



PLAZACORP RETAIL
PROPERTIES LTD.

**PLAZACORP RETAIL PROPERTIES LTD.
ANNUAL REPORT**

**MANAGEMENT DISCUSSION AND ANALYSIS
OF RESULTS OF
OPERATIONS AND FINANCIAL CONDITION**

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
OCTOBER 31, 2004**

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PRESIDENT'S MESSAGE

Fellow Shareholders:

I am pleased to report on our results for the year ended October 31, 2004. Our portfolio of properties has continued to grow substantially as has the financial strength of the Company. The Management Discussion and Analysis and Consolidated Financial Statements following these remarks provide a comprehensive review of our activities during the year. I encourage everyone to read them thoroughly.

In 2004, our acquisition and development activity grew the current portfolio from interests in 35 properties to 45 at year end. Four more properties have been added subsequent to year end. The properties acquired are representative of our diversified investment strategy and meet our strict investment criteria, and should impact positively on our future cash flow.

During the year, we were actively engaged in raising new capital for Plazacorp Retail Properties Ltd. In December 2003, we issued \$5.0 million of Series 2 Convertible Debentures and in June 2004 \$10.0 million of Series 3 Convertible Debentures and retired \$5.0 million of 11% debentures with the proceeds. The Company also sold 50% interests in three properties to a national REIT generating net proceeds of \$5.8 million used to enhance our development program.

During the year, Plazacorp was able to increase the Company's Net Property Operating Income by 21% and funds from operations by 11% as noted in the Management Discussion and Analysis. Our asset base grew to \$137.8 million, an increase of 20% over 2003.

As a result we are able to pass on our success to our shareholders by increasing the dividend by 17% to 10.5¢ per share annually from the previously stated dividend of 9¢ per share annually, commencing with the February 15, 2005 quarterly dividend.

Going forward, we will continue to seek investment opportunities that fit the growth parameters of the acquisition and development discipline we are dedicated to follow. Adhering to a rigorous process and remaining focused on our strengths will continue to produce long-term results that will benefit all our shareholders.

I wish to thank all the people responsible for our success: the staff of Plazacorp and our property manager, Plaza Atlantic, for their commitment to advancing Plazacorp's business professionally and profitably; the Board of Directors who have provided invaluable advice; and our Shareholders for entrusting us with the capital to make it all possible.

Sincerely,



Richard Hamm
President and CEO

January 26, 2005

PART I

FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis of results of operations and financial condition ("MD&A") should be read in conjunction with the financial statements of Plazacorp Retail Properties Ltd. (hereinafter referred to as "Plazacorp" or the "Company") for the years ended October 31, 2004 and October 31, 2003. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Certain information in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Plazacorp, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements (which involve significant risks and uncertainties and should not be read as guarantees of future performance or results) include statements related to acquisitions, development activities, future maintenance and leasing expenditures, financing and the availability of financing sources. Management believes that the expectations reflected in forward-looking statements are based upon reliable assumptions; however, Management can give no assurance that actual results will be consistent with these forward-looking statements.

Without limiting the foregoing, the words "believe", "expect", "anticipate", "intend", "estimate", and similar expressions identify forward-looking statements.

Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, the availability of new competitive supply of retail real estate which may become available either through construction or sub-lease, Plazacorp's ability to maintain occupancy and to timely lease or re-lease space at current or anticipated rents, tenant bankruptcies, financial difficulties and defaults, changes in interest rates, change in operating costs, Plazacorp's ability to obtain adequate insurance coverage at a reasonable cost, or the ability to obtain adequate financing on any terms.

These forward-looking statements are made as of January 26, 2005 and Plazacorp assumes no obligation to update or revise them to reflect new events or circumstances.

Dated: January 26, 2005

OVERVIEW OF BUSINESS

Plazacorp was incorporated on February 2, 1999 and commenced trading on the Alberta Stock Exchange (PLZ) on July 30, 1999. Plazacorp currently trades on the TSX Venture Exchange.

Headquartered in Fredericton, New Brunswick, Plazacorp acquires, develops and redevelops retail real estate throughout Quebec and Atlantic Canada. The Company's portfolio as at January 26, 2005 currently includes interests in 45 properties totaling 2.99 million square feet (ft²) and 4 parcels of land in the planning stages of development. These include properties directly held by Plazacorp as well as investments in joint ventures. Acquisitions and developments completed subsequent to October 31, 2004 are detailed in the consolidated financial statements in Note 21-Subsequent Events.

On December 11, 2002 after receipt of shareholder and regulatory approval, Plazacorp filed articles of amendment to convert to a mutual fund corporation and as such is not taxable on capital gains realized.

The Company develops, redevelops, or purchases retail properties for lease to tenants in Quebec and Atlantic Canada. The retail asset types the Company operates are:

- Multi tenant retail strip plazas;
- Enclosed community shopping malls;
- Single use retail buildings.

As at October 31, 2004, the Company had acquired properties and property for development in its operating area as follows:

| (000's) | New Brunswick | | Quebec | | Nova Scotia | | Prince Edward Island | | TOTAL | |
|---------------------------|---------------|--------|------------|--------|-------------|--------|----------------------|--------|------------|--------|
| | Properties | sq.ft. | Properties | sq.ft. | Properties | sq.ft. | Properties | sq.ft. | Properties | sq.ft. |
| Strip | 14 | 754 | 8 | 473 | 9 | 667 | 4 | 264 | 35 | 2,158 |
| Enclosed | 2 | 235 | 3 | 385 | - | - | - | - | 5 | 620 |
| Single Use | 2 | 44 | 2 | 51 | - | - | - | - | 4 | 95 |
| Land Held for Development | 1 | | | | | | | | 1 | |
| | 19 | 1,033 | 13 | 909 | 9 | 667 | 4 | 264 | 45 | 2,873 |

PLAZACORP RETAIL PROPERTIES LTD. – MANAGEMENT DISCUSSION AND ANALYSIS
OCTOBER 31, 2004

The Company owns interests in 44 properties excluding land held for development directly and through subsidiaries and joint ventures as follows:

| Property/ Project | Location | Total Leasable Area (sq. ft.) | Ownership Interest (%) | Ownership (sq.ft.) | Occupancy as at 31-Oct-04 | Notes |
|------------------------------------|---------------------------|--|------------------------------|-----------------------|---------------------------------|-------|
| <u>Quebec</u> | | | | | | |
| Les Galeries Montmagny | West Tache, Montmagny, QC | 134,171 | 50% | 67,086 | 98.8% | |
| Plaza Hotel de Ville | Rivière-du-Loup, QC | 20,479 | 100% | 20,479 | 84.4% | |
| Plaza Super C | Shawinigan, QC | 130,181 | 100% | 130,181 | 95.6% | |
| Les Promenades St. Francois | Laval, QC | 55,344 | 50% | 27,672 | 98.0% | |
| Bureau en Gros | Granby, QC | 25,695 | 50% | 12,848 | 100.0% | |
| Centennial Plaza | Dollard-des-Ormeaux, QC | 153,398 | 10% | 15,340 | 96.3% | 2 |
| Plaza Theriault | Rivière-du-Loup, QC | 25,780 | 100% | 25,780 | 100.0% | 3 |
| Bureau en Gros | Rimouski, QC | 25,771 | 50% | 12,886 | 100.0% | |
| Terrace Dufferin | Valleyfield, QC | 17,587 | 50% | 8,794 | 100.0% | |
| Les Promenades du Cuivre | Rouyn-Noranda, QC | 112,447 | 10% | 11,245 | 94.4% | 2 |
| Marche De L'Ouest | Dollard des Ormeaux, QC | 138,718 | 20% | 27,744 | 87.6% | |
| Place Du Marche | Dollard des Ormeaux, QC | 35,264 | 10% | 3,526 | 90.0% | |
| Carrefour des Seigneurs | Terrebonne, QC | 34,153 | 25% | 8,538 | 87.3% | |
| <u>New Brunswick</u> | | | | | | |
| Exhibition Plaza | Saint John, NB | 74,800 | 55% | 41,140 | 96.8% | 3 |
| Nashwaaksis Plaza | Fredericton, NB | 52,518 | 100% | 52,518 | 98.1% | |
| Grand Falls Shopping Mall | Grand Falls, NB | 149,620 | 100% | 149,620 | 96.0% | |
| Wedgewood Plaza | Riverview, NB | 12,768 | 100% | 12,768 | 100.0% | |
| FHS Plaza | Fredericton, NB | 24,366 | 100% | 24,366 | 100.0% | |
| Lansdowne Place | Saint John, NB | 202,359 | 50% | 101,180 | 94.6% | |
| Oromocto Mall | Oromocto, NB | 84,972 | 100% | 84,972 | 98.4% | |
| McAllister Drive Plaza | Saint John, NB | 19,275 | 55% | 10,601 | 100.0% | 3 |
| Business Depot | Saint John, NB | 25,293 | 100% | 25,293 | 100.0% | 3 |
| SCA Plaza | Saint John, NB | 17,430 | 55% | 9,587 | 100.0% | 3 |
| Empire Plaza | Fredericton, NB | 13,743 | 100% | 13,743 | 100.0% | 3 |
| Connell Road Plaza | Woodstock, NB | 19,560 | 100% | 19,560 | 100.0% | |
| Northwest Centre | Moncton, NB | 186,670 | 10% | 18,667 | 94.1% | 2 |
| 681 Mountain Road | Moncton, NB | 18,890 | 100% | 18,890 | 100.0% | 1 |
| Boulevard Plaza | Moncton, NB | 82,802 | 100% | 82,802 | 100.0% | 1&3 |
| Madawaska Road Plaza | Grand Falls, NB | 10,360 | 100% | 10,360 | 92.1% | 1 |
| Majors Brook Drive Plaza | Saint John, NB | 6,446 | 100% | 6,446 | 100.0% | 1&3 |
| Main Place | Fredericton, NB | 31,247 | 100% | 31,247 | 100.0% | 3 |
| <u>Nova Scotia</u> | | | | | | |
| Staples Plaza | Dartmouth, NS | 156,817 | 50% | 78,409 | 97.2% | |
| Staples Plaza | New Glasgow, NS | 33,753 | 100% | 33,753 | 100.0% | 3 |
| Tacoma Centre | Dartmouth, NS | 165,991 | 100% | 165,991 | 91.4% | |
| Commercial St. Plaza | New Minas, NS | 15,332 | 100% | 15,332 | 100.0% | |
| V-8 Plaza | New Glasgow, NS | 13,400 | 100% | 13,400 | 100.0% | 3 |
| 209 Chain Lake Drive | Halifax, NS | 85,453 | 50% | 42,727 | 100.0% | |
| 201 Chain Lake Drive | Halifax, NS | 118,498 | 50% | 118,498 | 83.4% | |
| Tri County Mall | Yarmouth, NS | 56,019 | 100% | 56,019 | 87.1% | |
| Welton Street Plaza | Sydney, NS | 20,975 | 100% | 20,975 | 100.0% | 1&3 |
| <u>Prince Edward Island</u> | | | | | | |
| University Plaza | Charlottetown, PEI | 62,046 | 43% | 26,680 | 100.0% | |
| Belvedere Plaza | Charlottetown, PEI | 77,266 | 60% | 46,360 | 100.0% | |
| Granville Street Plaza | Summerside, PEI | 73,998 | 60% | 44,399 | 89.6% | |
| Spring Park Plaza | Charlottetown, PEI | 51,386 | 85% | 43,678 | 90.4% | |
| Total | | 2,873,041 | | 1,792,095 | | |

Notes: 1. Property is under development – leasing represents committed tenancy upon completion.
2. Joint venture operating through a non-consolidated partnership or trust.
3. Interest held subject to a ground lease.

STRATEGY

Plazacorp's principal goal is to deliver a reliable and growing yield to shareholders from a balanced portfolio of retail properties.

In order to remain successful, the Company must:

- maintain access to cost effective sources of debt and equity capital to finance acquisitions;
- acquire properties at a price consistent with the Company's targeted returns on investment of 11% to 12% on unleveraged returns and greater than 16% on a leveraged return basis after redevelopment or re-tenanting;
- maintain high occupancy rates on existing properties while sourcing tenants for current and future acquisitions; and
- diligently manage costs and maintain quality of the properties.

The Company uses a diversified investment strategy that includes the following acquisition types:

- strategic financial investments in existing properties that will provide stable recurring cash flows with opportunity for growth;
- development of new properties on behalf of existing clients or in response to demand as established by pre-leasing a major portion of proposed space; and
- redevelopment of well located but significantly depreciated shopping malls and strip plazas.

The Board of Directors approves all Plazacorp acquisitions with a view toward accepting only those that fit the portfolio at a favorable rate of return.

Management intends to achieve Plazacorp's goals by:

- acquiring high-quality properties with the potential for increases in future cash flow;
- focusing on property leasing and operations and delivering superior service to tenants;
- managing properties to maintain high occupancies;
- increasing rental rates when market conditions permit;
- managing debt to obtain both an efficient cost and a staggered debt maturity profile to reduce financing costs;
- raising capital where required in the most cost effective/value creating manner for our shareholders; and
- periodically review the portfolio to determine if opportunities exist to redeploy unrealized equity in slow growth properties into higher growth activities. The Company has no current plans to dispose of properties.

BUSINESS ENVIRONMENT

During Plazacorp's 2004 and 2003 fiscal years, leasing markets and investment markets generally were healthy. Retail occupancies and rents have remained stable due to the strength of consumer spending. Management anticipates that occupancies and rents will remain healthy throughout 2005 barring an economic downturn.

During 2004 and 2003 we have witnessed low inflation and a low cost of debt environment in comparison to recent history, which permitted Plazacorp to place its debt at favorable rates and terms on the assets that were positioned to be permanently financed. The low interest rate environment has also resulted in a more competitive acquisition environment, resulting in higher asking prices for quality real estate product with corresponding lower initial returns on investments. Plazacorp remains committed to its disciplined purchase strategy in this environment.

KEY PERFORMANCE DRIVERS & INDICATORS

There are numerous factors, many beyond Management's control, that affect Plazacorp's ability to achieve its goals. These key performance drivers are divided into internal and external factors.

Management believes that the key internal performance drivers are:

- Increasing occupancies;
- Increasing rental rates;
- Improving tenant service which should lead to higher tenant retention; and
- Maintaining a competitive occupancy cost structure to keep gross rental rates competitive.

Management believes that the key external performance drivers are:

- The availability of new property acquisitions which fit into Plazacorp's portfolio;
- The availability of equity and debt capital at a reasonable cost; and
- The desire of retailers to expand capacity and open in new markets.

The key performance indicators by which Management measures Plazacorp's performance are as follows:

- Funds from operations (FFO);
- Earnings before interest, taxes, depreciation and amortization (EBITDA);
- Debt service ratios which indicate the Company's ability to service debt;
- Occupancy;
- "Same-asset" net operating income, revenue and expense; and
- Weighted average cost of debt and debt maturity pattern.

Management believes that its key performance measures allow it to track progress towards the achievement of Plazacorp's primary goal of providing a steady and increasing cash flow to our shareholders.

EXPLANATION OF NON-GAAP MEASURES USED IN THIS MANAGEMENT DISCUSSION AND ANALYSIS:

Earnings before interest, taxes, depreciation, and amortization (“EBITDA”) is not a Canadian Generally Accepted Accounting Principle (GAAP) financial measure and is presented as Management considers EBITDA to be one indicative measure of Plazacorp’s operating performance. EBITDA should not be considered as an alternative to net income, cash flow from operations or any other operating or liquidity measure prescribed by GAAP. EBITDA as calculated by Plazacorp may not be comparable to similarly titled measures reported by other entities. Due to the significance of Plazacorp’s real estate assets and the contractual nature of Plazacorp’s revenues, it can be used to measure Plazacorp’s ability to service debt, fund capital needs and expand the business.

Management uses EBITDA to compute two ratio’s indicative of the financial strengths of the Company.

1. Interest Coverage Ratio is defined as the multiple by which EBITDA exceeds financing costs (interest plus amortization of financing costs).
2. Debt Service Coverage Ratio is defined as the multiple by which EBITDA exceeds the total of financing costs plus recurring monthly principal debt repayments.

Funds From Operations (“FFO”) is an industry measure and its calculation before 2003 was prescribed in publications of The Canadian Institute of Public and Private Real Estate Companies (CIPPREC). FFO measures operating income from properties before amortization and after deduction of interest, financing costs, capital and current income taxes. FFO is then adjusted for non-cash operating items including accrued straight line rent, amortization of above and below market rent intangible liabilities and assets to rental revenue, non-cash stock option compensation and accretion to debenture balances through non-cash financing costs. FFO as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. FFO is not a Canadian Generally Accepted Accounting Principle (GAAP) financial measure and is presented as Management considers FFO to be one indicative measure of the Company’s ability to fund capital requirements, dividend payments and to expand the business.

PART II

PERFORMANCE SUMMARY

The year 2004 was an active and successful period for Plazacorp on many fronts. The Company was in a development period and expects activities commenced this year to increase its income producing assets significantly over the next year.

The key performance indicators discussed throughout the MD&A and summarized below address how Management measures performance and progress, and how shareholders realize the benefits. For a detailed explanation of the key performance indicators please refer to the appropriate section in this MD&A.

KEY PERFORMANCE INDICATORS SUMMARY

- **FUNDS FROM OPERATIONS**
 - ⇒ Increased 1.4¢ per share compared to previous year.
- **EBITDA**
 - ⇒ Improvement of 22% for the year compared to same period last year.
- **DEBT SERVICE RATIOS – EXCLUDING IMPACT OF CONVERTIBLE DEBENTURES**
 - ⇒ Interest Coverage Ratio – slight increase of .2 times over 2003
 - ⇒ Debt Service Coverage Ratio – slight increase of .1 times over 2003
- **OCCUPANCY**
 - ⇒ Slight increase year-over-year in strip plazas by 0.1%.
 - ⇒ Slight decrease in enclosed malls of 0.2%.
 - ⇒ Single use properties unchanged at 100% occupancy.
 - ⇒ Overall occupancy at 95.8% excluding non-consolidated trusts and partnerships.
- **SAME-ASSET PROPERTY NET OPERATING INCOME**
 - ⇒ Increased 4% year to date October 31, 2004.
- **WEIGHTED AVERAGE COST OF DEBT**
 - ⇒ Decrease in the weighted average cost of debt of 22 basis points.

SUMMARY OF FUNDS FROM OPERATION (“FFO”)

Plazacorp’s Summary of FFO for the current period and year-to-date in comparison to previous reporting period is presented below:

| (000's) - Except per share amounts | Period Ending October 31, 2004 | | Period Ending October 31, 2003 | |
|---|-----------------------------------|------------------------|-----------------------------------|------------------------|
| | 3 months | 12 months | 3 months | 12 months |
| Total revenue | \$ <u>6,830</u> | \$ <u>25,253</u> | \$ <u>5,534</u> | \$ <u>20,779</u> |
| Basic earnings per share (EPS) | \$ <u>0.000</u> | \$ <u>0.077</u> | \$ <u>0.010</u> | \$ <u>0.024</u> |
| Diluted earnings per Share | \$ <u>0.000</u> | \$ <u>0.075</u> | \$ <u>0.009</u> | \$ <u>0.023</u> |
| Net income | \$ (7) | \$ 2,437 | \$ 296 | \$ 732 |
| Gain on sale of property | (398) | (2,941) | - | (96) |
| Provision for income taxes | 70 | 80 | 98 | 551 |
| Amortization and depreciation | 1,906 | 6,006 | 897 | 3,425 |
| Non-controlling interest | 204 | 352 | 99 | 273 |
| Financing costs | 2,327 | 8,174 | 1,791 | 6,715 |
| Earnings before interest, taxes depreciation and amortization (EBITDA) | 4,102 | 14,108 | 3,181 | 11,600 |
| Less: | | | | |
| Financing costs | (2,327) | (8,174) | (1,791) | (6,715) |
| Current income taxes | (64) | (177) | (112) | (222) |
| Straight-lined rent | (181) | (366) | - | - |
| Amortization-above and below market rents | (87) | (191) | - | - |
| Equity component of debenture interest | 30 | 118 | 7 | 14 |
| Non-controlling interest in FFO | (242) | (784) | (185) | (721) |
| Other non-cash charges (net) | - | 17 | - | (66) |
| Basic funds from operations (FFO) | 1,231 | 4,551 | 1,100 | 3,890 |
| Convertible debenture interest paid | 402 | 1,035 | 84 | 154 |
| Diluted funds from operations (FFO) | \$ <u>1,633</u> | \$ <u>5,586</u> | \$ <u>1,184</u> | \$ <u>4,044</u> |
| Basic weighted average shares outstanding | <u>31,965</u> | <u>31,702</u> | <u>30,028</u> | <u>29,928</u> |
| Basic FFO per share | \$ <u>0.039</u> | \$ <u>0.144</u> | \$ <u>0.037</u> | \$ <u>0.130</u> |
| Diluted shares outstanding per consolidated financial statements (note 12c) | 32,026 | 35,238 | 31,528 | 31,427 |
| Dilutive effect of excluded convertible debentures | <u>13,400</u> | <u>5,805</u> | <u>3,500</u> | <u>1,620</u> |
| Diluted weighted average shares outstanding | <u>45,426</u> | <u>41,043</u> | <u>35,028</u> | <u>33,047</u> |
| Diluted FFO per share | \$ <u>0.036</u> | \$ <u>0.136</u> | \$ <u>0.034</u> | \$ <u>0.122</u> |

Certain comparative figures have been reclassified to conform to the presentation for the current year including the effect of a change in accounting policy related to convertible debentures which increases interest expense, decreases future tax and decreases the equity component charged to retained earnings net of tax for the years ended October 31, 2004 and 2003 (see note 2-l(i) to the consolidated financial statements for October 31, 2004).

Diluted FFO includes the impact of convertible debentures not dilutive to net income but dilutive to FFO (see note 12c of the consolidated financial statements October 31, 2004).

NOTES TO SUMMARY OF FUNDS FROM OPERATION (“FFO”) TABLE

Over the last two years total assets of Plazacorp have increased considerably due to new property acquisitions and development activities. Accordingly, gross revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and funds from operations (FFO) are all reflective of an increasing income-producing asset base with several properties under development.

| PROPERTY | PROPERTY TYPE | Property Status | SQUARE FOOTAGE | OWNERSHIP INTEREST ACQUIRED |
|---------------------------------------|---------------|----------------------|----------------|-----------------------------|
| Boulevard Plaza, Moncton, NB | Strip Plaza | Under Construction | 74,057 | 100% |
| 681 Mountain Road, Moncton, NB | Single Use | Under Construction | 18,890 | 100% |
| Welton Street Plaza, Sydney, NS | Strip Plaza | Under Construction | 20,975 | 100% |
| 209 Chain Lake Drive, Halifax, NS | Strip Plaza | Under Re-development | 77,600 | 50% |
| 201 Chain Lake Drive, Halifax, NS | Strip Plaza | Under Re-development | 118,498 | 50% |
| Oromocto Mall, Oromocto, NB | Enclosed Mall | Under Re-development | 84,972 | 100% |
| Majors Brook Drive, Saint John, NB | Strip Plaza | Under Construction | 6,446 | 100% |
| Madawaska Road Plaza, Grand Falls, NB | Strip Plaza | Under Construction | 10,360 | 100% |
| Tri County Mall, Yarmouth, NS | Enclosed Mall | Under Re-development | 56,019 | 100% |

➤ KEY PERFORMANCE INDICATOR

Funds from operation were up for the year at 14.4¢ per share (13.6¢ diluted) compared to 13.0 ¢ per share (12.2¢ diluted) for the corresponding period of 2003. This is within Management’s expectations. Overall, the increase in FFO can be attributed to an increase in our same asset property income for the year along with new acquisitions and developments contributing to the Company’s overall FFO.

In March, 2004 the Company sold 50% interests in three properties Staples Plaza, Dartmouth, NS, Lansdowne Place, Saint John, NB, and, les Promenades St. Francois, Laval, QC. As a result of the sale approximately \$5.8 million in cash was made available for re-investment. The cash generated from the sale was invested in several properties under development as at October 31, 2004.

The impact of the sale of assets and the re-investment of funds for the year ended October 31, 2004 was a suppression of FFO of approximately 1.3¢ per share. The suppression of FFO resulting from the sale should turn around in 2005 as the properties purchased and developed from the sale proceeds begin to fully contribute to property net operating income. New acquisitions and assets where development was completed contributed an additional 0.8¢ per share.

As well during the year the Company issued two series of convertible debentures, \$5.0 million in December 2003 (Series II 9.5%) and \$10.0 million in June 2004 (Series III 8.5%). A portion of the proceeds from the Series III convertible debentures were used to retire existing 11% debentures. The balance of the funds was invested in properties under development.

Several assets under development - Boulevard Plaza, 681 Mountain Rd., Madawaska Rd. Plaza, Majors Brook Drive and Welton Street Plaza – did not contribute to earnings during the year. During 2004 development was completed on Empire Plaza, Main Place Plaza, Commercial Street Plaza, V-8 Plaza and Connell Road Plaza and these assets should contribute fully to earnings during 2005.

Increases in funds from operations from assets under development are expected to occur over the next year with a diminishing impact on FFO over time.

➤ **KEY PERFORMANCE INDICATOR**

During the years ended October 31, 2004 and October 31, 2003 Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) and associated liquidity measures were as follows:

| (000's) | 2004 | 2003 |
|---|------------------|------------------|
| Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) | <u>\$ 14,108</u> | <u>\$ 11,600</u> |
| Interest related to debenture accretion | 118 | 14 |
| Debenture interest paid | <u>1,035</u> | <u>154</u> |
| Total debenture interest | 1,153 | 168 |
| Financing cost - excluding debenture interest | <u>7,021</u> | <u>6,547</u> |
| Total financing costs | 8,174 | 6,715 |
| Periodic mortgage principal repayments | <u>1,611</u> | <u>1,107</u> |
| Total annual debt service | <u>\$ 9,785</u> | <u>\$ 7,822</u> |

Including Impact of Convertible Debentures

| | | |
|-----------------------------|-----------|-----------|
| Interest coverage ratio | 1.7 times | 1.7 times |
| Debt service coverage ratio | 1.4 times | 1.5 times |

Excluding Impact of Convertible Debentures

| | | |
|-----------------------------|-----------|-----------|
| Interest coverage ratio | 2.0 times | 1.8 times |
| Debt service coverage ratio | 1.6 times | 1.5 times |

Certain comparative figures have been reclassified to conform to the presentation for the current year including the effect of a change in accounting policy related to convertible debentures which increases interest expense, decreases future tax and decreases the equity component charged to retained earnings net of tax for the years ended October 31, 2004 and 2003 (see note 2-l(i) to the consolidated financial statements for October 31, 2004).

Management views these indicators as acceptable and indicative of continued ability to adequately service the Company's debt.

CORPORATE PERFORMANCE 2004 AND 2003

The majority of the increase in revenue from properties was attributable to new acquisitions and development during 2004 and 2003. Same-asset categorization refers to those properties which were owned and operated by Plazacorp for the 12 months ended October 31, 2004 and for the entire 12 months ended October 31, 2003 where such assets had no significant new development or construction occurring during these periods.

The following properties were acquired or developed subsequent to November 1, 2002 and are not included in the same asset category.

2004 Acquisitions

| PROPERTY | PROPERTY TYPE | DATE ACQUIRED | SQUARE FOOTAGE | OWNERSHIP INTEREST ACQUIRED | NATURE OF INTEREST |
|---|---------------|---------------|----------------|-----------------------------|------------------------|
| Carrefour des Seigneurs, Terrebonne, QC | Strip Plaza | Dec-03 | 34,153 | 25% | Freehold Joint Venture |
| Main Place, Fredericton, NB | Strip Plaza | Dec-03 | 31,247 | 100% | Leasehold |
| Boulevard Plaza, Moncton, NB | Strip Plaza | Feb-04 | 82,802 | 100% | Leasehold |
| 209 Chain Lake Drive, Halifax, NS | Strip Plaza | Mar-04 | 85,453 | 50% | Freehold Joint Venture |
| 681 Mountain Road, Moncton, NB | Single Use | Mar-04 | 18,890 | 100% | Freehold |
| Welton Street Plaza, Sydney, NS | Strip Plaza | Apr-04 | 20,975 | 100% | Leasehold |
| 201 Chain Lake Drive, Halifax, NS | Strip Plaza | Apr-04 | 118,498 | 100% | Freehold |
| Madawaska Road Plaza, Grand Falls, NB | Strip Plaza | May-04 | 10,360 | 100% | Freehold |
| Tri County Mall, Yarmouth, NS | Strip Plaza | Jul-04 | 56,019 | 100% | Freehold |
| Majors Brook Drive, Saint John, NB | Strip Plaza | Jul-04 | 6,446 | 100% | Leasehold |

2003 Acquisitions

| PROPERTY | PROPERTY TYPE | DATE ACQUIRED | SQUARE FOOTAGE | OWNERSHIP INTEREST ACQUIRED | NATURE OF INTEREST |
|--|---------------|---------------|----------------|-----------------------------|--------------------|
| SCA Plaza, Saint John, NB | Strip Plaza | July-02 | 17,430 | 55% | Leasehold |
| Empire Plaza, Fredericton, NB | Strip Plaza | Apr-03 | 13,743 | 100% | Leasehold |
| Commercial Street Plaza, New Minas, NS | Strip Plaza | Jun-03 | 15,332 | 100% | Leasehold |
| V-8 Plaza, New Glasgow, NS | Strip Plaza | Sep-03 | 13,400 | 100% | Leasehold |
| Connell Road Plaza, Woodstock, NB | Strip Plaza | Aug-03 | 19,560 | 100% | Freehold |
| Tacoma Centre, Dartmouth, NS | Strip Plaza | Oct-03 | 165,991 | 100% | Freehold |

Notes:

- 1) For comparison the 2003 revenues and expenses for Lansdowne Place, Les Promenades St. Francois and Staples Plaza have been adjusted in respect to the sale of 50% of these assets to Retrocom Mid-Market REIT in March 2004.
- 2) On October 31, 2004 Canadian Real Estate Investment Trust (CREIT) exercised their option to acquire a 50% interest in 201 Chain Lake Drive at a price equal to Plazacorp's cost. See consolidated statement of cash flow for the year ended October 31, 2004.

RENTAL REVENUE

| as at October 31, | 2004 (000's) | 2003 (000's) | Change (000's) | (%) |
|-----------------------------|-----------------|-----------------|-------------------|------|
| Same-asset rental revenue | \$ 18,763 | \$ 18,149 | \$ 614 | 3% |
| Acquisitions and exclusions | 5,204 | 1,714 | 3,490 | 204% |
| Property rental revenue | \$ 23,967 | \$ 19,863 | \$ 4,104 | 21% |

Revenues for the twelve months ended October 31, 2004 increased from \$19.9 million to \$24.0 million representing a 21% increase over the same period last year, largely as the result of asset growth.

Straight-lined rents together with the amortization of above and below market rents have contributed to a net increase on rental revenue of \$557 thousand year-to-date. The overall growth has been tempered by the reduction in revenue from the assets sold in the quarter ended April 30, 2004.

Property rental revenue on a same-asset basis increased to \$18.8 million for the twelve months ended October 31, 2004 from \$18.1 million for the same period last year. Year to date as at October 31, 2004 the increase in the same asset rental revenue was 3%.

OPERATING COSTS

| as at October 31, | 2004 (000's) | 2003 (000's) | Change (000's) | (%) |
|-----------------------------|-----------------|-----------------|--------------------|------|
| Same-asset operating costs | \$ 4,719 | \$ 4,571 | \$ 148 | 3% |
| Acquisitions and exclusions | 1,135 | 423 | 712 | 168% |
| Property operating costs | \$ 5,854 | \$ 4,994 | \$ 860 | 17% |

Total property operating expenses increased 17% to \$5.9 million for the twelve months ended October 31, 2004 compared to \$5.0 million for the same period last year.

For the same asset class, property operating expenses have seen minimal increase for the twelve months ending October 31, 2004 compared to the same period in 2003. This increase in part is due to minor increased costs associated with maintenance and repair items for both recoverable and non-recoverable categories.

REALTY TAX

| as at October 31, | 2004 (000's) | 2003 (000's) | Change (000's) | (%) |
|-----------------------------|-----------------|-----------------|-------------------|------|
| Same asset realty taxes | \$ 3,076 | \$ 2,981 | \$ 95 | 3% |
| Acquisitions and exclusions | 1,056 | 351 | 705 | 201% |
| Total realty taxes | \$ 4,132 | \$ 3,332 | \$ 800 | 24% |

The realty tax expense increased 24% to \$4.1 million for the twelve months ended October 31, 2004 from \$3.3 million for the same period last year.

On a same-asset basis, realty tax expense increased 3% year-over year. This increase resulted from increases in assessed values at the end of development and increases in municipal taxes generally. A trend is not discernable until all properties have been reassessed based on their post development values. Virtually all increases in realty taxes are recoverable from tenants under net leases.

Summary of Property Operating Expenses

| as at October 31, | 2004 (000's) | 2003 (000's) | Change (000's) (%) | |
|-----------------------------|-----------------|-----------------|-----------------------|-----|
| Operating costs | \$ 5,854 | \$ 4,994 | \$ 860 | 17% |
| Realty taxes | 4,132 | 3,332 | 800 | 24% |
| Property operating expenses | \$ 9,986 | \$ 8,326 | \$ 1,660 | 20% |

Increase in overall operating costs due primarily to increases in Company's property portfolio.

➤ KEY PERFORMANCE INDICATOR

Same Asset Property Net Operating Income

| as at October 31, | 2004 (000's) | 2003 (000's) | Change (000's) (%) | |
|--|-----------------|-----------------|-----------------------|----|
| Same asset property revenue | \$ 18,763 | \$ 18,149 | \$ 614 | 3% |
| Same asset property operating expenses | 7,795 | 7,552 | 243 | 3% |
| Same asset property net operating income | \$ 10,968 | \$ 10,597 | \$ 371 | 4% |

Net operating income for same assets year to date October 31, 2004 was increased by \$371 thousand compared to the same period last year. The increase was due to general rent increases on existing leases throughout 2004 and straight lined rents have accounted for \$294 thousand or 79% of this increase. Same asset net operating income increased 4% for the year to date compared to the same period in 2003 which is consistent with management's expectations.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$731 thousand for the twelve months ended October 31, 2004 compared to \$441 thousand for the same period last year. This increase is attributed to increases in audit and accounting fees partly due to changes in disclosure requirements, increased staffing costs and stock option consideration. Given the continuously changing disclosure and reporting requirements applicable to public entities like Plazacorp, it is reasonable to conclude that general and administrative costs will escalate by rates exceeding general inflation. Excluding the increases resulting from audit and accounting fees, staffing costs and stock option consideration, general administrative costs rose 20% during the year.

INVESTMENT INCOME

Investment income for 2004 has increased to \$1.3 million from \$916 thousand for 2003. This increase is consistent with Management's expectation and reflects an increase in income from non-consolidated investments in partnerships and trusts.

AMORTIZATION AND DEPRECIATION

Prior to 2004 the Company used a 5% sinking fund method of depreciation over 40 years. In November 2003, Plazacorp adopted a straight-line depreciation method and now depreciates its buildings on a straight-line basis over their useful lives to a maximum of 40 years. This policy change has significantly increased depreciation charges. The Company amortizes leasing commissions, free rent concessions, tenant improvements constructed or allowances paid in cash collectively "Tenant acquisition costs" over the term of the respective leases.

During 2004 amortization and depreciation expense increased \$2.6 million compared to 2003 of which \$1.3 million relates to changes in depreciation policy. The increase was as follows:

| as at October 31, | YTD 2004 | YTD 2003 | Change |
|--|-----------------|-----------------|----------------|
| | (000's) | (000's) | (000's) |
| Same-asset amortization and depreciation | \$ 4,447 | \$ 3,049 | \$ 1,398 |
| Acquisitions and exclusions | 1,559 | 376 | 1,183 |
| Total amortization and depreciation | \$ 6,006 | \$ 3,425 | \$ 2,581 |

Amortization and depreciation will continue at high levels for the foreseeable future until significant tenant lease expirations occur and the resulting tenant acquisition costs are fully amortized. Charges related to mortgage financing are amortized over the term of the respective mortgage and are included in financing costs.

Gain of Disposition of Property

In March 2004 Plazacorp sold 50% interests in three properties to Retrocom Mid-Market REIT. These properties include Les Promenades St. Francois, Laval, Quebec, Staples Plaza, Dartmouth, Nova Scotia and Lansdowne Plaza, Saint John, New Brunswick.

On October 31, 2004 Plazacorp sold a 50% interest in 201 Chain Lake Drive to Canadian Real Estate Investment Trust, CREIT. This asset disposition was pursuant to the exercise of an option granted at purchase.

During 2004 the Company also disposed of land surplus to asset construction.

The aggregate proceeds of dispositions during 2004 were \$24.8 million while the aggregate expenses related to these dispositions were \$21.9 million resulting in a gain on sale of \$2.9 million.

Disposition of surplus land during 2003 resulted in a gain of \$96 thousand.

Capital Taxes

The Company records capital taxes at the statutory rates on the net equity base of the Company after exemptions. For the twelve months ended October 31, 2004 the Company and its subsidiaries recorded \$428 thousand in capital taxes compared to \$412 thousand at October 31, 2003. Capital taxes are a point-in-time calculation based on year-end balances. Additions to assets attract capital tax at full annual rates regardless of when an asset is purchased.

Income Tax Expense

The Company records income taxes based on its estimate for the taxes for the full fiscal year and the impact of temporary differences between accounting and taxable income during the year. The financial statements include the future income taxes payable by consolidated subsidiaries. All current income taxes were those of subsidiaries. The income taxes were:

| (000's) | Year Ended October 31, 2004 | Year Ended October 31, 2003 |
|---------------|--------------------------------|--------------------------------|
| Current taxes | \$ 177 | \$ 222 |
| Future taxes | <u>(97)</u> | <u>329</u> |
| Total | <u>\$ 80</u> | <u>\$ 551</u> |

As a mutual fund corporation, the Company does not provide for current taxes on realized capital gains.

Cash Flow – Operating Activities

Tenant acquisition costs detailed in operating activities include:

| | |
|---|-----------------|
| Tenant acquisition cost for income producing properties | \$ 989 |
| Tenant acquisition costs for properties under development | <u>7,347</u> |
| | <u>\$ 8,336</u> |

SUMMARY OF ANNUAL INFORMATION

Plazacorp's Summary of Selected Annual Information for the current period is presented below:

| (\$000's except per share amounts) | | | | |
|-------------------------------------|-----------|-----------|-----------|--|
| | 2004 | 2003 | 2002 | |
| Total revenue | \$ 25,253 | \$ 20,779 | \$ 19,600 | |
| Net income for the period | 2,437 | 732 | 399 | |
| Net income per share - basic | 0.077 | 0.024 | 0.014 | |
| Diluted net income per share | 0.075 | 0.023 | 0.014 | |
| Dividends paid | 2,737 | 2,388 | 591 | |
| Dividends per share | 0.09 | 0.08 | 0.02 | |
| Weighted average shares outstanding | 31,702 | 29,928 | 29,265 | |
| Assets | 137,885 | 114,995 | 105,358 | |
| Mortgages payable | 82,651 | 74,036 | 69,001 | |
| Bonds and debentures payable | 22,350 | 13,420 | 10,050 | |
| Notes payable | 2,053 | 3,541 | 2,962 | |
| Bank indebtedness | \$ 69 | \$ 405 | \$ 240 | |

Certain comparative figures have been restated to conform to the presentation for the current year including the effect of a change in accounting policy related to convertible debentures and the reallocation of asset purchase price on business combinations (for full information on restatements see note 2-l to the consolidated financial statements for October 31, 2004).

NOTES TO SUMMARY OF YEARLY RESULTS TABLE

The real estate assets of the Company have grown from 24 properties at November 1, 2001 to 45 properties at October 31, 2004.

The summary of yearly results is influenced by significant development and re-development activity over the last three years.

The yearly information highlights the increasing total assets over the three years and the corresponding increases in assets and revenues and is reflective of the timing of acquisition, development, redevelopment, and expenditures. Similarly, mortgage and bank debt reflects financing activities relating to both asset additions and ongoing financing activities for the existing portfolio.

PART III

SUMMARY OF QUARTERLY INFORMATION

November 1, 2002 to October 31, 2004

| (000's except per share amounts) | Q4'04 | Q3'04 | Q2'04 | Q1'04 | Q4'03 | Q3'03 | Q2'03 | Q1'03 |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Total revenue | \$ 6,829 | \$ 6,172 | \$ 6,211 | \$ 6,041 | \$ 5,534 | \$ 5,130 | \$ 5,063 | \$ 5,050 |
| Net income for the period | (7) | (93) | 2,509 | 28 | 296 | 70 | 150 | 216 |
| Basic earning per share EPS | 0.000 | (0.003) | 0.079 | 0.001 | 0.010 | 0.002 | 0.005 | 0.007 |
| Diluted earnings per share | 0.000 | 0.002 | 0.067 | 0.003 | 0.009 | 0.003 | 0.005 | 0.007 |
| Dividends paid | 715 | 711 | 710 | 601 | 600 | 599 | 598 | 591 |
| Dividends per share | 0.0225 | 0.0225 | 0.0225 | 0.0200 | 0.0200 | 0.0200 | 0.0200 | 0.0200 |
| Weighted average shares outstanding | 31,965 | 31,786 | 31,581 | 31,458 | 30,028 | 29,984 | 29,958 | 29,738 |
| Total assets | 137,885 | 138,115 | 131,767 | 121,128 | 114,995 | 106,178 | 103,478 | 103,535 |
| Mortgages payable | 82,651 | 84,293 | 83,315 | 78,787 | 74,036 | 67,865 | 68,369 | 68,600 |
| Bonds and debentures payable | 22,350 | 22,650 | 13,245 | 13,228 | 13,420 | 13,420 | 10,050 | 10,050 |
| Notes payable | 2,053 | 1,935 | 1,957 | 2,033 | 3,541 | 2,304 | 2,732 | 2,833 |
| Bank indebtedness | \$ 69 | \$ 223 | \$ - | \$ - | \$ 405 | \$ 92 | \$ 252 | \$ 264 |

Certain comparative figures have been restated to conform to the presentation for the current year including the effect of a change in accounting policy related to convertible debentures and the reallocation of asset purchase price on business combinations (for full information on restatements see note 2-l to the consolidated financial statements for October 31, 2004).

NOTES TO SUMMARY OF QUARTERLY RESULTS TABLE

The real estate assets of the Company have grown from 25 assets at November 1, 2002 to 45 assets at October 31, 2004.

Commercial real estate operations are generally not materially influenced by seasonal variations, but are impacted by economic events and cycles (local, national and international), which influences the demand for space. Factors such as consumer spending, or employment growth, are examples of events which will impact commercial real estate.

The summary of quarterly results therefore is free from material seasonal variations and reflects activities occurring in the periods presented but does reflect changes due to the timing of development and acquisition activity.

The quarterly information highlights the increasing total assets and gross revenues over the eight quarters and is reflective of the timing of acquisition, development, redevelopment, and expenditures. Similarly, mortgage and bank debt reflects financing activities relating to both asset additions and ongoing financing activities for the existing portfolio.

FOURTH QUARTER RESULTS

Consolidated Statement of Income

| (000's) Three Months ended October 31, | 2004 (unaudited) | 2003 (unaudited) |
|--|---------------------|---------------------|
| Rental revenue | \$ 6,355 | \$ 5,344 |
| Operating expenses | 2,411 | 2,106 |
| Net property operating income | 3,944 | 3,238 |
| Investment income | 475 | 190 |
| Income from property and investments | 4,419 | 3,428 |
| Financing costs | 2,327 | 1,791 |
| Income before undernoted | 2,092 | 1,637 |
| Administrative expenses | 165 | 135 |
| Amortization and depreciation | 1,906 | 897 |
| Capital taxes | 152 | 112 |
| (Loss) income before undernoted | (131) | 493 |
| Gain on disposal of income producing properties | 398 | - |
| Income before income taxes and non-controlling interest | 267 | 493 |
| Income tax expense – current | 64 | 112 |
| – future | 6 | (14) |
| | 70 | 98 |
| Income before non-controlling interest | 197 | 395 |
| Non-controlling interest | 204 | 99 |
| Net (loss) income for the period | \$ (7) | \$ 296 |
| Basic earnings per share | \$ 0.000 | \$ 0.010 |
| Weighted average number of shares outstanding | 31,965 | 30,028 |
| Diluted earnings per share | \$ 0.000 | \$ 0.009 |
| Diluted weighted average number of shares outstanding | 32,026 | 31,528 |

Certain comparative figures have been reclassified to conform to the presentation for the current year including the effect of a change in accounting policy related to convertible debentures which increases interest expense, decreases future tax and decreases the equity component charged to retained earnings net of tax for the years ended October 31, 2004 and 2003 (see note 2-l(i) to the consolidated financial statements for October 31, 2004).

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flow

| (000's) Three months ended October 31, | 2004 (unaudited) | 2003 (unaudited) |
|--|---------------------|---------------------|
| Cash obtained from (used for): | | |
| Operating activities | | |
| Net income | \$ (7) | \$ 296 |
| Items not affecting cash | | |
| Amortization and depreciation | 1,902 | 897 |
| Gain on disposal | (398) | - |
| Stock option compensation | (96) | - |
| Interest relating to debenture accretion | 118 | 14 |
| Non-controlling interest | 204 | 99 |
| Future income taxes | 6 | (25) |
| | <u>1,729</u> | <u>1,281</u> |
| Tenant acquisition costs | (1,893) | (1,602) |
| Change in non-cash working capital | <u>1,266</u> | <u>73</u> |
| | <u>1,102</u> | <u>(248)</u> |
| Financing activities | | |
| Bank indebtedness | (154) | 312 |
| Notes payable funded | - | 1,200 |
| Notes payable repaid | 118 | 1,437 |
| Issue of common shares except for option agreements | 388 | 24 |
| Issue of common shares pursuant to option agreements | 78 | 6 |
| Dividends paid to non-controlling interests | 22 | (190) |
| Dividends paid to shareholders | (693) | (601) |
| Redemption of bonds and debentures | (1,775) | - |
| Proceeds from mortgage financing | 13,392 | 5,116 |
| Mortgage repayments at maturity | (6,841) | - |
| Mortgage principal repayments | <u>(421)</u> | <u>(69)</u> |
| | <u>4,114</u> | <u>7,235</u> |
| Investing activities | | |
| Acquisition, development and redevelopment | (7,726) | (7,788) |
| Net proceeds from disposition of property | 1,182 | - |
| Increase in monies held in trust | (450) | - |
| Increase in deferred charges | <u>(907)</u> | <u>33</u> |
| | <u>(7,901)</u> | <u>(7,755)</u> |
| Net decrease in cash and cash equivalents | (2,685) | (768) |
| Cash and cash equivalents, beginning of period | <u>3,864</u> | <u>2,437</u> |
| Cash and cash equivalents , end of period | \$ 1,179 | \$ 1,669 |

Certain comparative figures have been reclassified to conform to the presentation for the current year including the effect of a change in accounting policy related to convertible debentures which increases interest expense, decreases future tax and decreases the equity component charged to retained earnings net of tax for the years ended October 31, 2004 and 2003 (see note 2-l(i) to the consolidated financial statements for October 31, 2004).

See accompanying notes to the consolidated financial statements

QUARTERLY PROPERTY OPERATING INCOME SUMMARY

| Rental Revenue | | | | |
|---------------------------------------|----------------|----------------|----------------|------------|
| Three Months Ended October 31, | 2004 | 2003 | Change | |
| | (000's) | (000's) | (000's) | (%) |
| Same-asset rental revenue | \$ 4,544 | \$ 4,444 | \$ 100 | 2% |
| Acquisitions and exclusions | 1,811 | 900 | 911 | 101% |
| Property rental revenue | \$ 6,355 | \$ 5,344 | \$ 1,011 | 19% |

| Operating Costs | | | | |
|---------------------------------------|----------------|----------------|-----------------|------------|
| Three Months Ended October 31, | 2004 | 2003 | Change | |
| | (000's) | (000's) | (000's) | (%) |
| Same-asset operating expenses | \$ 972 | \$ 948 | \$ 24 | 3% |
| Acquisitions and exclusions | 254 | 232 | 22 | 9% |
| Property operating expense | \$ 1,226 | \$ 1,180 | \$ 46 | 4% |

| Realty Taxes | | | | |
|---------------------------------------|----------------|----------------|----------------|------------|
| Three Months Ended October 31, | 2004 | 2003 | Change | |
| | (000's) | (000's) | (000's) | (%) |
| Same asset realty taxes | \$ 701 | \$ 732 | \$ (31) | (4%) |
| Acquisitions and exclusions | 484 | 194 | 290 | 149% |
| Total realty taxes | \$ 1,185 | \$ 926 | \$ 259 | 28% |

| Summary of Operating Expenses | | | | |
|---------------------------------------|----------------|----------------|----------------|------------|
| Three Months Ended October 31, | 2004 | 2003 | Change | |
| | (000's) | (000's) | (000's) | (%) |
| Operating costs | \$ 1,226 | \$ 1,180 | \$ 46 | 4% |
| Realty taxes | 1,185 | 926 | 259 | 28% |
| Property operating expenses | \$ 2,411 | \$ 2,106 | \$ 305 | 14% |

| Same Asset Net Operating Income | | | | |
|--|----------------|----------------|----------------|------------|
| Three Months Ended October 31, | 2004 | 2003 | Change | |
| | (000's) | (000's) | (000's) | (%) |
| Same asset property revenue | \$ 4,544 | \$ 4,444 | \$ 100 | 2% |
| Same asset property operating expenses | 1,673 | 1,680 | (7) | 0% |
| Same asset property net operating income | \$ 2,871 | \$ 2,764 | \$ 107 | 4% |

**NOTES TO CONSOLIDATED QUARTERLY INFORMATION SUMMARY FOR THE
THREE MONTHS ENDED OCTOBER 31, 2004 AND 2003**

For the three months ended October 31, 2004 same asset net operating income was \$2.9 million compared to \$2.8 million for the same period in 2003 representing a 4% increase. There were no significant operational variances within the same asset pool.

For the three months ended October 31, 2004 amortization and depreciation expense significantly increased to \$1.9 million compared to \$898 thousand for the same period in 2003. The change in accounting policy relating to straight-line depreciation accounted for \$300 thousand of the increase. This increase was offset by a gain on disposition of assets of \$398 thousand. Other significant changes relate to increases in revenues, capital taxes and operating expenses consistent with asset growth over the comparable period of 2003.

For the three months ended October 31, 2004, Funds from operation (FFO) were 3.9¢ per share (3.6 ¢ per share diluted) versus 3.7¢ per for 2003 (3.4¢ per share diluted). This is up slightly over the three months ended October 31, 2003 and was consistent with management's expectations.

PART IV

LIQUIDITY AND FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

As outlined in the Company's strategy statement, Plazacorp strives to deliver reliable and growing cash distribution over time.

Cash flow generated from operating the portfolio represents the primary source of liquidity to service debt including recurring monthly amortization of mortgage debt, to fund operating, leasing and property tax costs and to fund dividends. Development activity costs are funded by a combination of debt, equity and cash flow.

Cash flow from operations is dependent upon occupancy levels of properties owned, rental rates achieved, collectability of rent, efficiencies built into leases and efficiencies in operations as well as other factors.

Plazacorp's cash distribution policy reflects repayment of recurring mortgage amortization from FFO. Accordingly, Plazacorp attempts to reduce the overall debt level on existing properties year-over-year in order to strengthen the balance sheet and enhance the underlying value of existing shares, rather than incur new debt or raise equity in the form of share capital to cover recurring monthly mortgage principle payments. The Company has announced a 2005 dividend policy of 10.5¢ per share. The Company maintains cash flows from properties after debt repayment to ensure sufficient funds are available to pay these anticipated dividends.

WORKING CAPITAL

Rents form a recurring monthly source of funds which exceeds the operating and debt service costs for the assets. Liquidity is a concern only as it relates to funding of investments and acquisitions.

AVAILABILITY OF BANK AND MORTGAGE FINANCING

The Company has organized a facility with a Canadian Chartered bank in the amount of \$10.0 million to fund acquisition and development of projects with a limit of \$5.0 million per asset funded or 70% loan-to-value based on appraisal or cost, whichever is the least. The interest rate on funds drawn is prime + $\frac{3}{4}$ %.

At October 31, 2004, the Company had drawn \$4.58 million under the facility and pledged the Main Street Plaza, 681 Mountain Rd., Welton Street, and Les Promenade du Cuivre properties as security. The remaining facility may be drawn subject to standard lending terms. Subsequent to October 31, 2004 and up to January 26, 2005, the Company has drawn an additional \$0.35 million under the line and repaid \$3.1 million through funding of long-term mortgage debt for Welton Street Plaza and from cash.

The Company also has a \$0.5 million letter of credit facility with a Canadian Chartered bank of which \$0.3 million has been drawn. This line is secured by Personal Property Security Act (PPSA) charges in three provinces.

A Plazacorp subsidiary has an unsecured bank facility in the amount of \$150 thousand of which \$69 thousand was drawn at October 31, 2004.

The Company has negotiated a \$2.8 million operating line of credit with a Canadian chartered bank. This line had not been drawn as at October 31, 2004 and when drawn will be secured by mortgage charges on Plaza Hotel de Ville, Riviere du Loup, Quebec and Staples Plaza, Saint John, New Brunswick. The Company negotiated the termination and repayment of existing long-term mortgages to facilitate the pledge of these properties as security.

These credit facilities require the Company to maintain certain balance sheet equity accounts including convertible debentures at predetermined levels and to maintain debt service ratios based on EBITDA in excess of fixed thresholds. As of October 31, 2004, these ratios have been maintained and management is confident the ratios will be maintained for the foreseeable future.

The current market for obtaining mortgage financing for the Company's properties is favorable with many sources of real estate debt financing available. As at January 26, 2005, the Company has successfully negotiated financing on all long-term mortgage debt maturing during the fiscal year ending October 31, 2005. Management is confident that all short term financing will be renewed or converted to long-term debt at maturity.

EQUITY ACTIVITIES IN 2004

During December 2003 Plazacorp issued \$5 million of 9 ½ % convertible debentures maturing October 31, 2008. The debentures are convertible at \$1.20 per share. The funds from this issue were used to fund various development activities and asset acquisitions.

During 2004 the Company disposed of assets as follows:

- 50% interest in Les Promenades St. Francois, Laval, Quebec
- 50% interest in Staples Plaza, Dartmouth, Nova Scotia
- 50% interest in Lansdowne Plaza, Saint John, New Brunswick
- 50% interest in 201 Chain Lake Drive, Halifax, Nova Scotia, pursuant to an option agreement
- Land surplus to development in Miramichi, New Brunswick

Management determined that funds from these sales could be best channeled to higher growth assets and has deployed these funds on new developments and redevelopments.

Management will periodically review the portfolio to determine if opportunities exist to redeploy unrealized equity in slow growth properties into higher growth activities. The Company has no current plans to dispose of properties.

On June 30th, 2004 the Company closed a \$10 million issue of 8.5% Convertible Debentures due April 30, 2009 and convertible to common stock at \$1.60 per share. \$5.0 million of the proceeds were used to retire the 11% unsecured subordinate debentures. At October 31, 2004, all of the 11% debentures outstanding had been redeemed. The offering reduced cash interest costs on the replaced debentures by \$0.13 million per annum. The remaining \$5.0 million of debenture proceeds were used to fund property investments and for general corporate purposes.

Management believes the issuance of convertible debt is a cost effective method of raising capital and allows institutional involvement in the Company's equity structure.

MORTGAGE BOND USAGE

Plaza LPC Commercial Trust refinanced Les Promenades du Cuivre and repaid mortgage bond funds on December 22, 2004. The mortgage bond funds were deployed as at October 31, 2004 in a first mortgage on Tri County Mall of \$600 thousand and a second mortgage charge on Les Promenades du Cuivre of \$4.45 million. This refinancing makes funds available for other acquisition and developments. As at January 26, 2005 the mortgage bonds were secured by mortgages on Tri County Mall, Madawaska Road Plaza and Staples Saint John.

DEBT REPAYMENT SUMMARY

The effective average interest rate for conventional and short-term mortgages is 7.04%. The average term to maturity of the mortgages outstanding is 5.7 years. The average remaining amortization or repayment period on fixed rate mortgage debt is 20.1 years.

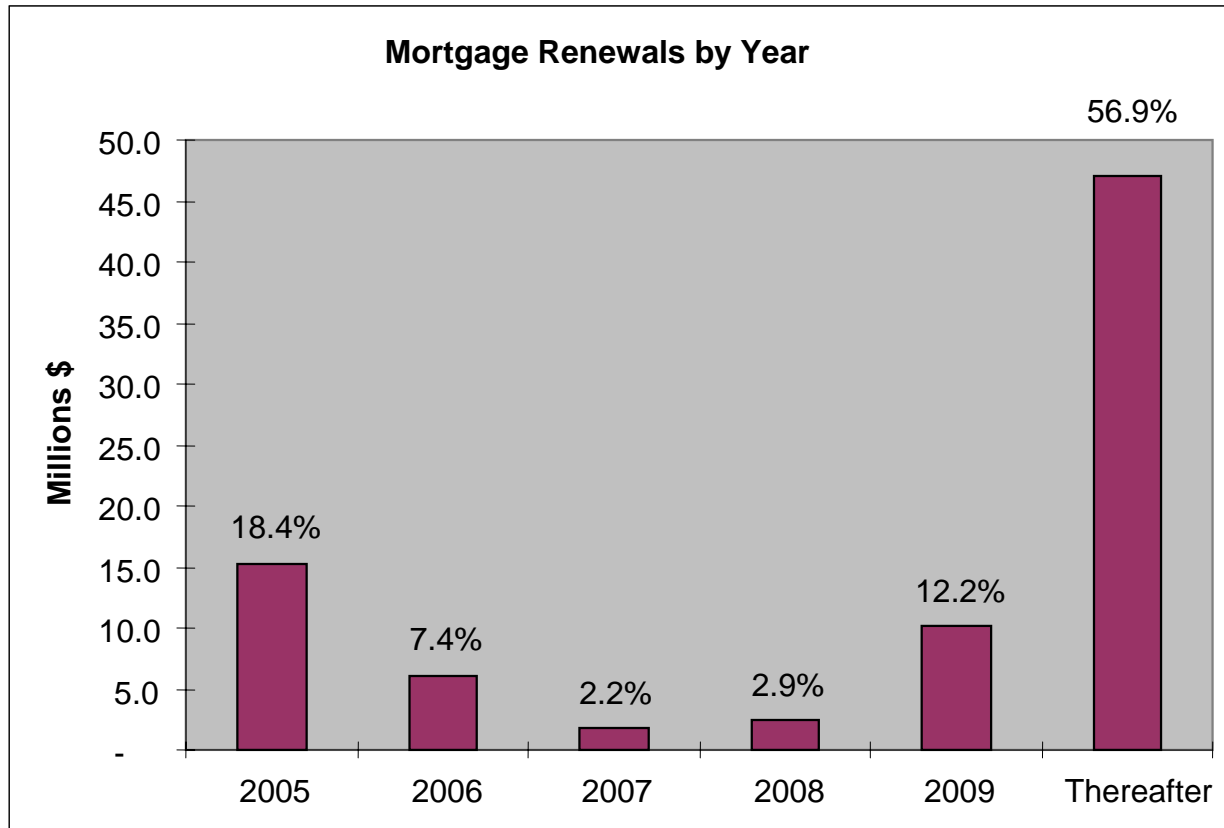
The Company is subject to risk of interest rate fluctuations. The Company minimizes its interest rate risk by ensuring that debt maturities are staggered over a number of years, allowing the Company to minimize the risk of unfavorable interest rate or capital market conditions in any one period.

The Company's strategy going forward will be to balance maturities and terms on new fixed debt with existing debt maturities to minimize exposure in any one year and to reduce overall interest costs.

| (\$000's) | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Periodic principal | \$ 1,760 | \$1,786 | \$ 1,819 | \$ 1,868 | \$1,681 | \$ 4,507 | \$13,421 |
| Due on maturity | 13,472 | 4,334 | - | 492 | 8,432 | 42,500 | 69,230 |
| Total mortgages | \$15,232 | \$6,120 | \$ 1,819 | \$ 2,360 | \$10,113 | \$47,007 | \$82,651 |
| Percentage of total | 18.4% | 7.4% | 2.2% | 2.9% | 12.2% | 56.9% | 100.0% |
| Weighted average interest costs | 6.03% | 6.71% | - | 7.30% | 6.45% | 7.42% | 7.04% |

Maintaining the average cost of debt will be dependent on capital market conditions at the time of refinancing.

The Company's use of floating rate debt has been limited to assets under development or redevelopment. The Company fixes debt rates and repayment terms as soon as it is practical based on capital market conditions. Fixed rate debt represents 88.6% of total mortgage debt.



At October 31, 2004 and 2003, the Company's weighted average cost of debt was as follows:

| as at October 31, | 2004 | 2003 | Change |
|---------------------------|-------|-------|--------|
| Mortgage Debt | 7.04% | 7.26% | -0.22% |
| Bank Operating Facilities | 5.25% | 5.75% | -0.50% |

➤ **KEY PERFORMANCE INDICATOR**

The weighted average cost of mortgage debt decreased to 7.04% for the period ended October 31, 2004 from 7.26% for the same period in 2003, and the weighted average term to maturity decreased to 5.7 years from 6.2 years in October 2003. Management expects the average cost of debt to remain stable for the foreseeable future.

Part of Plazacorp's debt strategy involves having a sufficient amount of mortgage debt maturing each year such that Management is in position to refinance or attempt to upward refinance the principal amount of such maturing debt so as to fund additional acquisitions. Current market parameters for conventional mortgage debt are in the range of 65% - 75% of the appraised market value of the underlying property asset. The success of this strategy is dependant upon debt market parameters existing at that time as well as the particular features and quality of the underlying assets being financed in the period.

COMMITMENTS

Plazacorp's current estimated commitments for the development of expansion lands, costs to complete development projects, and redevelopment projects initiated and scheduled for future periods is \$22.7 million.

Management believes that Plazacorp has sufficient unused bank line availability, mortgage bond availability, together with recently acquired unencumbered assets to be pledged as security to fund these future commitments.

Plazacorp's future commitments, and the estimated timing of these commitments, are outlined in the schedule below:

| (000's) | Payments Due by Period | | | | |
|--------------------------------------|------------------------|------------------|---------------------------|---------------------------|------------------|
| | Total | Less Than 1 Year | 2-3 years 2006 to 2007 | 4-5 years 2008 to 2009 | After 5 years |
| Contractual obligations | | | | | |
| Mortgage debt | \$ 82,651 | \$ 15,232 | \$ 7,940 | \$ 12,472 | \$ 47,007 |
| Capital lease obligations | - | - | - | - | - |
| Bonds & debentures | 22,350 | - | - | 22,350 | - |
| Operating ground leases | 35,577 | 1,323 | 2,650 | 2,677 | 28,927 |
| Development activities | 22,736 | 22,736 | - | - | - |
| Other long-term obligations | - | - | - | - | - |
| Total contractual obligations | \$ 163,314 | \$ 39,291 | \$ 10,590 | \$ 37,499 | \$ 75,934 |

Plazacorp makes significant use of ground leases to develop real estate. Ground leases allow the Company to maximize financial leverage during development.

Ground Lease commitments as at October 31, 2004 are as follows:

| (000's) | Annual Payments | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Properties held by subsidiaries | \$ 559 | \$ 559 | \$ 561 | \$ 567 | \$ 567 |
| Properties held by Plazacorp | 764 | 765 | 765 | 767 | 776 |
| Totals | \$ 1,323 | \$ 1,324 | \$ 1,326 | \$ 1,334 | \$ 1,343 |

The Company also has contingent liabilities as original borrower on mortgages assumed by the purchaser of 50% interests in three properties. These commitments are subject to cross-indemnity agreements. The balance outstanding on these loans is \$8.45 million as at October 31, 2004.

The Company guarantees mortgage debt in excess of its pro-rata position in joint ventures and non-consolidated subordinations in the amount of \$862 thousand.

PART V

CRITICAL ACCOUNTING ESTIMATES

Plazacorp's significant accounting policies are described in the Consolidated Financial Statements. Management believes the significant policies which are most subject to estimation and Management judgment are those outlined below.

PROPERTY ACQUISITIONS

For acquisitions subsequent to September 12, 2003, in accordance with CICA 1581 and CICA 3062, Management is required to allocate the purchase price to the tangible and intangible assets and liabilities purchased.

For the acquisitions after September 12, 2003 the Company estimated these amounts as detailed in the financial statements for the year ended October 31, 2004. These estimates may change as new information emerges on the appropriateness of estimates made during the twelve months of 2004.

This estimate is critical insofar as it may impact the corresponding amortization period of the related asset.

ASSET VALUE IMPAIRMENT

Income producing properties are carried at cost. If events or circumstances indicate that the carrying value of the income producing properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows generated from the income producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income producing properties are written down to estimated fair value and impairment loss is recognized. No impairment has been recognized in the year ended October 31, 2004 (October 31, 2003 – nil).

The estimate is critical insofar as it may impact on the classification and book value of income producing properties held and net income should impairment be present.

CHANGES TO ACCOUNTING POLICIES

NEW ACCOUNTING POLICIES ADOPTED IN 2004

ACCOUNTING FOR OPERATIONAL LEASES ACQUIRED IN EITHER AN ASSET ACQUISITION OR A BUSINESS COMBINATION

Effective for transactions after September 12, 2003, in accordance with CICA Handbook Sections 1581 (Business Combinations) and 3062 (Goodwill and Other Tangible Assets), the purchase price of the income property is allocated to land, building, tenant improvements and intangibles (such as the value of above and below-market leases and the value of tenant relationships, if any).

The values of the above and below-market leases are amortized and recorded as either a decrease (in the case of above-market leases) or an increase (in the case of below-market leases) to property rental revenue over the remaining term of the associated lease. The value associated with the in-place leases and tenant relationships is amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal and its estimated term. In the event a tenant vacates its leased space prior to the contractual termination of the lease and no rental payments are being made per the lease, any unamortized balance of the related intangible will be expensed. The tenant improvements and origination costs are amortized as an expense over the remaining life of the lease and expensed in full in the event the lease is terminated prior to its contractual termination date.

Intangible assets represent the value of above-market leases, origination costs associated with in-place leases and the value of existing tenant relationships for income producing properties acquired after September 12, 2003 and net of accumulated amortization equals \$2.1 million (2003 – nil).

Changes to the amounts allocated to these balance sheet classifications between April 30, 2004 and October 31, 2004 result from managements re-estimations of the initial assigned value for tenant relationships.

Intangible liabilities represent the value of below-market leases for income producing properties acquired after September 12, 2003 and net of accumulated amortization equals \$851 thousand (2003 – nil).

REVENUE

Effective November 1, 2003 the Company adopted the requirements of the CICA in respect of staged or stepped revenues in leases so as to record all revenue from leases on a straight-line basis over the term of the lease.

Accordingly, a receivable is recorded from the tenants for the current difference between the straight-line rent over the term and the rent that is contractually due from the tenant. Plazacorp has adopted this recommendation, on a prospective basis, effective November 1, 2003.

During the twelve months ended October 31, 2004 the impact of straight-line rent was an increase in rental revenue of \$366 thousand which has been recorded as a receivable in the October 31, 2004 consolidated financial statements.

ACCOUNTING FOR DEBT WHICH MAY BE CONVERTED TO OR REDEEMED IN SHARES

Effective for fiscal years beginning after November 1, 2004, the Company is required by CICA 3860 to reclassify convertible debentures previously classed substantially as equity (since the principal amount could be settled in equity) as substantially a liability. The Company chose early adoption of this accounting change effective for the year ended October 31, 2004 with restatement for prior periods. The Company may choose to settle debenture obligations through issuance of shares.

As a result of this change the Company has also restated the reported equity component of convertible debentures and related liability as at October 31, 2003 as detailed in note 2-l(i) of the consolidated financial statements for the year ended October 31, 2004.

The Company may choose to settle debenture obligations through issuance of shares. There is no impact on the Company's lender covenants as a result of this change.

REALLOCATION OF PURCHASE CONSIDERATION ON ACQUISITION

During 2000 and 2003 the Company acquired assets indirectly through subsidiaries and directly through the issuance of shares as well as cash consideration. During the year the Company re-evaluated its allocation of the excess purchase price over the carrying values of the acquired assets resulting in an increase to goodwill in the amount of \$1,450 thousand, an increase to tax recoverable of \$238 thousand and an increase to future income tax liability of \$1,688 thousand. The consolidated financial statements have been restated to reflect assets and liabilities of the assets at fair value at time of purchase (See Note 2-L (ii) of the October 31, 2004 consolidated financial statements).

FUTURE ACCOUNTING POLICY CHANGES

On November 1, 2004 as required by CICA 3055 and AcG-15 and effective for reporting in the first quarter of fiscal 2005 the Company will evaluate all joint-venture relationships to determine if current methods of consolidation, equity accounting or joint-venture accounting are consistent with the new variable interest entity guidelines. The Company has not yet determined the impact of this change on the balance sheet of the Company.

PART VI

RISKS AND UNCERTAINTIES

All income property investments are subject to a degree of risk and uncertainty. Income property is affected by various factors including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand particularly affect income property investments. Management attempts to manage these risks through geographic and asset class diversification in Plazacorp's portfolio. At October 31, 2004 Plazacorp held 45 properties (including one parcel of land held for development) spread geographically among four provinces in Canada.

INTEREST RATE AND FINANCING RISK

Current market conditions are very favorable for obtaining mortgage financing in both the fixed rate and floating rate facilities. Interest rate spreads over Government of Canada Bonds have tightened over the last twelve months. The favorable availability has been offset by fluctuations in bond rates over the year. At existing rates the Company is able to obtain positive returns from debt financing. The availability of debt financing makes management highly confident of obtaining suitable long-term financing for projects on completion of development and maturity of existing debt as it comes due.

Management attempts to stagger the maturities of Plazacorp's mortgage portfolio consistent with related tenant lease expiries with the view of locking in returns on developed assets for as long a period as market conditions will permit. Management is of the view that such a strategy results in the most conservative interest rate risk management practice.

As outlined under "Liquidity and Capital Resources", Plazacorp has an ongoing requirement to access the debt markets to refinance maturing debt as it comes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to Plazacorp, or any terms at all.

Management's strategy attempts to mitigate Plazacorp's exposure to excessive amounts of debt maturing in any one year. Re-financing debt at maturity with conventional financing is generally limited to 65-75% of appraised value. Management is of the view that such level of indebtedness is achievable given the lending parameters currently existing in the real estate market place and is confident all debts will be financed or refinanced as they come due for the foreseeable future.

The Company may choose to invest in mortgages to affiliates from time to time and would be subject to normal credit and interest rate risks from these investments.

Plazacorp had until December 22, 2004 invested in a mortgage with Plaza LPC Commercial Trust and financing risk would have arisen in the event that the borrower had defaulted on the repayment of said mortgages to Plazacorp.

CREDIT RISK

Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. Management mitigates this risk by ensuring that Plazacorp's tenant mix is diversified and by limiting Plazacorp's exposure to any one tenant. Plazacorp also maintains a portfolio that is diversified geographically so that exposure to local business is lessened.

Currently, no one tenant represents more than 6.0% of total revenues. The top 10 tenants collectively represent approximately 33.2% of total revenues. Plazacorp's ten largest tenants based upon yearly gross rent are as follows:

| | % of Gross Revenue |
|----------------------------------|---------------------------|
| 1. Staples Business Depot | 6.0% |
| 2. Dollarama | 5.6% |
| 3. Marks Work Warehouse | 4.3% |
| 4. Loblaws | 3.7% |
| 5. Reitmans | 2.7% |
| 6. Canadian Tire | 2.6% |
| 7. Shoppers Drug Mart | 2.5% |
| 8. Cleve's Sporting Goods | 2.2% |
| 9. Sears and Sear's Franchisee's | 1.8% |
| 10. Bulk Barn | 1.8% |

The leasing of the Company's portfolio has produced a mix of National, Regional, and Local tenancy that is well positioned to resist downturns in our markets. This portfolio mix is outlined in the chart below.

| as at October 31, | 2004 | 2003 |
|--------------------------|--------------|-------------|
| National | 80.2% | 74.0% |
| Regional | 6.0% | 6.7% |
| Local & Non Retail | 13.8% | 19.3% |

LEASE ROLL-OVER RISK

Lease roll-over risk arises from the possibility that Plazacorp may experience difficulty renewing leases as they expire or in releasing space vacated by tenants.

Management completed in 2004, 321,244 square feet of new leasing deals at market rates thus increasing our occupied or committed space by 200,689 square feet net of all expires, renewals and vacated space.

Management attempts to stagger the lease expiry profile so that Plazacorp is not faced with disproportionate amounts of space expiring in any one year. Management further mitigates this risk by maintaining a diversified portfolio mix both by asset type and geographic location.

The following tables represent lease expiries, by square footage, for Plazacorp's portfolio as at October 31, 2004:

2005 LEASE EXPIRIES BY ASSET CLASS & REGION

| Region | Strip Plazas | Enclosed Malls | Single-User | Total |
|---------------|--------------|----------------|-------------|---------|
| Quebec | 16,798 | 51,631 | - | 68,429 |
| New Brunswick | 63,316 | 29,778 | - | 93,094 |
| Nova Scotia | 64,576 | 2,825 | - | 67,401 |
| PEI | 19,702 | - | - | 19,702 |
| Total | 164,392 | 84,234 | - | 248,626 |

LEASE ROLL-OVER BY ASSET CLASS

| Year | <u>Strip Plazas</u> | | <u>Enclosed Malls</u> | | <u>Single-User</u> | | <u>Total</u> | |
|---|---------------------|--------|-----------------------|--------|--------------------|--------|--------------|--------|
| | SF | % | SF | % | SF | % | SF | % |
| 2005 | 164,392 | 9.6% | 84,234 | 19.8% | - | - | 248,626 | 11.0% |
| 2006 | 154,574 | 9.0% | 46,884 | 11.0% | - | - | 201,458 | 9.0% |
| 2007 | 134,291 | 7.8% | 102,670 | 24.2% | - | - | 236,961 | 10.5% |
| 2008 | 145,727 | 8.4% | 62,423 | 14.7% | - | - | 208,150 | 9.3% |
| 2009 | 138,559 | 8.0% | 47,086 | 11.1% | - | - | 185,645 | 8.3% |
| Thereafter | 910,628 | 52.7% | 64,842 | 15.3% | 95,649 | 100.0% | 1,071,119 | 47.7% |
| Vacant | 77,988 | 4.5% | 16,643 | 3.9% | - | - | 94,631 | 4.2% |
| Sub-Total | 1,726,159 | 100.0% | 424,782 | 100.0% | 95,649 | 100.0% | 2,246,590 | 100.0% |
| Non-Consolidated Trusts and Partnerships | 375,286 | | 251,165 | | - | | 626,451 | |
| Total | 2,101,445 | | 675,947 | | 95,649 | | 2,873,041 | |

RENTAL RATES

Management views the expiry of tenant leases, where the existing rent is below market, as opportunities for revenue enhancement from the existing portfolio. The average gross rents per square foot vary across properties and asset classes. The weighted average contractual gross rental rate per square foot (including the recovery of operating costs and property taxes) for leases expiring in Plazacorp's portfolio excluding non-consolidated investments and projects under development is outlined in the following table:

| Year | Strip Plazas | Enclosed Malls | Single-User |
|------------|--------------|----------------|-------------|
| 2005 | \$ 13.35 | \$ 15.38 | \$ - |
| 2006 | \$ 13.70 | \$ 16.63 | \$ - |
| 2007 | \$ 14.79 | \$ 12.46 | \$ - |
| 2008 | \$ 14.85 | \$ 15.97 | \$ - |
| 2009 | \$ 17.89 | \$ 14.79 | \$ - |
| Thereafter | \$ 14.01 | \$ 16.95 | \$ 11.06 |
| Average | \$ 12.66 | \$ 13.17 | \$ 11.06 |

| | | | |
|---------------------------------------|------------|------------|------------|
| Weighted average remaining lease term | 7.59 years | 3.15 years | 8.06 years |
|---------------------------------------|------------|------------|------------|

On average, Plazacorp's embedded or contractual gross rents expiring in 2005 would be at or below current market rates. Plazacorp's financial exposure to vacancies and lease roll-overs differs among the three asset types, since gross rental rates differ dramatically by asset class.

OCCUPANCY

One of Plazacorp's performance drivers is related to occupancy. The majority of Plazacorp's leases in place are referred to as net leases, meaning tenants reimburse Plazacorp for their share of property operating costs and realty taxes. Many of Plazacorp's operating costs and tax expenses are generally of a fixed nature, although Plazacorp does experience a variable element as it relates to utilities, janitorial costs, and in certain municipalities, realty tax.

The hypothetical impact of a change in occupancy of one percent to net property operating income would be approximately \$250 thousand per annum. The analysis does not identify a particular cause of such changing occupancy and as a result, it does not reflect the actions Management may take in relation to the changes.

➤ KEY PERFORMANCE INDICATOR

Average occupancy in the strip plazas was 95.4% for the year ended October 31, 2004 compared to 95.3% for the same period last year. Occupancy rates had been reduced at the beginning of 2004 due to the vacating of a junior department store at Granville Street Plaza and the vacating of premises at Les Promenades St. Francois on completion of an owner occupied food store adjoining the center. As of October 31, 2004 this vacated space has been re-leased at market rates.

Average occupancy in the enclosed malls was 96.1 % as at October 31, 2004 compared to 96.3 % for the same period last year. Occupancy for single user assets remained stable at 100%. The pre-leased space in properties under development is 95.1%.

Overall the portfolio, including developments but excluding non-consolidated trusts and partnerships is 95.8% leased compared to 95.1% in October 2003. These occupancy rates are within management's expectations in view of continuing development in the portfolio.

ENVIRONMENTAL RISK

Plazacorp is subject to various laws relating to the environment which deal primarily with the costs of removal and remediation of hazardous substances such as asbestos. Environmental risk is relevant to Plazacorp's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against Plazacorp. Management is not aware of any material non-compliance with environmental laws or regulations with regard to Plazacorp's portfolio, or of any pending or threatening actions, investigations or claims against Plazacorp relating to environmental matters.

Plazacorp has formal policies and procedures to manage environmental exposures in a proactive manner during every aspect of the property life cycle.

LITIGATION RISK

Plazacorp is involved in litigation and claims in relation to its income producing properties from time-to-time. In Management's opinion, any liability that may arise from such litigation would not have a significant adverse effect on these financial statements.

PART VII

SHARES OUTSTANDING

If all share options and rights to convert shares under the provisions of convertible debt were exercised the impact on shares outstanding would be as follows:

| | Shares | Share capital |
|---------------------------------|------------|---------------|
| Current Outstanding Shares | 34,997,614 | \$ 20,583,150 |
| Employees Share Options | 108,333 | 81,250 |
| Series 1 Convertible Debentures | 1,350,000 | 1,350,000 |
| Series 2 Convertible Debentures | 3,125,000 | 3,750,000 |
| Series 3 Convertible Debentures | 6,250,000 | 10,000,000 |
| Total adjusted shares O/S | 45,830,947 | \$ 35,764,400 |

The Company has the absolute right to redeem the Series I, Series II and Series III outstanding convertible debentures at maturity, through the issuance of shares, based on 95% of the 20 day weighted average trading price ending 5 days before redemption. The rights arising between May 1, 2006 and April 30, 2007 for Series I, between November 1, 2006 and October 31, 2007 for Series II and between April 30, 2007 and April 30, 2008 for Series III are restricted unless market trading prices for the Company's shares exceed 115% of conversion price. The decision to redeem in shares is not certain and will be based on capital market conditions at that time.

Between October 31, 2004 and January 26, 2005, \$1,800,000 of Series I convertible debentures were converted to shares and 1,800,000 shares were issued. The impact of the issuance of these shares is included in the above details.

Also between October 31, 2004 and January 26, 2005, \$1,050,000 of Series II convertible debentures were converted to shares and 875,000 shares were issued. The impact of this issuance of these shares is included in the above details.

Plazacorp has agreements with individual unitholders as an investor liquidity measures in LPC Commercial Trust (until June 1, 2005) and with unitholders of Northwest Centre Commercial Trust (until April 30, 2006) whereby unitholders have the right to put units of the trusts at the lower of cost and fair market value for the units to Plazacorp in exchange for shares in Plazacorp. The Company believes there is minimal risk associated with this arrangement. To date, no unitholder has exercised this right.

Plazacorp also has the right, but not the obligation, to acquire a majority interest in each of these trusts through call agreements after June 2005 in the case of Plaza LPC Commercial Trust and after April 2006 in the case of Northwest Centre Commercial Trust. An assessment of market conditions and compliance with securities regulations would be required prior to making an offer to unitholders pursuant to the call agreements.

RELATED PARTY TRANSACTIONS

Plaza Atlantic Limited manages the Company's property under a management contract that expires April 30, 2009 and has managed the properties since 1999. In Quebec, staff of Les Immeubles Plaza-Z Corp handles management duties under sub-contracting arrangements with Plaza Atlantic Limited.

Plaza Atlantic Limited is owned by three directors of Plazacorp namely Michael Zakuta, Earl Brewer and Paul Leger. Mr. Brewer is Chairman of Plazacorp, Michael Zakuta is Vice-President of the Company and Paul Leger is the former Vice-President and Secretary of the Company. Plaza-Z Corp is effectively controlled by Michael Zakuta.

The majority of employees engaged in the property management, development, leasing and property accounting activities are employees of Plaza Atlantic Limited or Plaza Z Corp.

The purpose of the management arrangement is to provide the Company the services of a fully staffed and professional management company in all its operational areas which allows Plazacorp access to significant professional management services at reasonable cost. Both Plaza Atlantic and Plaza Z –Corp manage properties for third parties.

Mr. Zakuta and Mr. Brewer receive no direct compensation from the Company for performing their duties as officers and directors and Mr. Leger receives no direct compensation for performing his duty as a director.

The fees payable under the management contract are as follows:

| | |
|------------------------------|--|
| Property management | 5% of gross revenue paid |
| Acquisitions | 2% of the purchase price of assets |
| Dispositions | 1 ½ % of the proceeds of disposition on assets |
| Leasing Fees | 4% of Rental Revenue per year for first five years of term. 2% of rental revenue per year for year's six to ten of a lease term. Leasing fees for renewals are at 50% of above rates |
| Development Fees | 4% of costs of construction on development projects |
| Construction Management Fees | 10% of tenant improvement costs on non development projects |
| Financing Fees | ¾ % of debt placed where no outside broker is involved ¼ % of debt placed where an outside broker is involved |
| Legal Services | Cost recovery, currently \$130 per hour |

During the twelve months ended October 31, 2004 and 2003 the following amounts were billed under the contract:

| (000's) | October 31, 2004 | October 31, 2003 |
|------------------|------------------|------------------|
| Management fees | \$ 1,059 | \$ 875 |
| Leasing fees | 696 | 281 |
| Development fees | 498 | 154 |
| Financing fees | 46 | 24 |
| Acquisition fees | 418 | 38 |
| Disposition fees | 242 | - |
| Legal Services | 109 | - |
| Total | \$ 3,068 | \$ 1,372 |

SHARE ISSUANCE

During 2004, the Company issued 1,417,663 additional shares pursuant to agreements of purchase and sale relating to assets purchased from related parties and from others in September 2000. The contingent price adjustment was based on earnings of the properties for the fiscal year ended October 31, 2003. The shares were issued at a price of \$1.00 per share per the original agreement. Certain directors or entities that they control directly or indirectly, being Earl Brewer and Michael Zakuta were issued shares as follows as a result of these agreements:

| | |
|--------------------------------------|----------------|
| Michael Zakuta and related entities. | 502,999 |
| Earl Brewer and related entities. | <u>141,836</u> |
| | <u>644,835</u> |

DEBENTURES HELD

Below is a summary of convertible debentures and mortgage bonds of the Company held directly or indirectly by related parties as of October 31, 2004.

| (000's) Related Party | October 31, 2004 | October 31, 2003 |
|-----------------------------|------------------|------------------|
| Richard Hamm, Director | \$ 865 | \$ 415 |
| Michael Zakuta, Director | 1,899 | 900 |
| Edouard Babineau, Director | 600 | - |
| Willard L'Heureux, Director | 450 | - |
| Earl Brewer, Director | 520 | 100 |
| Paul Leger, Director | 125 | 100 |
| Stephen Johnson, Director | 555 | 400 |
| Total | \$ 5,014 | \$ 1,915 |

NOTES PAYABLE TO RELATED PARTIES

Notes payable as at October 31, 2004 fall into two categories:

- Non-interest bearing notes that existed at the time of acquisition of properties in September 2000. Certain of the notes are owed to parties controlled directly or indirectly by Michael Zakuta. The notes are repayable on sale or refinancing of the related asset.
- Interest bearing unsecured notes that are advanced from time-to-time to assist in financing property acquisitions and development costs and are retired on funding of long-term debt or sale of the property to which the note relates.

| (000's) | Interest Rate | October 31, 2004 | October 31, 2003 |
|---|--------------------------------|---------------------|---------------------|
| Interest bearing notes: | | | |
| Les Immeubles Plaza Z Corp and related entities controlled by Michael Zakuta, a director of the Company | Prime + $\frac{3}{4}$ % 10% | \$ 939 | \$ 1,161,350 |
| NASA Developments, a company controlled by Michael Zakuta, Earl Brewer, Richard Hamm and Paul Leger, all directors of the Company | 10% | - | 495 |
| Kilgoire Investments Ltd., a company controlled by Richard Hamm, a director of the Company | 10% | - | 350 |
| Non-Interest bearing notes: | | | |
| Various companies owned (directly and indirectly) and controlled by Michael Zakuta, director of the Company | N/A | 361 | 432 |
| Total | | \$ 1,300 | \$ 2,788 |

INTERESTS IN JOINT VENTURES

The Company uses joint ventures for several reasons, principally:

- i) Obtain interests in properties where 100% ownership is beyond the capital capability of the Company but where it can apply development skills required by the joint-venture;
- ii) Share development risk with equity partners; and
- iii) Limit the total exposure to the risks of any one asset.

The effect of terminating the arrangements would be the same as those involved in sale of the asset or the foreclosure of a mortgage loan. If the equity interest, net of debt, assumed by the buyer differs from the carrying value of the asset a loss or gain could arise. In the case of a foreclosure or third party sale there could be continuing liability as the original borrower under a mortgage arrangement.

Note 15 of the October 31, 2004 consolidated financial statements detail the Company's joint venture arrangements.

OUTLOOK

The primary benefit to Shareholders is reliable and, over time, increasing dividend. Dividends to shareholders have increased from 8¢ per share in 2003 to 9¢ per share in 2004. For 2005, the Company has increased dividend distributions to 10.5¢ per share beginning February 15, 2005.

Plazacorp was faced with numerous challenges during 2004 and 2003. For 2005 Plazacorp will undoubtedly be faced with new challenges. Management has demonstrated the strength of its strategies and operating capabilities and, barring any unforeseen events, is confident on delivering solid performance in 2005, and a significant increase to the size of the portfolio.

OTHER

This Management Discussion and Analysis has been reviewed and approved by the Company and the Directors.

Additional information relating to Plazacorp including the Management Information Circular, Material Change reports and all other continuous disclosure documents required by the securities regulators, are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) and can be accessed electronically at www.sedar.com or on the Plazacorp web site at www.plaza.ca.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Plazacorp Retail Properties Ltd.

The accompanying financial statements and information contained in the Annual Report have been prepared by, and are the responsibility of, the management of the Company. The financial statements have been prepared within accepted limits of materiality and in accordance with the Canadian generally accepted accounting principals appropriate in the circumstances. Financial information elsewhere in this report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguard and financial records are properly maintained to provide reliable information for preparation of financial statements.

The consolidated financial statements have been reviewed and approved by the Board of Directors and its Audit Committee.

KPMG LLP, the independent auditors appointed by the shareholders having been engaged to audit the financial statements and provide an independent professional opinion thereon.



Richard Hamm
President and CEO
January 26, 2005



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www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Plazacorp Retail Properties Ltd. as at October 31, 2004 and the consolidated statements of earnings, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended October 31, 2003, prior to adjustment for the change in the Company's accounting policy for convertible debentures and adjustment related to the correction of an error as described in note 2 (1) to the consolidated financial statements, were audited by another firm of chartered accountants who expressed an opinion without reservation on those consolidated statements in their audit report dated December 19, 2003. We have audited the adjustments to the 2003 consolidated financial statements as described in note 2 (1) to the consolidated financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Chartered Accountants

Plazacorp Retail Properties Ltd.

Consolidated Balance Sheet

As at October 31

(000's)

2004

2003

(as restated
see Note 2-1)

Assets

| | | |
|---|-------------------|-------------------|
| Income producing properties (Note 3) | \$ 118,577 | \$ 100,284 |
| Mortgage receivable (Note 4) | 5,050 | 5,050 |
| Cash and cash equivalents (Note 2k) | 1,179 | 1,669 |
| Accounts receivable | 1,941 | 620 |
| Prepaid expenses and deposits | 3,095 | 2,184 |
| Deferred charges (Note 5) | 2,374 | 2,388 |
| Intangible assets (Note 6) | 2,162 | - |
| Refundable capital gains tax (Note 11) | 132 | - |
| Investment in limited partnerships and trusts (Note 16) | 1,350 | 1,350 |
| Goodwill | 2,025 | 1,450 |
| | <u>\$ 137,885</u> | <u>\$ 114,995</u> |

Liabilities

| | | |
|--|----------------|---------------|
| Mortgages payable (Note 7) | \$ 82,651 | \$ 74,036 |
| Bonds and debentures payable (Note 8) | 22,350 | 13,420 |
| Notes payable (Note 9) | 2,053 | 3,541 |
| Bank indebtedness (Note 10) | 69 | 405 |
| Accounts payable and accrued liabilities | 5,371 | 2,328 |
| Dividend payable | 726 | 601 |
| Income taxes payable (Note 11) | 410 | 174 |
| Future income tax liability (Note 11) | 5,147 | 4,669 |
| Intangible liabilities (Note 6) | 851 | - |
| | <u>119,628</u> | <u>99,174</u> |

Non-controlling interest in net assets

| | |
|------------|------------|
| <u>235</u> | <u>275</u> |
|------------|------------|

Shareholders' Equity

| | | |
|---|-------------------|-------------------|
| Equity portion of convertible debt (Note 8) | 778 | 144 |
| Share capital (Note 12) | 17,685 | 15,392 |
| Contributed surplus (Note 13) | 17 | 42 |
| Deficit | (458) | (32) |
| | <u>18,022</u> | <u>15,546</u> |
| | <u>\$ 137,885</u> | <u>\$ 114,995</u> |

Contingencies, commitments, guarantees – see consolidated financial statement Note 15, 16, 17
Subsequent events – see consolidated financial statement Note 21



Michael Zakuta, Director



Richard Hamm, Director

See accompanying notes to the consolidated financial statements

Plazacorp Retail Properties Ltd.**Consolidated Statement of Retained Earnings and Deficit
For the Years Ended October 31**

| | 2004 | 2003 (as restated see Note 2-1) |
|--|-----------------|---------------------------------------|
| (000's) | | |
| (Deficit) retained earnings, beginning of the year | \$ (18) | \$ 1,635 |
| Adjustment for change to accounting policy regarding convertible debentures (Note 2-1) | (14) | - |
| As restated | (32) | 1,635 |
| Net income | 2,437 | 732 |
| Dividends | (2,863) | (2,399) |
| Deficit, end of the year | <u>\$ (458)</u> | <u>\$ (32)</u> |

See accompanying notes to the consolidated financial statements

Plazacorp Retail Properties Ltd.

**Consolidated Statement of Income
For the Years Ended October 31**

| | 2004 | 2003 (as restated see Note 2-l) |
|--|------------------------|---------------------------------------|
| (000's) – Except Per Share Amounts | | |
| Rental revenue | \$ 23,967 | \$ 19,863 |
| Operating expenses | <u>9,986</u> | <u>8,326</u> |
| Net property operating income | 13,981 | 11,537 |
| Investment income | <u>1,286</u> | <u>916</u> |
| Income from property and investments | 15,267 | 12,453 |
| Financing costs | <u>8,174</u> | <u>6,715</u> |
| Income before undernoted | 7,093 | 5,738 |
| Administrative expenses | 731 | 441 |
| Amortization and depreciation | 6,006 | 3,425 |
| Capital taxes | <u>428</u> | <u>412</u> |
| (Loss) income before undernoted | (72) | 1,460 |
| Gain on disposal of income producing properties | <u>2,941</u> | <u>96</u> |
| Income before income taxes and non-controlling interest | 2,869 | 1,556 |
| Income tax expense (recovery) – current | 177 | 222 |
| – future | <u>(97)</u> | <u>329</u> |
| | <u>80</u> | <u>551</u> |
| Income before non-controlling interest | 2,789 | 1,005 |
| Non-controlling interest | <u>352</u> | <u>273</u> |
| Net income | <u><u>\$ 2,437</u></u> | <u><u>\$ 732</u></u> |
| Basic earnings per share (Note 12) | <u><u>\$ 0.077</u></u> | <u><u>\$ 0.024</u></u> |
| Diluted earnings per share (Note 12) | <u><u>\$ 0.075</u></u> | <u><u>\$ 0.023</u></u> |

See accompanying notes to the consolidated financial statements

Plazacorp Retail Properties Ltd.
**Consolidated Statement of Cash Flows
For the Years Ended October 31**
2004
2003
(000's)

 (as restated
see Note 2-l)

Cash obtained from (used for):
Operating activities

| | | | | |
|---|----|----------------|----|--------------|
| Net income | \$ | 2,437 | \$ | 732 |
| Items not affecting cash: | | | | |
| Amortization and depreciation | | 6,001 | | 3,425 |
| Gain on disposal | | (2,941) | | (96) |
| Stock option compensation | | 17 | | - |
| Interest relating to debenture accretion | | 118 | | 14 |
| Non-controlling interest | | 352 | | 273 |
| Future income taxes | | (97) | | 329 |
| | | <u>5,887</u> | | <u>4,677</u> |
| Tenant acquisition costs | | (8,336) | | (2,322) |
| Change in non-cash working capital (see cash flow supplemental) | | <u>1,366</u> | | <u>930</u> |
| | | <u>(1,083)</u> | | <u>3,285</u> |

Financing activities

| | | | | |
|--|--|----------------|--|----------------|
| Bank indebtedness | | (336) | | 165 |
| Notes payable funded | | 120 | | 1,200 |
| Notes payable repaid | | (1,608) | | (622) |
| Issue of common shares except for option agreements | | 668 | | 45 |
| Issue of common shares pursuant to option agreements | | 160 | | 37 |
| Dividends paid to non-controlling interests | | (392) | | (559) |
| Dividends paid to shareholders | | (2,737) | | (2,399) |
| Proceeds from bonds and debentures | | 15,000 | | 3,500 |
| Redemption of bonds and debentures | | (5,550) | | - |
| Proceeds from mortgage financing | | 36,194 | | 6,458 |
| Mortgage repayments at maturity | | (12,139) | | (314) |
| Mortgage principal repayments | | <u>(1,611)</u> | | <u>(1,107)</u> |
| | | <u>27,769</u> | | <u>6,404</u> |

Investing activities

| | | | | |
|--|--|-----------------|--|----------------|
| Acquisition, development and redevelopment | | (33,127) | | (5,005) |
| Net proceeds from disposition of property | | 6,985 | | 886 |
| Increase in monies held in trust | | (450) | | - |
| Increase in mortgage receivable | | - | | (5,050) |
| Increase in deferred charges | | <u>(584)</u> | | <u>(386)</u> |
| | | <u>(27,176)</u> | | <u>(9,555)</u> |

Net (decrease) increase in cash and cash equivalents

| | | | | |
|--|----|--------------|----|--------------|
| | | (490) | | 134 |
| Cash and cash equivalents, beginning of the year | | <u>1,669</u> | | <u>1,535</u> |
| Cash and cash equivalents, end of the year (Note 2k) | \$ | <u>1,179</u> | \$ | <u>1,669</u> |

See accompanying notes to the consolidated financial statement

Plazacorp Retail Properties Ltd.
Consolidated Statement of Cash Flows – Supplemental Cash Flow Disclosure
For the Year Ended October 31, 2004

1) During the year the Company invested \$46.92 million in tenant acquisition costs, property acquisitions, development, redevelopment, furnishings and equipment. Of this amount \$4.04 million was funded from assumed mortgages and \$1.42 million was funded from the issue of common shares. The net additions from cash of \$41.46 million consist of \$8.33 million of tenant acquisition costs and \$33.13 million of property acquisition, development and redevelopment. The details of these amounts are as follows:

a) During the year the Company purchased five properties for total consideration of \$25.76 million of which \$4.04 million was funded by assumed mortgages. The net cash purchase of \$21.72 million was funded by \$11.61 million in mortgages placed at close with the balance of \$10.11 million paid in cash.

The following table summarizes the net assets acquired:

| Assets | <u>(000)'s</u> |
|---------------------------------------|------------------|
| Land | \$ 10,804 |
| Buildings | 11,122 |
| Parking lot | 74 |
| Tenants acquisition costs | 1,579 |
| Intangible assets | <u>3,706</u> |
| | <u>27,285</u> |
| Liabilities | |
| Intangible liabilities | (1,521) |
| Assumed mortgages | (4,042) |
| Placed mortgages | <u>(11,609)</u> |
| | <u>(17,172)</u> |
| Net assets acquired, funded from cash | <u>\$ 10,113</u> |

b) During the year the Company invested in land, did new development, re-developed current properties, incurred tenant acquisition costs and purchased furnishings and equipment in the amount of \$19.74 million.

2) During the year the Company sold four properties for total net proceeds of \$24.86 million. The purchasers assumed mortgages in the amount of \$17.87 million generating net cash from proceeds on sale of \$6.99 million.

3) During the year the Company placed new mortgages in the amount of \$40.23 million. Of this amount \$4.04 million relates to a mortgage assumed on acquisition leaving \$36.19 million in cash received from mortgages financing. This amount is made up of the following:

| | <u>(000)'s</u> |
|--|------------------|
| Advances from the new revolving line-of-credit | \$ 5,780 |
| Short-term mortgages on new development | 4,560 |
| Mortgages placed on acquisitions | 11,609 |
| Other mortgages placed | <u>14,245</u> |
| Cash from new mortgages funding | <u>\$ 36,194</u> |

Plazacorp Retail Properties Ltd.
Consolidated Statement of Cash Flows – Supplemental Cash Flow Disclosure
For the Year Ended October 31, 2004

4) During the year the Company repaid mortgages in the amounts of \$31.62 million. Of this amount \$17.87 million relates to 5 mortgages partially assumed by purchasers on the sale of a 50% interest in 4 properties. The principal payments from cash of \$13.75 million were made up of regular payments of \$1.61 million and payments for loans maturing during the year of \$12.14 million.

5) Cash interest paid including convertible debenture interest during the year ended October 31, 2004 was \$8.08 million (October 31, 2003 - \$6.74 million).

6) Cash income and capital tax installments paid during the year ended October 31, 2004 were \$495 thousand (October 31, 2003 - \$375 thousand).

7) Changes in non-cash working capital:

| (000's) | | |
|--|-------------|-------------|
| For the Years Ended October 31 | 2004 | 2003 |
| Accounts receivable | \$ (1,321) | \$ 206 |
| Prepaid expenses and deposits | (462) | 290 |
| Refundable capital gains tax | (132) | - |
| Accounts payable and accrued liabilities | 3,045 | 647 |
| Income taxes payable | 236 | (213) |
| Total cash from change in non-cash working capital | \$ 1,366 | \$ 930 |

Plazacorp Retail Properties Ltd.
Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2004 and 2003

1. Nature of Operations

The Company operates a retail real estate development business in Quebec and the Atlantic Provinces. The Company was incorporated under the New Brunswick Business Corporations Act on February 2, 1999. On December 11, 2002 the Company amended its articles of incorporation to become a Mutual Fund Corporation as defined in the Income Tax Act of Canada.

2. Significant Accounting Policies

The Company's accounting policies and its standards of financial disclosure are in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Canadian Institute of Chartered Accountants (CICA), the more significant policies of which are described below.

a) Principles of Consolidation

The consolidated financial statements include the accounts of Plazacorp Retail Properties Ltd., its subsidiaries and its proportionate interest in joint ventures as follows:

| As at October 31 | Ownership Interest | |
|---|---------------------------|---------------------|
| | 2004 | 2003 |
| <u>Accounting Method – Consolidation</u> | | |
| Exhibition Plaza Inc. | 55% | 55% |
| McAllister Drive Plaza Inc. | 55% | 55% |
| Centre Commercial Plaza Theriault Inc. | 100% | 100% |
| Les Galeries Montmagny (1988) Inc. | 50% ⁽¹⁾ | 50% ⁽¹⁾ |
| Spring Park Plaza Inc. | 85% | 85% |
| Granville Street Properties Limited Partnership | 60% | 60% |
| Wildan Properties Limited Partnership | 60% | 60% |
| SCA Plaza Inc. | 55% | 55% |
| Tacoma Plaza Limited Partnership | 100% | 100% |
| Commercial Street Plaza Trust | 100% | 0% |
| Plazacorp Retail Partnership #1 | 100% | 0% |
| <i>(1) The Company consolidates a 50% owned subsidiary as the Company has deemed control over the operating, financing and investing decisions of this company.</i> | | |
| <u>Accounting Method – Proportionate Consolidation</u> | | |
| Les Immeubles RSM Inc. | 50% | 50% |
| University Plaza (SC) Inc. | 43% | 43% |
| S.E.C. Rimouski Bureau en Gros | 50% | 50% |
| Centre Commercial Dufferin (2001) Inc. | 50% | 50% |
| Carrefour des Seigneurs, PQ | 25% | 0% |
| Les Promenades St-Francois, PQ | 50% ⁽¹⁾ | 100% ⁽¹⁾ |
| Staples Plaza – Woodlawn, NS | 50% ⁽¹⁾ | 100% ⁽¹⁾ |
| Lansdowne Place, NB | 50% ⁽¹⁾ | 100% ⁽¹⁾ |
| 201 Chain Lake Drive, NS | 50% ⁽²⁾ | 0% ⁽²⁾ |
| 209 Chain Lake Drive, NS | 50% | 0% |

(1) Prior to March 22, 2004, the date of disposition of a 50% interest, these assets were consolidated in the financial statements at 100%.

(2) From April 14, 2004, the date of acquisition, until October 31, 2004 the date of exercise of the option by the joint-venture partner, revenues and expenses of this property were consolidated in the financial statements at 100%.

b) Income producing properties

i) Developed properties

Income producing properties are carried at cost. If events or circumstances indicate that the carrying value of the income producing properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows generated from the income producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income producing properties are written down to estimated fair value and an impairment loss is recognized. No impairment has been recognized in the year ended October 31, 2004 (October 31, 2003 – nil).

Effective for acquisitions after September 12, 2003, the Company adopted the recommendations of the CICA Emerging Issues Committee (EIC-140) regarding the allocation of the purchase price of property acquisitions. The Company now allocates costs of a new acquisition to: i) land and site improvements; ii) building on an “as vacant” basis; iii) tenant acquisition costs, the residual value of leasehold improvements and acquisition costs, if any; iv) intangible assets and liabilities such as the value of above and below market leases, value of in place leases, and the value of tenant relationships by taking the direct identifiable benefits of the tenant relationship discounted to its present value. The amounts so allocated are subjective and represent management’s best estimate at the time of acquisition.

ii) Properties under development

Interest, construction costs, and net operating income or loss incurred while a property is under significant development or redevelopment is capitalized until completion to the cost of the building. A property is considered completed the earlier of 90% occupancy or six months after substantial completion of construction.

c) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company’s reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting units goodwill is compared with its carrying amount to measure the amount of the impairment or loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings.

d) Revenue

i) Rental income includes rent earned from tenants under lease arrangements; including, base rent, percentage rents, property tax, and operating cost recoveries and incidental income including lease cancellation payments. The Company retains substantially all of the benefits and risks of ownership of its income producing properties and therefore accounts for leases with its tenants as operating leases.

ii) Certain leases provide for minimum rent increases during the term of the lease. Effective November 1, 2003, in accordance with CICA HB Section 1100, minimum rental income is recorded for the fixed term of each lease on a straight-line basis. Accordingly, a receivable is recorded from tenants for the current difference between the straight-line rent and the rent that is contractually due from the tenant. The amount included in rental income for the year ended October 31, 2004, which had not yet been billed was \$366 thousand (October 31, 2003 - nil).

iii) Investment income includes interest income and amounts received from trusts and partnerships.

e) Amortization

Effective November 1, 2003 the Company prospectively adopted straight-line depreciation. Income producing properties are depreciated over their useful lives, initially 40 years and depreciation was changed prospectively, based on the remaining useful life, on a straight-line basis at that time. Equipment and parking lot improvements are amortized using the declining balance method at a rate of 20% per annum and 8% per annum respectively.

Tenant acquisition costs including tenant improvements, tenant allowances, leasing fees and free rent are capitalized and amortized over the terms of the related leases on a straight-line basis. For financial statement presentation purposes in the consolidated statement of cash flows, tenant acquisition costs are treated as operating activities.

Intangible assets and liabilities in respect to above and below market rents are amortized over the remaining term of the respective leases to revenue. Intangible assets such as the value of in place leases and the value of tenant relationships are amortized over varying periods ranging from the lesser of the lease term and anticipated renewal periods not exceeding the remaining useful life of the related asset.

Financing fees and other costs incurred in connection with debt financing are amortized over the related loan. Other deferred charges are amortized over periods related to their useful life.

f) Income taxes

The Company follows the asset and liability method for tax allocation. Future income taxes are recognized for temporary differences that exist between the tax bases and accounting bases of the Company's assets and liabilities based on income tax rates and income tax laws that have been enacted or substantially enacted and are expected to apply in the periods in which the differences are expected to affect income. The Company recognizes future income taxes when it is more likely than not that the future income taxes will be realized.

g) Financial instruments

Generally, trading values for the Company's financial instruments are not available. In determining estimates of the fair values of the financial instruments, the Company must make assumptions regarding current market rates, considering the term of the instrument and its risk. Current market rates are generally selected from a range of potentially acceptable rates and accordingly, other effective rates and fair values are possible.

The fair value of the Company's financial assets and liabilities that represent net working capital, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable, current income taxes payable and bank indebtedness, approximate their recorded values due to their short-term nature.

The estimated fair value of the Company's long-term debt including mortgages payable, mortgage bonds payable, unsecured debentures, convertible debentures (debt portion), and notes payable is based on the values derived using current interest rates for each related instrument with similar terms and conditions. As at October 31, 2004, the fair value of the Company's long-term debt exceeds the recorded value by \$2.99 million (fair value exceeded recorded value by \$3.38 million at October 31, 2003).

The fair value of the Company's mortgages receivable is equal to its carrying value due to imminent maturity of the instrument and subsequent repayment at the carrying value.

The Company's fair value of the exposure from mortgage guarantees is not readily determinable (Note 17d).

h) Use of estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

i) Stock-based compensation plans

The Company has a stock-based compensation plan, which is described in Note 13. The Company accounts for all stock-based payments that call for settlement by the issuance of equity instruments using the fair value method. Under the fair value based method stock based payments are measured at the fair value of the equity instruments issued. Compensation cost, attributable to awards to employees for settlement by the issuance of equity instruments is measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period.

j) Investment in limited partnerships and trusts

Limited partnerships and trusts are recorded at cost. Amounts received in accordance with the income distribution formula of the entity, if not a capital or financing receipt, are included in investment income.

Plazacorp Retail Properties Ltd.
Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2004 and 2003

k) Cash and cash equivalents

Cash and cash equivalents represent cash in bank accounts and short-term deposits where the deposit could be turned into cash within three months of acquisition.

l) Restatements

i) Change in accounting policy

Effective for fiscal years beginning after November 1, 2004, the Company is required to reclassify convertible debentures previously classed as equity (since the principal amount could be settled in equity) as a liability. The Company chose early adoption of this accounting change effective for the year ended October 31, 2004 with restatement for prior periods. The Company may choose to settle debenture obligations through issuance of shares (see Note 8).

As a result of this change the convertible debenture payable has been increased by \$2,164 thousand, the equity portion of convertible debt has decreased by \$2,150 thousand and retained earnings has decreased by \$14 thousand.

There is no impact on the Company's creditor arrangements as a result of this change in accounting policy.

ii) Reclassification of asset purchase price

During 2000 and 2003 the Company acquired assets directly and indirectly through subsidiaries and through the issuance of shares as well as cash consideration. During the year the Company re-evaluated its allocation of the excess purchase price over the carrying values of the acquired assets resulting in an increase to goodwill in the amount of \$1,450 thousand, an increase to tax recoverable of \$238 thousand and an increase to future income tax liability of \$1,688 thousand. These consolidated financial statements have been restated to reflect assets and liabilities of the assets at fair value at the time of purchase. There is no impact on net income or retained earnings.

3 Income Producing Properties

| (000's) | October 31, 2004 | | | October 31, 2003 | | |
|---------------------------|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Land | \$ 21,220 | \$ - | \$ 21,220 | \$ 14,153 | \$ - | \$ 14,153 |
| Buildings | 90,667 | (11,288) | 79,379 | 81,035 | (9,311) | 71,724 |
| Tenant acquisition | 25,028 | (8,022) | 17,006 | 21,040 | (7,514) | 13,526 |
| Furnishings and equipment | 582 | (360) | 222 | 382 | (288) | 94 |
| Parking lot | 1,500 | (750) | 750 | 1,427 | (640) | 787 |
| Total | \$ 138,997 | \$ (20,420) | \$ 118,577 | \$ 118,037 | \$ (17,753) | \$ 100,284 |

Included in income producing properties is \$11.27 million relating to income producing properties under development (October 31, 2003 - \$2.62 million).

Plazacorp Retail Properties Ltd.
Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2004 and 2003

During the year the Company capitalized \$102 thousand of interest to the cost of buildings (October 31, 2003 – \$11 thousand).

4 Mortgage Receivable

Mortgage receivable consists of a \$0.6 million first mortgage and a \$4.45 million second mortgage both recorded at cost on issuance from Les Promenades du Cuivre, a property owned by Plaza LPC Commercial Trust. The first mortgage bears interest at prime plus 3/4 % and the second mortgage bears interest at 12% per annum. Both mortgages are payable monthly, interest only and were repaid on December 22, 2004 (see note 8). The \$0.6 million first mortgage was assigned as at October 31, 2004 to a chartered bank as security under the Company's acquisition line (see Note 7).

5 Deferred Charges

Deferred charges consist of the following:

| (000's) | October 31, 2004 | | | October 31, 2003 | | |
|--------------------------|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Deferred finance charges | \$ 3,078 | \$ (1,131) | \$ 1,947 | \$ 2,514 | \$ (572) | \$ 1,942 |
| Other deferred charges | 484 | (57) | 427 | 484 | (38) | 446 |
| Total deferred charges | \$ 3,562 | \$ (1,188) | \$ 2,374 | \$ 2,998 | \$ (610) | \$ 2,388 |

6 Intangible Assets and Liabilities

Intangible assets represent the un-amortized costs of acquired above-market tenant leases, value of in-place tenant leases and the value of existing tenant relationships for income producing properties acquired after September 12, 2003 as follows:

| (000's) | October 31, 2004 | | | October 31, 2003 | |
|----------------------------|------------------|--------------------------|----------------|------------------|--|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value | |
| Above market tenant leases | \$ 84 | \$ (17) | \$ 67 | \$ - | |
| Value of in place leases | 1,510 | (429) | 1,081 | - | |
| Tenant relationships | 1,059 | (45) | 1,014 | - | |
| Total intangible assets | \$ 2,653 | \$ (491) | \$ 2,162 | \$ - | |

Plazacorp Retail Properties Ltd.
Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2004 and 2003

Intangible liabilities represent the un-amortized cost of acquired below-market tenant leases for income producing properties acquired after September 12, 2003 as follows:

| (000's) | October 31, 2004 | | | October 31, 2003 | |
|----------------------------|------------------|--------------------------|----------------|------------------|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value | |
| Below market tenant leases | \$ 1,059 | \$ (208) | \$ 851 | \$ | - |

7 Mortgages Payable

Mortgages total \$82.65 million (October 31, 2003 - 74.04 million) and include fixed rate, variable rate and non-interest bearing mortgages. Fixed rates mortgages total \$73.20 million (October 31, 2003 - \$67.22 million), bear interest at rates ranging from 5.29% to 8.46%, and have maturity dates ranging from November 2004 to August 2014. Variable rate mortgages total \$9.14 million (October 31, 2003 - \$6.46 million), bear interest at prime plus $\frac{3}{4}$ % to 1 $\frac{1}{4}$ %. Non-interest bearing mortgages consist of one note in the amount of \$310 thousand and matures on April 1, 2009 (October 31, 2003 - \$360 thousand).

Variable rate mortgages includes short-term construction mortgages from a revolving line of credit which totals \$4.58 million (October 31, 2003 – nil) with the balance of \$4.56 million (October 31, 2003 – \$6.46 million) in conventional short-term variable rate mortgages.

Principal repayments and maturities for all mortgages over the next five years and thereafter are as follows:

| (000's) | | | | |
|------------------------|--------------------------------|-------------------------------|-------|--------|
| Year Ending October 31 | Recurring Principal Repayments | Balance of Mortgages Maturing | Total | |
| 2005 | \$ 1,760 | \$ 13,472 | \$ | 15,232 |
| 2006 | 1,786 | 4,334 | | 6,120 |
| 2007 | 1,819 | - | | 1,819 |
| 2008 | 1,868 | 492 | | 2,360 |
| 2009 | 1,681 | 8,432 | | 10,113 |
| Thereafter | 4,507 | 42,500 | | 47,007 |
| Total | \$ 13,421 | \$ 69,230 | \$ | 82,651 |

Included in mortgages are \$7.36 million of loans that have been refinanced or paid out with \$12.50 million in new financing subsequent to year end. The Company has also successfully negotiated refinancing of \$2.78 million for future refinancing.

The Company's revolving acquisition and development facility is with a Canadian chartered bank in the amount of \$10.0 million and matures April 17, 2006. The facility is limited to a maximum of \$5.0 million per asset funded and further restricted to a 70% loan to value based on the lower of appraised value or cost of the assets pledged. The interest rate on funds drawn is prime plus $\frac{3}{4}$ %, with standby fees of $\frac{3}{4}$ % per annum on the unused facility. As security the Company has pledged Main Street Plaza in Fredericton, NB, Mountain Road Plaza in Moncton, NB, Welton Street Plaza in Sydney, NS, and a first mortgage in the amount of 0.6 million secured against Les Promenades du Cuivre in Rouyn-Noranda , QC.

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The effective weighted average interest rate for the mortgages as at October 31, 2004 is 7.04% (October 31, 2003 – 7.26%). The average term to maturity as at October 31, 2004 is 5.7 years (October 31, 2003 – 6.2 years).

All mortgages are secured by registered charges on the respective land and buildings, together with an assignment of leases, rents and Personal Property Security Act (PPSA) charges.

As part of certain mortgage security agreements, the Company is required to prepay future tenant re-leasing costs and property tax amounts. As of October 31, 2004 the Company had advanced \$143 thousand for tenant leases (October 31, 2003 – \$94 thousand) and \$419 thousand for property tax (October 31, 2003 - \$313 thousand). These amounts are included in prepaid expenses and deposits.

8 Bonds and Debentures Payable

Bonds and debentures payable consist of the following:

| (000's) | Maturity Date | Interest Rate | October 31, 2004 | October 31, 2003 |
|---|----------------------|----------------------|-------------------------|-------------------------|
| Debentures | September 28, 2004 | 11% | \$ - | \$ 5,000 |
| Series 1 Convertible Subordinated Debentures (debt component) | April 30, 2008 | 9.5% | 3,060 | 3,370 |
| Series 2 Convertible Subordinated Debentures (debt component) | October 31, 2008 | 9.5% | 4,638 | - |
| Series 3 Convertible Subordinated Debentures (debt component) | April 30, 2009 | 8.5% | 9,602 | - |
| Total debentures | | | 17,300 | 8,370 |
| Mortgage bonds | June 20, 2008 | 12% | 5,050 | 5,050 |
| Total bonds and debentures | | | \$ 22,350 | \$ 13,420 |

Mortgage bonds payable of \$5.05 million, paying interest at 12% per annum, mature on June 20, 2008 and are secured by a \$ 0.6 million first mortgage on 130 Starrs Rd, Yarmouth, NS (October 31, 2003 - nil) and a \$4.45 million second mortgage on Les Promenades du Cuivre, a property owned by Plaza LPC Commercial Trust (October 31, 2003 - \$5.05 million) (see Note 4).

11% Debentures outstanding, plus accrued interest, were redeemed for cash on September 28, 2004 pursuant to the notice of redemption dated June 30, 2004.

Convertible debenture terms are as follows:

| | Series I | Series II | Series III |
|--|-----------------|------------------|-------------------|
| Conversion price | \$1.00 | \$1.20 | \$1.60 |
| First redemption date | May 1, 2006 | November 1, 2006 | May 1, 2007 |
| Maturity date | April 30, 2008 | October 31, 2008 | April 30, 2009 |
| Face value outstanding, October 31, 2004 | (000's) \$3,150 | \$4,800 | \$10,000 |

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Convertible debentures may only be redeemed during the year immediately following the first redemption date if the share price of the Company exceeds 115% of the conversion price for 20 consecutive trading days ending 5 days preceding the applicable redemption date.

If the convertible debentures are redeemed in shares, the holder will receive shares equal to the principal amount maturing divided by 95% of the then current market price of the common shares.

The value of the option component of the obligations was computed by discounting the payment obligations under the debentures at the assumed rate of debt which would have been payable to subscribers if the debentures contained no right to convert to common shares. This rate of interest was estimated at 150 basis points above the coupon rate on the respective debentures at the date of issue, with the resultant value assigned to the option. The components of the convertible debentures are as follows:

| (000's) | Debt Component | Value of Option to Convert |
|--------------------------------------|-------------------|-------------------------------|
| Series 1 9.5% Convertible Debentures | \$ 3,060 | \$ 130 |
| Series 2 9.5% Convertible Debentures | 4,638 | 198 |
| Series 3 8.5% Convertible Debentures | 9,602 | 450 |
| Total Convertible Debentures | \$ 17,300 | \$ 778 |

9 Notes Payable

Notes Payable consists of the following:

| (000's) | Maturity Date | Interest Rate | October 31, | October 31, |
|---|------------------|----------------------|-----------------|-----------------|
| Les Immeubles Plaza Z Corp and related entities controlled by Michael Zakuta, a Director of the Company | (1) | Prime plus ¾% 10% | \$ 939 - | \$ 1,161 350 |
| NASA Developments, a company controlled by Michael Zakuta, Earl Brewer, Richard Hamm and Paul Leger, all Directors of the Company | (1) | 10% | - | 495 |
| Kilgorie Investments Ltd., a company controlled by Richard Hamm, a Director of the Company | (1) | 10% | - | 350 |
| Unrelated party | December 1, 2006 | 8% | 100 | 100 |
| Non-interest bearing notes: | | | | |
| Various companies owned (directly and indirectly) and controlled by Michael Zakuta, a Director of the Company | (1) | n/a | 361 | 432 |
| Unrelated parties and non-controlling interests | (1) | n/a | 653 | 653 |
| Total notes payable | | | \$ 2,053 | \$ 3,541 |

1) Notes payables are due on sale or refinancing of the property funded through the note.

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10 Bank Indebtedness

Bank indebtedness is payable on demand with rates of interest between prime plus 0.75% and prime plus 1.00% and is unsecured.

The Company has arranged a \$2.8 million revolving line of credit for working capital requirements, with a Canadian chartered bank. The interest rate is prime plus ¾% per annum with a standby fee of ¼% per annum on the unused portion of the facility. As security the Company will pledge the Staples/Business Depot, Saint John, NB and Plaza Hotel de Ville, Riviere du Loup, QC.

11 Income Taxes

The reconciliation of the tax expense deducted in the determination of net income for the period with the tax expense that would have resulted from the application of the statutory rate applicable to the Company are as follows:

| (000's) | | 2004 | 2003 (as restated Note 2-1) |
|--|----|----------------|--|
| For the Years Ended October 31 | | | |
| Taxes at an effective rate of 43.7% (October 31, 2003 – 40.0%) | \$ | 1,254 | \$ 628 |
| Permanent differences due to mutual fund corporation treatment of capital gains | | (1,168) | (24) |
| Other | | (6) | (53) |
| Total income tax expense | \$ | 80 | \$ 551 |

The income tax effects of temporary differences that gave rise to significant portions of future income tax assets and future income tax liabilities are presented below:

| (000's) | | 2004 | 2003 (as restated Note 2-1) |
|--|----|--------------|--|
| For the Years Ended October 31 | | | |
| <u>Future income tax assets</u> | | | |
| Loss carry-forwards of Plazacorp Retail Properties Ltd. | \$ | 1,142 | \$ 991 |
| Loss carry-forwards of subsidiaries | | 168 | 105 |
| Total assets | | 1,310 | 1,096 |
| <u>Future income tax liabilities</u> | | | |
| Income producing properties | | 4,241 | 4,474 |
| Tenant acquisition costs | | 1,222 | 929 |
| Deferred financing costs | | 410 | 362 |
| Deferred income from Trusts, Partnerships and Joint Ventures | | 584 | - |
| Total liabilities | | 6,457 | 5,765 |
| Net future income tax liability | \$ | 5,147 | \$ 4,669 |

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As at October 31, 2004, the Company had income tax loss carry-forwards in the amount of \$2.62 million, expiring as follows:

| (000's) | | |
|---------|----|--------|
| Year | | Amount |
| 2012 | \$ | 2,313 |
| 2013 | | 303 |
| Total | \$ | 2,616 |

The income tax benefit of these losses has been recognized in the financial statements by reducing the future income tax liability arising from the difference between the tax and book values of income producing properties and other assets.

As a mutual fund corporation, the Company is entitled to a refund at a rate of approximately 21% (including federal and provincial portions) of taxes paid in respect of capital gains upon payment of sufficient dividends to affect a refund. The Company recognizes this refund at the time of paying the related dividend. Subsequent to March 22, 2004, the Company declared dividends in the amount of \$2.12 million generating a net capital gains tax refund recoverable of \$132 thousand.

12 Share Capital

a) Authorized

The Company has authorized an unlimited number of preferred shares and an unlimited number of common voting shares.

b) Issued and Outstanding

| (000's) | October 31, 2004 | | October 31, 2003 | |
|---|------------------|-----------|------------------|-----------|
| | Shares | Amounts | Shares | Amounts |
| Common shares outstanding, beginning of year | 30,042 | \$ 15,392 | 29,557 | \$ 15,017 |
| Issuance of common shares: | | | | |
| Shares issued pursuant to asset purchase agreements | 1,418 | 1,418 | - | - |
| Shares issued through exercise of options | 213 | 202 | 433 | 330 |
| Shares issued through dividend reinvestment plan | 98 | 119 | 52 | 45 |
| Shares issued through debt conversion | 517 | 554 | - | - |
| Common shares outstanding, end of year | 32,288 | \$ 17,685 | 30,042 | \$ 15,392 |

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The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) and as such shareholders have the right to redeem their common shares at 90% of the lesser of the Market Price of the share (Market Price is defined as the weighted average trading price of the previous 180 trading days) and the most recent Closing Market Price at the time of the redemption. The redemption price may be satisfied by either cash or a note payable bearing interest at a rate equal to the prescribed rate of interest calculated pursuant to paragraph 4301c of the regulations promulgated under the Income Tax Act (Canada) in effect at the time of its issue and will mature and be fully repaid at the end of two years after issuance. The notes may also be prepaid without penalty. As at October 31, 2004, the shareholders had redeemed no shares under the mutual fund corporation provisions.

6.54 million shares are subject to escrow provisions and hold periods that expire on various dates up to September 2006.

Effective November 1, 2003, the Company recorded the effect of 1.42 million common shares issued at \$1.00 per share pursuant to the original purchase and sale agreements as further consideration in respect of certain past corporate acquisitions contingent upon certain properties achieving specific performance criteria by the end of the 2003 fiscal period. The future tax arising as a result of this transaction in the amount of \$575 thousand has been recorded as an increase to goodwill. The shares have been issued to various vendors of past corporate acquisitions, some of whom are directors of the Company namely, Earl Brewer, and Michael Zakuta (see Note 14 - Related Party Transactions). There are no further contingencies in respect of these transactions.

Except as outlined above, the Company issued no shares (2003 – nil) for acquisitions of properties or shares in subsidiaries during the year ended October 31, 2004.

The Company has a dividend reinvestment plan which enables the Company's shareholders to reinvest their dividends in additional common shares of the Company. Participants in the plan receive a 3% bonus on amounts reinvested to be paid in additional common shares of the Company. Shares purchased under the Plan will be priced at the weighted average closing price of the common shares of the Corporation on the previous 20 trading days. The Company pays all fees relating to the administration of the dividend reinvestment plan. During the year ended October 31, 2004, shareholders were issued 97.7 thousand shares at a weighted average price of \$1.2188 per share.

c) Earnings Per Share

Basic earnings per share are calculated based on the weighted average number of shares outstanding for the period. Diluted earnings per share consider the potential exercise of outstanding stock options, as well as the potential conversion of convertible debentures that have a negative impact to earnings per share. Stock options or convertible debentures that do not reduce earnings per share are anti-dilutive, and are excluded from the dilution per share calculation. Series 2 and 3 convertible debentures totalling \$14.80 million as of October 31, 2004, convertible to 10.25 million shares could potentially dilute future earnings per share, but were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive (October 31, 2003 - series 1 convertible debentures totalling \$3.50 million, convertible to 3.50 million shares were excluded as anti-dilutive). The weighted average number of shares excluded from the diluted earnings per share calculation are 5.80 million (October 31, 2003 – 1.62 million).

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A reconciliation between the weighted average number of shares used to calculate basic and diluted earnings per share is as follows:

| (000's) | | |
|--|-----------------|-------------|
| For the Years Ended October 31 | 2004 | 2003 |
| Weighted average number of shares | 31,702 | 29,928 |
| Effect of shares to be issued on past acquisitions | - | 1,418 |
| Effect of dilutive stock options | 61 | 81 |
| Effect of dilutive debenture conversions | 3,475 | - |
| Weighted average number of diluted shares | 35,238 | 31,427 |
| <hr/> | | |
| Net income, net of income tax | \$ 2,437 | \$ 732 |
| <hr/> | | |
| Diluted net income, net of income tax | \$ 2,648 | \$ 732 |
| <hr/> | | |

13 Stock Options

The Company has a stock option plan whereby directors and certain employees of the Company or its affiliates may be granted stock options at an exercise price not less than 100% of the market value on the date of grant.

On May 14, 2002, the Company received regulatory approval and issued 400 thousand stock options to employees that were granted on August 3, 2001. These options have an exercise price of \$0.75 and are fully vested.

A summary of the remaining common share options outstanding is as follows:

| (000's) | Directors Options | | Employees Options | |
|---------------------------------------|--------------------------|-------------|--------------------------|-------------|
| For the Years Ended October 31 | 2004 | 2003 | 2004 | 2003 |
| Options outstanding, start of period | - | 400 | 367 | 400 |
| Options granted | - | - | - | - |
| Options expired | - | - | (10) | - |
| Options exercised | - | (400) | (213) | (33) |
| Options outstanding, end of period | - | - | 144 | 367 |

Details of the single class of options outstanding are as follows:

(000's) – Except exercise price

| Exercise Price | # of Options | Expiry Date | # of Options Exercisable |
|-----------------------|---------------------|--------------------|---------------------------------|
| \$0.75 | 144 | August 3, 2006 | 144 |

The amount of compensation expensed in current and prior years for options not exercised at the end of the year is \$17 thousand (October 31, 2003 - \$42 thousand). These amounts are accounted for as Contributed Surplus.

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The weighted average fair value of all options vesting during the year was determined on the grant date using the Black-Scholes model with the following assumptions: a 5 year expected life; an 18% expected volatility; and a risk-free rate of return of 5.54%.

14 Related Party Transactions

Plaza Atlantic Limited (the "Property Manager"), a private Corporation wholly owned by some of the Company's directors, namely Earl Brewer, Paul Leger and Michael Zakuta, is engaged to act as the Company's Property Manager. The Property Manager is responsible for all property management functions including leasing, operations and maintenance, and also assists the Company on acquisition, financing, development activities and other management decisions.

The basis of fee payment under the management agreement is as follows:

| | |
|------------------------------|---|
| Property Management | 5% of gross rents paid. |
| Acquisitions | 2% of the purchase price of assets. |
| Dispositions | 1 ½ % of the proceeds of disposition on assets. |
| Leasing Fees | 4% of rental revenue per year for first five years of a lease term. 2% of rental revenue per year for year's six to ten of a lease term. |
| | Leasing fees for renewal are at 50% of the above. |
| Development Fees | 4% of costs of construction on development projects. |
| Construction Management Fees | 10% of tenant improvement costs on non-development projects. |
| Financing Fees | ¾ % of loan amount where no outside broker is involved. ¼ % of loan amount where an outside broker is involved. |
| Legal Services | Cost recovery basis, currently \$130 per hour. |

Fees billed for the year to date by the Property Manager are as follows:

| (000's) | | For the Years Ended October 31, | |
|---|---|---------------------------------|----------|
| Fee Category | Included for Reporting Purposes In | 2004 | 2003 |
| Management fees | Property operating expenses | \$ 1,059 | \$ 875 |
| Leasing fees | Tenant acquisition costs | 696 | 281 |
| Development fees | Income producing properties | 498 | 154 |
| Financing fees | Deferred charges | 46 | 24 |
| Acquisition fees | Income producing properties | 418 | 38 |
| Disposition fees | Gain or loss on sale of property | 242 | - |
| Legal Services | Property acquisition costs and general administrative costs | 109 | - |
| Total fees billed by the Property Manager | | \$ 3,068 | \$ 1,372 |

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The Company has issued 1,417,663 common shares in settlement of an obligation arising from past corporate acquisitions, (see Note 12 – Share Capital). Certain of these shares were issued to related parties as follows:

| Related Party | Shares Issued |
|--|----------------------|
| Company owned and controlled by Earl Brewer, Chairman and Director of the Company | 141,836 |
| Various entities owned directly or indirectly and controlled by Michael Zakuta, Vice President and Director of the Company | 502,999 |
| Total shares issued to related parties | 644,835 |

On May 7, 2004, 166,667 shares were issued to Earl Brewer Chairman and Director of the Company, and a company owned and controlled by Earl Brewer, as a result of converting Series 2 convertible debentures in the amount of \$200 thousand.

The Directors have purchased from the Company at face value, directly or indirectly mortgage bonds and convertible debentures as follows:

| (000's) Related Party As at October 31 | 2004 | 2003 |
|---|-----------------|-----------------|
| Richard Hamm, Director | \$ 865 | \$ 415 |
| Michael Zakuta, Director | 1,899 | 900 |
| Edouard Babineau, Director | 600 | - |
| Willard L'Heureux, Director | 450 | - |
| Earl Brewer, Director | 520 | 100 |
| Paul Leger, Director | 125 | 100 |
| Stephen Johnson, Director | 555 | 400 |
| Total related party mortgage bonds and debentures held | \$ 5,014 | \$ 1,915 |

15 Interest in Joint Ventures

As described in note 1(a), the consolidated financial statements include the Company's proportionate interest in its activities conducted jointly with other parties. The following amounts represent the total proportionate amounts consolidated within these financial statements for these Joint Ventures.

| (000's) As at, for the Years Ended October 31 | 2004 | 2003 |
|--|-------------|-------------|
| Assets | \$ 45,799 | \$ 5,003 |
| Liabilities | 30,864 | 3,802 |
| Rental income | 9,990 | 846 |
| Expenses, including financing costs but excluding amortization | 3,336 | 513 |
| Net income | 3,279 | 189 |
| Funds from (applied to) | | |
| Cash flow from operating activity | 1,264 | 333 |
| Cash flow from financing activity | 6,244 | (111) |
| Cash flow from investing activity | (558) | 1 |

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The mortgage on Lansdowne Place contains cross-default provisions with the mortgages of Nashwaaksis Plaza and Spring Park Plaza. The total outstanding under these two loans is \$3.65 million. Plazacorp indemnifies its co-venturer in respect of the cross default provisions through the co-ownership agreements governing Lansdowne Place, Staples Plaza Dartmouth and Les Promenades St. Francois including cross-default provisions in support of this indemnity.

The Company is contingently liable for certain obligations of a co-venturer. The guarantee provided to the mortgagee of Staples-Granby, is subject to a cross-guarantee provided by the other 50% co-owner for the full amount of the loan. The total exposure on this cross-guarantee is \$862 thousand.

16 Investment in Limited Partnerships and Trusts

The Company has investments in limited partnerships and trusts that are not consolidated within these financial statements:

| (000's) | Centennial Plaza Limited Partnership | Plaza LPC Commercial Trust | MDO Commercial Trust | Northwest Plaza Commercial Trust | Total |
|---|---|---|-------------------------------------|---|-----------------|
| Ownership position | 10% | 10% | 20% | 10% | |
| Preferred return on investment | 10% | 12% | 10% | - | |
| Profit entitlements after payment of preferred return | 20% | 50% | 30% | - | |
| Maximum amount of loan guarantee | - | - | - | - | |
| Additional indemnities | 3,000 | - | - | - | |
| Investment at cost | \$ 550 | \$ 230 | \$ 400 | \$ 170 | \$ 1,350 |

The Company has provided a limited indemnity of up to \$3 million related to certain matters, principally environmental, in relation to a mortgage granted to Centennial Plaza Limited Partnership.

The Company has provided a general guarantee of \$2 million related to a mortgage loan placed on Les Promenades du Cuivre, Rouyn-Noranda, QC on December 22, 2004. This mortgage retired the Company's mortgage receivable from Plaza PLC Commercial Trust.

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17 Contingencies, Commitments and Guarantees

a) Land Leases

The Company has agreements to lease land which expire on dates ranging from 2011 to 2063 with renewal options ranging from 10 years to 60 years. The minimum lease payments for the next five years are as follows:

| (000's) | Annual Payments | | | | |
|---------------------------------|-----------------|----------|----------|----------|----------|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Properties held by Subsidiaries | \$ 559 | \$ 559 | \$ 561 | \$ 567 | \$ 567 |
| Properties held by Plazacorp | 764 | 765 | 765 | 767 | 776 |
| Totals | \$ 1,323 | \$ 1,324 | \$ 1,326 | \$ 1,334 | \$ 1,343 |

b) Letters-of-Credit

The Company's bankers have issued letters-of-credit in support of the Company's obligations under certain long-term mortgages. As at October 31, 2004, \$300 thousand (October 31, 2003 - \$300 thousand) of such letters-of-credit were issued and outstanding. The facility is secured by Personal Property Security Act (PPSA) charges in each province. The facility, under which the letters-of-credit are issued, requires that the Company maintain certain financial ratios to comply with the facility. As at October 31, 2004, the Company was in compliance with these requirements.

c) Developments

The Company's estimated commitments in respect of certain projects under development and non-mortgage long-term obligations are as follows:

| (000's) | 1 Year | 2-3 Years, | 4-5 Years, | After 5 | |
|--------------------------------------|------------------|------------------|------------------|------------------|-------------------|
| Contractual Obligations | 2005 | 2006 to 2007 | 2008 to 2009 | Years | Total |
| Mortgages | \$ 15,232 | \$ 7,940 | \$ 12,472 | \$ 47,007 | \$ 82,651 |
| Bonds and debentures | - | - | 22,350 | - | 22,350 |
| Operating ground leases | 1,323 | 2,650 | 2,677 | 28,927 | 35,577 |
| Development activities | 22,736 | - | - | - | 22,736 |
| Total contractual obligations | \$ 39,291 | \$ 10,590 | \$ 37,499 | \$ 75,934 | \$ 163,314 |

d) Guarantees

The Company continues to guarantee certain debt assumed by purchasers in connection with historical dispositions of properties. These guarantees will remain until the debt is modified, refinanced or extinguished. The Company has recourse under these guarantees in the event of default by the purchaser, in which case the Company would have a claim against the underlying property. The estimated amount of the debt subject to such guarantees at October 31, 2004 is \$8.45 million (October 31, 2003 - Nil) with an estimated weighted average remaining term of 7.9 years.

18 Litigation

Plazacorp is involved in litigation and claims in relation to its income producing properties from time-to-time. In Management's opinion, any liability that may arise from such litigation would not have a significant adverse effect on these financial statements.

19 Risk Management

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

a) Interest Rate Risk

Floating rate debt is generally restricted to the financing of projects under development. Once the construction is complete and the premise substantially leased then the short-term variable rate financing is replaced by long-term fixed rate mortgages. Furthermore the Company also staggers the maturities of its debt, thereby mitigating its exposure to interest rate fluctuations.

For every 100 basis points increase to interest rates, it would increase interest expense and decrease pre-tax earnings in the amount of \$827 thousand, in the long term.

b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The Company also initiates thorough credit assessments on all new leasing.

The Company is also subjected to risk from borrowers defaulting on the repayment of their mortgages. The Company ensures that adequate security is provided to support all mortgage receivables.

20 Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year. Also see Note 1 regarding changes to accounting policy.

21 Subsequent Events

a) On December 1, 2004 the Company acquired a 25% interest in Gateway Mall Sussex, NB through purchase of the shares and loans outstanding from 056158 NB Ltd. for \$288 thousand and the guarantee of \$1.05 million in mortgage debt payable to a Canadian chartered bank.

b) On December 13, 2004 the Company borrowed \$5.00 million in mortgage financing from CREIT secured by second mortgage financing on 201 Chain Lake Drive, Halifax NS and the provisions of cross-default arrangement on the existing co-ownership security agreements with CREIT in respect of 201 Chain Lake Drive and 209 Chain Lake Drive, Halifax, NS.

- c) During December 2004, the Company purchased three parcels of land for development located in Dieppe NB, Antigonish, NS and New Glasgow, NS for total consideration \$3.36 million. In January 2005, the Company committed to the construction of 84,300 square feet of retail space on these three parcels.
- d) The company refinanced six properties subsequent to year end with long-term debt as follows:
- i) FHS Plaza, Fredericton, NB - \$2.18 million for a ten-year-term;
 - ii) Welton Street Plaza, Sydney, NS - \$1.38 million for a ten-year-term;
 - iii) University Plaza, Charlottetown, PEI \$1.40 million for a ten-year-term;
 - iv) Commercial Street Plaza, New Minas, NS - \$1.24 million for a seven-year-term;
 - v) Empire Avenue Plaza, Fredericton, NB - \$0.90 million for a seven-year-term;
 - vi) V8 Plaza, New Glasgow, NS - \$0.40 million for a seven-year-term.
- e) The Company paid out a long-term mortgage on the Staples Plaza property, Saint John, NB in the amount of \$887 thousand.
- f) The Company placed mortgages as security for the 12% First Mortgage Bonds on the Staple's Saint John property in the amount of \$1.0 million and the Madawaska Road Plaza, Grand Falls, NB in the amount of \$600 thousand.
- g) As of January 26, 2005 certain Series 1 and 2 convertible subordinated debenture holders exercised their option to convert their debentures shown as outstanding on October 31, 2004 to common shares of the Company as follows:
- i) \$1.80 million in Series 1 convertible debentures have been converted at \$1.00 per share for 1.80 million common shares. Included in this amount are 715 thousand common shares issued to related parties.
 - ii) \$1.05 million in Series 2 convertible debentures have been converted at \$1.20 per share for 875 thousand common shares.