

**Third Report of RSM Richter Inc.  
In its Capacity as Proposal Trustee**

**Re: Retrocom Growth Fund Inc.**

**RSM Richter Inc.**  
Toronto, November 27, 2006

RSM Richter is an independent member firm of RSM International,  
An affiliation of independent accounting and consulting firms.

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE  
PROPOSAL OF RETROCOM GROWTH FUND INC.  
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

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

**November 27, 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" or "RGF"), pursuant to the Company's Notice of Intention to Make a Proposal ("NOI") filed by the Trustee with the Office of the Superintendent of Bankruptcy on August 1, 2006 ("Filing Date") under the *Bankruptcy and Insolvency Act* ("BIA"). The Company was granted an initial extension of the time required to file its proposal to October 16, 2006 by the Ontario Superior Court of Justice (the "Court") on August 30, 2006. The Company was granted a further extension of the time required to file its proposal to December 1, 2006 by the Court on October 13, 2006.

On October 13, 2006 Richter was appointed interim receiver (the "Interim Receiver") of the Company 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.

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

This report (“Third 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 and the Interim Receiver since the Trustee’s second report dated October 10, 2006 (“Second Report”); and the anticipated transactions of the Company involving assets that are either directly or indirectly owned by 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. (“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 two of its wholly-owned subsidiaries to facilitate the sale of two of its real estate interests.

On 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 were employees, and Blair Taylor who was 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, in particular as a result of their familiarity with the Company's investments and ability to provide ongoing valuable services to the Company such as the compilation of information on the Company's tax losses.

Subsequent to the termination of the Management Personnel by RIMI, Richter retained the Management Personnel as independent contractors to assist in the Company's administration. It is likely that had the Company previously become bankrupt, the trustee in bankruptcy would have retained the services of the Management Personnel in similar fashion. Since the filing of the Second Report, Blair Taylor has terminated his services with the Company and Richter.

#### **4. ACTIVITIES OF THE INTERIM RECEIVER**

Since the appointment of the Interim Receiver on October 13, 2006, the Interim Receiver has assumed the responsibility of administering the Company's receipts and disbursements. In that regard, the Interim Receiver has contacted the Company's various banking institutions and arranged for the funds held at the banking institutions to be transferred to an estate account maintained on behalf of the Company by the Interim Receiver.

## 5. PENDING REAL ESTATE DISPOSITIONS

The Company has negotiated the sale of three of its real estate interests, the sales of which are currently scheduled to close in December, 2006 and January, 2007.

### The Belleville Property

This property is a mall located in Belleville, Ontario. This property is a co-ownership with title to the property held by a wholly-owned subsidiary of the Company, Rushview Holdings Inc. (“Rushview”), on behalf of itself and its co-owner.

To date, Rushview and its co-owner have negotiated and executed an agreement of purchase and sale with a purchase price of \$13.3 million. The closing of the sale was previously scheduled to take place on October 16, 2006; however, due to various complications including the fact that Rushview’s corporate charter had lapsed, the closing of this transaction has been delayed several times. The Company has now taken the steps necessary to have Rushview’s corporate charter reinstated. The closing is now expected to occur on December 12, 2006. Upon completion of this sale, the Company expects to receive approximately \$1.2 million after discharging encumbrances on the property.

### The Midland Property

Located in Midland, Ontario (the “Midland Property”), this property owned by Newton Building Corporation (“Newton”) (a wholly-owned subsidiary of the Company). The Midland Property consists of 38 serviced lots for residential development.

To date, an agreement of purchase and sale has been executed with a purchase price of \$1.9 million. A closing date for this sale was originally scheduled for June 17, 2006; however, due to the 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 considered its various options on how to complete the sale. The Company and the purchaser have now restructured the transaction in a manner which will likely enable the sale to be completed in early December, 2006. As a result of the delay, the purchaser has negotiated a price abatement of \$300,000. This abatement represents the carrying cost of the property to the purchaser through the winter months, during which development of the property cannot occur.

#### The Cornwall Property

This property is the Bowling Palace of Cornwall, located in Cornwall, Ontario. A conditional agreement of purchase and sale has been accepted by the Company in the amount of \$2 million. A closing date was scheduled for November 2, 2006; however, a condition of the purchase and sale agreement relating to the tenant's lease commitment was not satisfied before the closing date and, as such, an amendment was made to the purchase and sale agreement to extend the closing date. The Purchaser now has until December 15, 2006 to waive conditions. The sale is currently conditional upon the purchaser successfully completing a Phase 1 environmental assessment which it indicated would not commence until the tenant lease condition was satisfied. The sale is expected to close on or around January 3, 2007 if the purchaser waives the condition. At the moment, it is anticipated that the proceeds of this sale will be paid to the mortgage and tax 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.

### Other Property

Negotiations for the disposition of one additional real estate interest are essentially complete. It is anticipated that this transaction will close in tandem with the Midland Property in early December, 2006. Upon the completion of this transaction, there would be a \$450,000 reduction in the indebtedness to one of RGF's secured creditors. The property is located at 220 Dundurn Street South, Hamilton, Ontario

## **6. 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 still ongoing with one party who has expressed serious interest in the Company's tax losses and it is believed that discussions will continue past December 1, 2006. In addition, three other parties have expressed interest, to the Company's counsel, in the Company's tax losses. A bankruptcy of the Company would eliminate the possibility of a third party utilizing the tax losses.

If the Company is able to realize value with respect to the tax losses, there is likely to be significant additional value ultimately available to creditors; the realization of such value is dependant upon a successful proposal being implemented.

## **7. SECURED CREDITORS**

A number of the Company's assets are expected to be realized during the next forty-five days. There are a number of parties who appear to have secured interests in the assets that are expected to be sold or otherwise realized. Counsel for the Company and the Interim Receiver are reviewing the security held by the various parties to determine their validity.

Set out in Appendix "1" is a listing of the various registrants under the *Personal Property Security Act* (Ontario).

## **8. CASH FLOW**

The Company has updated its projected cash flow to January 19, 2007. The updated cash flow is set out in Appendices "2" and "2-1".

## **9. CONCLUSION AND RECOMMENDATION**

The Company is acting in good faith and with due diligence in taking steps to deal with its assets 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 negotiate a transaction in respect of 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 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 dark ink, appearing to read "RSM Richter Inc.", is written over a horizontal line.

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



**REGISTERED SECURITY INTERESTS IN THE**  
**ASSETS OF RETROCOM GROWTH FUND INC.**

	Secured Party(ies)	Debtor(s)	Collateral Classification	General Collateral Description	Reference File No. & Registration Number(s)	Comments
1.	1313263 Ontario Limited The Canada Trust Company Trustee for the self-directed retirement savings plan of Gianfranco G. Piccin  The Canada Trust Company Trustee for the self-directed retirement savings plan of Elizabeth Bottos	Retrocom Growth Fund Inc.	Inventory, Equipment, Accounts, Other	Guarantee and pledge of 200,000 units of Retrocom Mid-Market Real Estate Investment Trust	619395174 20051003 1619 1862 7135	Renewal five years
					As amended by: 20051005 1221 1862 7241	To add additional Secured Party's
2.	1578312 Ontario Inc.	Retrocom Growth Fund Inc.	Inventory, Equipment, Accounts, Other	Guarantee and assignment and postponement of claim.	611500464 20041220 1641 1862 9994	Renewal five years
3.	Firm Capital Mortgage Fund Inc.	Retrocom Growth Fund Inc.	Inventory, Equipment, Accounts, Other	Pledge of units of Retrocom Mid-Market Real Estate Investment Trust	609919704 20041019 1603 1862 5513	Renewal five years
4.	Royal Bank of Canada	Retrocom Growth Fund Inc.	Accounts, Other		895874391 20030627 1907 1531 7997	Renewal five years

	Secured Party(ies)	Debtor(s)	Collateral Classification	General Collateral Description	Reference File No. & Registration Number(s)	Comments
5.	Striker Bowling Solutions Inc.	Retrocom Growth Fund Inc.	Equipment, Other	10-GS 98 Pinsetters 5-GS 98 Kickbacks 10-Schmidt CA-1 Pinsetters with dropsweep and track 5 frameworx interfaces for frameworx scorers	891658602 20030213 1132 1489 0243	Renewal five years
					As amended by: 20030213 1535 1489 0244	Assignment of interest in collateral from 1588817 Ontario Inc. to Retrocom Growth Fund Inc.
					As amended by: 20040521 1100 1489 0342	To correct the corporation number
6.	Bank of Montreal	Retrocom Growth Fund Inc.	Accounts, Other	LF 198 pledge of fluctuating cash collateral LF 269 pledge of instrument and assignment of proceeds	849226518 19990317 1036 1529 6482	Renewal five years
					As amended by: 20040202 1948 1531 4827	Renewal five years
					As amended by: 20050603 1459 1530 7371	To add accounts to collateral classification and to add to general classification

	Secured Party(ies)	Debtor(s)	Collateral Classification	General Collateral Description	Reference File No. & Registration Number(s)	Comments
7.	Royal Bank of Canada	The Bowling Palace of Cornwall Inc. Retrocom Growth Fund Inc. 1490546 Ontario Inc. Prime Time Bowl Sports & Entertainment Centre Inc.	Equipment	Debtor's additional addresses are – 1108 Brookdale Road, Cornwall, Ontario H4G 1C2 10, Tollgate East, Cornwall, Ontario	841659858 19980611 1442 1530 9532	Renewal ten years
					As amended by: 20010605 1455 1590 6434	To add a Debtor
					As amended by: 20011019 1811 1862 1245	To add a Debtor
					As amended by: 20040909 1543 1862 2832	To add a Debtor
8.	Optus Capital Corporation	Retrocom Growth Funds Inc.	Inventory, Equipment, Accounts, Other	General Security Agreement	081412866 19971021 1140 0043 5256	Renewal two years
					As amended by: 19991019 1226 0043 2438	Renewal three years
					As amended by: 20021001 1535 1793 5292	Renewal five years
					As amended by: 20051216 1449 1590 9040	Transfer from Morgan Wilshire Finchwood Limited to Retrocom Growth Funds Inc.
9.	Optus Capital Corporation	Retrocom Growth Fund Inc.	Accounts, Other	General assignment of accounts receivable	081412884 19971021 1140 0043 5254	Renewal 2 years
					As amended by: 19991019 1226 0043 2439	Renewal three years

	Secured Party(ies)	Debtor(s)	Collateral Classification	General Collateral Description	Reference File No. & Registration Number(s)	Comments
					As amended by: 20021001 1528 1793 5290	Renewal five years
					As amended by: 20051216 1450 1590 9041	Transfer from Morgan Wilshire Finchwood Limited to Retrocom Growth Fund Inc.
10.	Optus Capital Corporation	Retrocom Growth Fund Inc.	Accounts, Other	Assignment of material contracts	081412893 19971021 1140 0043 5253	Renewal two years
					As amended by: 19991019 1226 0043 2440	Renewal three years
					As amended by: 20021001 1522 1793 5288	Renewal five years
					As amended by: 20051216 1450 1590 9043	Transfer from Morgan Wilshire Finchwood Limited to Retrocom Growth Fund Inc.
11.	Bennett Jones LLP RSM Richter Inc. G Park Consulting Inc. Fasken Martineau DuMoulin LLP	Retrocom Growth Fund Inc.	Inventory, Equipment, Accounts, Other, Motor Vehicle Included		625504734 20060525 1541 1862 2492	625504734 20060525 1541 1862 2492 Renewal two years

Retrocom Growth Fund Inc.  
**Projected Statement of Cash Flow**  
For the Period December 1, 2006 through January 19, 2007  
Unaudited  
(\$)

	<u>Notes</u>	<u>Amount</u>
<b>CASH INFLOWS</b>		
Retrocom Mid-Market REIT share sale	2	812,000
Retrocom Mid-Market REIT distribution	3	7,000
Sale of real estate interests	4	<u>3,855,000</u>
<b>TOTAL CASH INFLOWS</b>		<u><u>4,674,000</u></u>
<b>CASH OUTFLOWS</b>		
Secured debt repayment	5	2,137,000
Billed and accrued professional fees - Trustee	6	210,000
Projected professional fees - Trustee	6	170,000
Billed and accrued professional fees - Legal	6	192,000
Projected professional fees - Legal	6	75,000
Consulting fees	6	35,000
Miscellaneous	7	<u>2,000</u>
<b>TOTAL CASH OUTFLOWS</b>		<u><u>2,821,000</u></u>
<b>NET CASH FLOW</b>		<u><u>1,853,000</u></u>
<b>OPENING CASH BALANCE</b>	8	771,000
<b>NET CASH FLOW</b>		<u>1,853,000</u>
<b>ENDING CASH BALANCE</b>		<u><u>2,624,000</u></u>

The above financial projections are based on management's assumptions detailed in Exhibit "2-1"  
The note references correspond to the assumption numbers shown in Exhibit "2-1"

**RETROCOM GROWTH FUND INC.**

**RSM RICHTER INC.**

"Bob Blakely"  
Per

"Robert Harlang"  
Per

November 27, 2006  
Date

November 27, 2006  
Date

Retrocom Growth Fund Inc.  
**Notes to Projected Statement of Cash Flow**  
For the Period December 1, 2006 through January 19, 2007  
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 December 1, 2006 to January 19, 2007 (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 \$5.60 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. Secured debt will be repaid as the proceeds from the sale of the investments become available.
6. Professional fees include the fees of the Proposal Trustee, and legal fees associated with the Fund's restructuring proceedings. Legal fees include the fees of the Company's counsel and the fees of the Proposal Trustee's counsel. Consulting fees include payments to be made to the former personnel of Retrocom Investment Management Inc. to be retained by Richter on behalf of RGF. The fees of the Proposal Trustee, its counsel, and the fees of the Company's counsel are secured liabilities of the Company pursuant to a general security agreement between, *inter alia*, the Company, Bennett Jones LLP and RSM Richter Inc. dated June 7, 2006.

The components of these fees are as follows:

Trustee's fees (including Trustee's legal counsel):  
Amount billed and unpaid to October 31, 2006  
Accrued fees from November 1, 2006 to November 30, 2006  
Estimated fees from December 1, 2006 to January 19, 2007  
Total

\$	110,000
	100,000
	170,000
	<u>380,000</u>

Legal fees:  
Amount billed and unpaid to October 31, 2006  
Accrued fees from November 1, 2006 to November 30, 2006  
Estimated fees from December 1, 2006 to January 19, 2007  
Total

	127,000
	65,000
	75,000
	<u>267,000</u>

Consulting Fees:

\$	<u>35,000</u>
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7. Miscellaneous costs are based on historical results.
8. Approximately \$500,000 of the opening cash balance is pledged to support guarantees and is not available for general corporate purposes.

**RETROCOM GROWTH FUND INC.**

**RSM RICHTER INC.**

"Bob Blakely"  
\_\_\_\_\_  
Per

"Robert Harlang"  
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