

# **RSM! Richter**

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

**RSM Richter Inc.**  
Toronto, October 10, 2006

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**October 10, 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* ("BIA"). The Company was granted an extension of the time required to file its proposal to October 16, 2006 by the Court on August 30, 2006.

### **1.1 Purpose of this Report**

This report ("Second Report") is filed in support of the Company's motion for an extension of the time required to file its proposal for a further forty-five (45) days. This report outlines the background information of the Company, the activities of the Company since the First Report of the Proposal Trustee dated August 25, 2006, and the anticipated transactions of the Company. This report also provides information to support the application for the appointment of Richter

as interim receiver pursuant to Section 47.1 of the BIA, with its powers limited to controlling the Company's receipts and disbursements, controlling the Company's books and records and engaging certain management personnel.

## **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. ("RIMI"), under which RIMI 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.

As of September 18, 2006, the RIMI personnel who were providing the management and administration services for the Company were terminated by RIMI. The RIMI personnel were Paul Black Jr. and Jackie Loynd who provided services to RIMI as employees, and Blair Taylor

who provided services to RIMI in the capacity of an independent contractor (collectively referred to as “Management Personnel”). The Management Personnel are considered to be valuable to the Company as it continues to realize on its investments. The Management Personnel are intimately familiar with the Company’s investments and provide valuable services to the Company including compiling information on the Company’s tax losses.

Subsequent to the termination of the Management Personnel, Richter retained the Management Personnel as independent contractors to assist in the Company’s administration.

#### **4. PENDING REAL ESTATE DISPOSITIONS**

The Company has negotiated the sale of three of its real estate interests, the sales of which are scheduled to close in October and November, 2006.

The first 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 \$13.3 million. The closing of the sale is scheduled to take place on or around October 19, 2006. Upon completion of this sale, the Company expects to receive approximately \$1.2 million after discharging encumbrances on the Property.

The second property is owned by Newton Building Corporation (“Newton”) (a wholly-owned subsidiary of the Company) and is located in Midland, Ontario. An agreement of purchase and sale had been executed with a purchase price of \$1.9 million. As a result of non-filing of corporate tax returns in prior years, Newton’s corporate charter had lapsed. As a result, the closing of this transaction has been delayed several times while the Company’s counsel takes the steps necessary to have Newton’s corporate charter reinstated, which is expected to occur in the later part of October, 2006. The purchaser and the Company previously agreed to extend the closing to the end of September, 2006, but it is now expected that the closing will not occur until

November, 2006. As a result of the delay, the purchaser has now requested a price abatement. Negotiations are still underway with regards to the closing of the transaction.

The third property is the Bowling Palace of Cornwall. A conditional agreement of purchase and sale has been accepted by the Company in the amount of \$2 million. The Purchaser has until October 18, 2006 to waive conditions. The sale would close on or around November 2, 2006 if the purchaser waives the conditions. The proceeds of this sale will be paid to the mortgage and taxes in arrears related to the property. It is expected that the sale will yield RGF approximately \$600,000 that can be used for general corporate purposes.

Negotiations for the sale of one additional real estate interest are ongoing. It is anticipated that this sale may close during November, 2006. The property is located at 220 Dundurn Street South, Hamilton, Ontario.

## **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 the Company's tax losses through an acquisition of the Company. The tax losses are estimated to be approximately \$63 million. Discussions are ongoing with two parties who have expressed serious interest in the Company's tax losses and it is believed that discussions will continue past October 16, 2006. These parties are in the process of conducting due diligence and it is expected that their review will extend past October 16, 2006. An assignment in bankruptcy likely would negatively impact the progress of negotiations with these interested parties and likely would negatively impact the recovery in respect of the tax losses.

If the Company is able to realize value with respect to the tax losses, there 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. INTERIM RECEIVER**

As set out in Section 3 of the Second Report, the Management Personnel were terminated by RIMI. The Company has no employees of its own and its day-to-day administrative and managerial functions had been outsourced to RIMI. Specifically, RIMI personnel controlled the receipts and disbursements and maintained the Company's books and records. As a result, Richter is of the view that it would be beneficial to have the Management Personnel engaged to perform the functions formerly conducted by RIMI. It would be appropriate for Richter to engage the Management Personnel in the capacity of an Interim Receiver. The Board of Directors and Officers provide their services to the Company on a part-time basis. The basic function of controlling receipts and particularly disbursements is not currently efficiently managed. The appointment of an Interim Receiver with the powers to control receipts and disbursements would assist the Company's operations.

## **7. CASH FLOW**

The Company has updated its projected cash flow to December 1, 2006. The updated cash flow is attached as Exhibits "A" and "A-1".

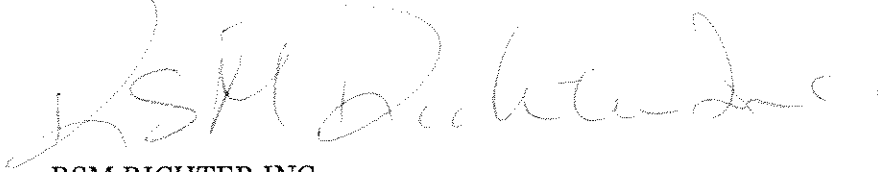
## **8. CONCLUSION AND RECOMMENDATION**

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. The extension would afford interested parties the time necessary to conduct due diligence on the Company's tax losses. If a transaction can be

negotiated for the tax losses, there would be an enhanced recovery for the Company's stakeholders. The Trustee is also of the view that it would be beneficial to appoint Richter as interim receiver for the purposes of engaging the Management Personnel, controlling receipts and disbursements and taking control of the Company's books and records.

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

All of which is respectfully submitted,

A handwritten signature in dark ink, appearing to read "RSM Richter Inc.", is written over a light blue horizontal line.

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