the above two sales. Prior to the Filing Date, Richter acted as financial advisor to the Board and in that capacity, concurred with the Board's decision.

Negotiations for the sale of two additional real estate interests are ongoing. It is anticipated that these sales may close during November, 2006. The first property is the Bowling Palace of Cornwall ("Cornwall"). A Letter of Intent to Purchase the Cornwall property has been submitted and approved by the Company's Board of Directors. The second property in question is located at 220 Dundurn Street South, Hamilton, Ontario. Two offers have been received for this property and the Company is still in the process of analysing each of the offers.

5. TAX LOSSES

During the time immediately preceding the Filing Date and since that time, the Trustee has held several discussions with six parties that have expressed interest in acquiring the Company's remaining investments and tax losses via a merger or amalgamation with the Company.

Discussions are ongoing with these parties and it is believed that discussions will continue past August 31, 2006. An assignment in bankruptcy may negatively impact the progress of negotiations with these interested parties. In addition, RIMI has provided to us an analysis of the Company's tax losses. The analysis shows that the Company has approximately \$63 million in accumulated non-capital tax losses. These losses are scheduled to expire in the years 2010 to 2014 with 82% of the losses to expire in the year 2014. If the Company is able to realize value with respect to the tax losses, that is likely to be a significant portion of value ultimately available to creditors; the realization of such value would likely depend upon a successful proposal being made.

6. CASH FLOW

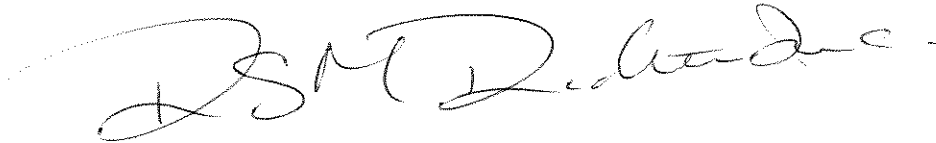
The Company has updated its projected cash flow to November 3, 2006 to coincide with the motion for an extension. The updated cash flow is attached as Exhibit "A".

7. CONCLUSION AND RECOMMENDATION

The Company is acting in good faith and with due diligence in taking steps to reorganize and put together a viable proposal to its creditors. It is the Trustee's view that an extension will not adversely affect any group of creditors.

Accordingly, the Trustee supports the Company's motion for an extension of the time required to file its proposal.

All of which is respectfully submitted,

A handwritten signature in black ink, appearing to read "RSM Richter", with a long horizontal flourish extending to the left.

RSM RICHTER INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE OF
RETROCOM GROWTH FUND INC.
AND NOT IN ITS PERSONAL CAPACITY

Retrocom Growth Fund Inc.
Projected Statement of Cash Flow
For the Period August 21, 2006 through November 3, 2006
Unaudited
(\$)

	<u>Notes</u>	<u>Amount</u>
CASH INFLOWS		
Retrocom Mid-Market REIT share sale	2	1,650,000
Retrocom Mid-Market REIT distribution	3	14,000
Sale of real estate interests	4	<u>3,582,500</u>
TOTAL CASH INFLOWS		<u>5,246,500</u>
CASH OUTFLOWS		
Interest payments	5	47,500
Secured debt repayment	6	2,817,500
Professional fees - trustee	7	275,000
Professional fees - legal	7	200,000
Miscellaneous	8	<u>6,000</u>
TOTAL CASH OUTFLOWS		<u>3,346,000</u>
NET CASH FLOW		<u>1,900,500</u>
OPENING CASH BALANCE	9	785,100
NET CASH FLOW		<u>1,900,500</u>
ENDING CASH BALANCE		<u>2,685,600</u>

The above financial projections are based on management's assumptions detailed in Exhibit "A-1"
The note references correspond to the assumption numbers shown in Exhibit "A-1"

RETROCOM GROWTH FUND INC.

RSM RICHTER INC.

"Robert Blakely"
Per

"Robert Harlang"
Per

August 24, 2006
Date

August 24, 2006
Date

Retrocom Growth Fund Inc.
Notes to Projected Statement of Cash Flow
For the Period August 21, 2006 through November 3, 2006
Unaudited
(\$)

Purpose and General Assumptions

1. The purpose of the projection is to present a forecast of the cash flow of Retrocom Growth Fund Inc. (the "Fund or RGF") for the period August 21, 2006 to November 3, 2006 (the "Period") in regard to its proposal proceedings under the *Bankruptcy and Insolvency Act*. The projected cash flow reflects the Fund's planned course of action during the Period. The underlying assumption is that the Fund will attempt to realize on its remaining investments via a sale process. The investments will be closely monitored to ensure that further deterioration does not occur.

The projected cash flow statement has been prepared based on assumptions developed and prepared by the Fund which are normally categorized into two groups:

- Hypothetical assumptions; and
- Most probable assumptions.

Hypothetical Assumptions

2. The sale of the Retrocom Mid-Market REIT ("RMMR.UN") shares is based on the assumption that the shares will sell for net proceeds of \$6.45 per share which is expected to remain materially consistent through to the time of the sale.
3. Income distributions from RMMR.UN shares are based on the scheduled sale dates and current income distribution levels which are expected to remain materially consistent through to the time of the share sale.

Most Probable Assumptions

4. Amount reflects the net proceeds of the sale of three RGF real estate properties, two of which are subject to purchase and sale agreements.
5. Interest payments are estimated based on the schedule of repayments of secured debt. The dates of these repayments are subject to minor changes based on negotiations between the Fund and the purchaser of the investments.
6. Secured debt will be repaid as the proceeds from the sale of the investments become available.
7. Professional fees include the fees of the Proposal Trustee, and legal fees associated with the Fund's restructuring proceedings.
8. Miscellaneous costs are based on historical results.
9. Approximately \$620,000 of the opening cash balance is pledged to support a guarantee and is not available for general corporate purposes.

RETROCOM GROWTH FUND INC.

RSM RICHTER INC.

"Robert Blakely"

Per

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Per

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