



PLAZACORP RETAIL  
PROPERTIES LTD.

**QUARTERLY REPORT  
JULY 31, 2004**

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

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR PERIOD ENDED JULY 31, 2004**

**DATED SEPTEMBER 22, 2004**

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## 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 ("Plazacorp") for the three months ended July 31, 2004, April 30, 2004, January 31, 2004, July 31, 2003, April 30, 2003, and January 31, 2003 as well as the years ended October 31, 2003, October 31 2002 and October 31, 2001. 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 release 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 September 22, 2004 and Plazacorp assumes no obligation to update or revise them to reflect new events or circumstances.

Dated: September 22, 2004

## OVERVIEW OF BUSINESS

Plazacorp Retail Properties Ltd. (hereinafter referred to as “Plazacorp” or the “Company”) 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 currently includes interests in 42 properties totaling 2.84 million square feet (ft<sup>2</sup>) and 3 parcels of land in the planning stages of development. These include properties directly held by Plazacorp as well as investments in joint ventures.

On December 11, 2002 after receipt of shareholder and regulatory approval, Plazacorp filed articles of amendment to convert to a mutual fund corporation.

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 July 31, 2004, the Company has acquired properties and property for development in its operating area as follows:

### AS AT JULY 31, 2004

	New Brunswick		Quebec		Nova Scotia		Prince Edward Island		TOTAL	
	Properties	Sq. Ft. (000's)	Properties	Sq. Ft. (000's)	Properties	Sq. Ft. (000's)	Properties	Sq. Ft. (000's)	Properties	Sq. Ft. (000's)
Strip	13	749	8	479	9	659	4	264	34	2,151
Enclosed	2	230	3	385	-	-	-	-	5	615
Single use	1	25	2	51	-	-	-	-	3	76
Land held for development	3	-	-	-	-	-	-	-	3	-
	19	1,004	13	915	9	659	4	264	45	2,842

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July 31, 2004

The Company owns interests in 42 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-Jul-04	Notes
<b><u>Quebec</u></b>						
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	62,593	50%	31,297	82.5%	
Bureau en Gros	Granby, QC	25,695	50%	12,848	100.0%	
Centennial Plaza	Dollard-des-Ormeaux, QC	153,398	10%	15,340	97.2%	2
Plaza Theriault	Rivière-du-Loup, QC	24,380	100%	24,380	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	91.0%	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%	
<b><u>New Brunswick</u></b>						
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	96.1%	
Oromocto Mall	Oromocto, NB	80,499	100%	80,499	90.8%	
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	13,831	100%	13,831	98.1%	3
Connell Road Plaza	Woodstock, NB	19,500	100%	19,500	100.0%	
Northwest Centre	Moncton, NB	178,575	10%	17,858	93.1%	2
681 Mountain Road	Moncton, NB	18,890	100%	18,890	100.0%	1
Boulevard Plaza	Moncton, NB	82,589	100%	82,589	92.5%	1&3
Main Place	Fredericton, NB	31,304	100%	31,304	100.0%	1&3
<b><u>Nova Scotia</u></b>						
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	14,000	100%	14,000	87.1%	1&3
209 Chain Lake Drive	Halifax, NS	77,600	50%	38,800	100.0%	
201 Chain Lake Drive	Halifax, NS	118,498	100%	118,498	85.6%	
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
<b><u>Prince Edward Island</u></b>						
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	81.1%	
Spring Park Plaza	Charlottetown, PEI	51,386	85%	43,678	90.4%	
Total		2,842,135		1,768,777	94.5%	

- Notes:
1. Property is under development – leasing represents committed tenancy upon completion.
  2. Joint venture operating through a 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; and
- disposing, either wholly or partially, of fully developed assets where future returns will be dictated largely by growth in inflation in respect of rental rates and markets rather than intensive management. Capital would be raised in this manner only if it could be deployed to higher growth opportunities.

## **BUSINESS ENVIRONMENT**

During Plazacorp's 2003 fiscal year and the first nine months of 2004, 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 for the balance of 2004 barring an economic downturn.

During 2003 and to date in 2004 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 before amortization adjusted for changes in non-cash balance sheet operating accounts. 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

### SUMMARY OF CURRENT QUARTERLY AND YEAR-TO-DATE INFORMATION

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

(000's) - Except Per Share Amounts	Period Ending July 31, 2004		Period Ending July 31, 2003	
	3 months	9 months	3 months	9 months
<b>Total revenue</b>	\$ 6,172	\$ 18,423	\$ 5,130	\$ 15,244
Basic earnings per share (EPS)	0.001	0.086	0.003	0.016
Diluted earnings per share	0.002	0.071	0.003	0.015
<b>Net income</b>	\$ 26	\$ 2,726	\$ 101	\$ 466
Gain on sale of property	-	(2,544)	(96)	(96)
Provision for income taxes	43	199	227	475
Amortization	1,507	4,101	880	2,528
Non-controlling interest	39	148	57	173
Financing costs	1,844	5,377	1,629	4,872
<b>Earnings before interest, taxes depreciation and amortization (EBITDA)</b>	\$ 3,459	\$ 10,007	\$ 2,798	\$ 8,418
Less:				
Financing costs	(1,844)	(5,377)	(1,629)	(4,872)
Straight-lined rent	(91)	(184)	-	-
Current income taxes	(37)	(113)	(54)	(111)
Amortization-above & below market rents	(51)	(108)	-	-
Equity component of debenture interest	(198)	(470)	(52)	(52)
Non-controlling interest in FFO	(180)	(543)	(183)	(536)
Other non-cash charges (Net)	112	112	-	(66)
<b>Basic Funds from Operations (FFO)</b>	\$ 1,170	\$ 3,324	\$ 880	\$ 2,781
Basic FFO per share	0.037	0.105	0.029	0.093
Basic weighted average shares Outstanding (000's)	31,786	31,615	29,984	29,893
Diluted FFO per share	0.035	0.100	0.028	0.088
Total assets		138,115		106,178
Mortgages payable		84,293		67,865
Bonds and debentures payable		12,387		11,309
Notes payable		1,935		2,304
Bank indebtedness		223		92

Certain comparative figures have been reclassified to conform to the presentation for the current year

NOTES TO SUMMARY OF QUARTERLY AND YEAR TO DATE INFORMATION  
 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.

**Properties Under Development**

PROPERTY	PROPERTY TYPE	Property Status	SQUARE FOOTAGE	OWNERSHIP INTEREST ACQUIRED
Boulevard Plaza, Moncton, NB	Strip Plaza	Under Construction	82,859	100%
681 Mountain Road, Moncton, NB	Strip Plaza	Under Construction	18,890	100%
Welton Street Plaza, Sydney, NS	Strip Plaza	Under Construction	20,975	100%
Main Place, Fredericton, NB	Strip Plaza	Under Construction	31,247	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	100%
Oromocto Mall, Oromocto, NB	Enclosed Mall	Under Re-Development	80,499	100%
Madawaska Road Plaza, Grand Falls, NB	Strip Plaza	Under Construction	9,800	100%
Tri County Mall, Yarmouth, NS	Enclosed Mall	Under Re-Development	56,019	100%

➤ **KEY PERFORMANCE INDICATOR**

Funds from operation were up for the period at 3.7¢ per share (3.5¢ diluted) compared to 2.9¢ per share (2.8¢ 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 net income for the quarter along with new acquisitions and developments contributing to the company's overall FFO.

On March 22, 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 201 Chain Lake Drive (approximately \$4.0 million) which is under development and in two land parcels (approximately \$1.8 million) which are currently being developed.

The impact of the re-investment of these funds for the quarter ended July 31, 2004 was a suppression of FFO of approximately 0.5¢ per share which was outlined in the April 30, 2004 quarterly report. The timing of any increases in funds from operations is expected to occur over the next year with a diminishing impact on FFO over time as assets under development contribute fully to earnings. New acquisitions and assets where development was completed contributed an additional 0.3¢ per share combined with an increase of 0.1¢ per share from miscellaneous sources when compared to the three months ended April 30, 2004.

Several assets under development - Boulevard Plaza, 681 Mountain Rd., Main Street Plaza, Madawaska Rd. Plaza and Welton Street Plaza - did not contribute to earnings during the quarter.

➤ **KEY PERFORMANCE INDICATOR**

During the three month periods ended July 31, 2004, July 31, 2003 and year to date EBITDA and associated liquidity measures were as follows:

(000's)	Q3 2004	YTD 2004	Q3 2003	YTD 2003
<b>EBITDA</b>	\$3,459	\$10,007	\$ 2,798	\$ 8,418
<b>Financing cost</b>	1,844	5,377	1,629	4,872
<b>Equity component of debenture Interest (Before tax)</b>	198	470	52	52
<b>Total interest costs</b>	2,042	5,847	1,681	4,924
<b>Principal mortgage repayments</b>	425	1,191	348	1,047
<b>Total debt service</b>	2,467	7,038	2,029	5,971
<b>Interest coverage ratio</b>	1.7 times	1.7 times	1.7 times	1.7 times
<b>Debt service coverage ratio</b>	1.4 times	1.4 times	1.4 times	1.4 times

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 during 2004 and 2003. Same-asset categorization refers to those properties which were owned and operated by Plazacorp for the 9 months ended July 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.

### 2003 Acquisitions

PROPERTY	PROPERTY TYPE	DATE ACQUIRED	SQUARE FOOTAGE	OWNERSHIP INTEREST ACQUIRED	NATURE OF INTEREST
Empire Plaza, Fredericton, NB	Strip Plaza	Apr-03	13,831	100%	Leasehold
Commercial Street Plaza, New Minas, NS	Strip Plaza	Jun-03	15,332	100%	Leasehold
V-8 Plaza, New Glasgow, NS	Strip Plaza	Sept-03	14,000	100%	Leasehold
Woodstock Plaza, Woodstock, NB	Strip Plaza	Aug-03	19,560	100%	Freehold
Tacoma Centre, Dartmouth, NS	Strip Plaza	Oct-03	165,991	100%	Freehold

### 2004 Acquisitions

PROPERTY	PROPERTY TYPE	DATE ACQUIRED	SQUARE FOOTAGE	OWNERSHIP INTEREST ACQUIRED	NATURE OF INTEREST
Carrefour des Seigneurs, Terrebonne, QC	Strip Plaza	Dec-03	45,000	25%	Freehold Joint Venture
Main Place, Fredericton, NB	Strip Plaza	Dec-03	31,247	100%	Leasehold
209 Chain Lake Drive, Halifax, NS	Strip Plaza	Mar-04	77,600	50%	Freehold Joint Venture
Welton Street Plaza, Sydney, NS	Strip Plaza	Apr-04	20,975	100%	Leasehold
Boulevard Plaza, Moncton, NB	Strip Plaza	Feb-04	82,589	100%	Leasehold
201 Chain Lake Drive, Halifax, NS	Strip Plaza	Apr-04	118,498	100%	Freehold
Tri County Mall, Yarmouth, Nova Scotia	Strip Plaza	Jul-04	56,019	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 in March 2004.

## RENTAL REVENUE

AS AT JULY 31,	2004	2003	Change		YTD	YTD	Change	
	(\$000's)	(\$000's)	(\$000's)	(%)	(\$000's)	(\$000's)	(\$000's)	(%)
Same-Asset Rental Revenue	\$ 4,356	\$4,310	\$ 46	1%	\$14,219	\$13,705	\$ 514	4%
Acquisitions and Exclusions	1,558	562	996	177%	3,394	814	2,580	317%
Property Rental Revenue	\$ 5,914	\$4,872	\$ 1,042	21%	\$17,613	\$14,519	\$ 3,094	21%

Revenues for the three months ended July 31, 2004 increased from \$4.87 million to \$5.91 million representing a 21 % increase over the same period last year, largely as the result of asset growth.

Straight-lined rents and amortization of above and below market rents on property acquisitions represent \$126 thousand of this increase. This growth was 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 \$4.36 million for the three months ended July 31, 2004—from \$4.31 million for the same period last year. For same assets straight-lined rents accounted for \$57 thousand of the increase. This was offset by the reduction in recovery revenue due to reduced operating expenses for the quarter ended July 31, 2004. Certain leases contain cost recovery formulas based on the consumer price index and this may lead to lags in the recovery of costs from period to period. Year to date as at July 31, 2004 the increase in the same asset rental revenue was 4%.

## PROPERTY OPERATING EXPENSES

Total property operating expenses increased 5% to \$1.32 million for the three months ended July 31, 2004 compared to \$1.25 million for the same period last year.

AS AT JULY 31,	2004	2003	CHANGE		YTD	YTD	CHANGE	
	(\$000's)	(\$000's)	(\$000's)	(%)	(\$000's)	(\$000's)	(\$000's)	(%)
Same-asset operating expenses	\$1,040	\$1,119	\$ (79)	(7%)	\$ 3,747	\$3,623	\$ 124	3%
Acquisitions and exclusions	281	134	147	110%	880	191	689	361%
Property operating expense	\$1,321	\$1,253	\$ 68	5%	\$ 4,627	\$3,814	\$ 813	21%

For the same asset class, property operating expenses have decreased by 7% for the three months ending July 31, 2004 compared to the same period in 2003. The decrease was primarily attributable to a reduction in utility costs.

Year-to-date expenses are up slightly above inflation in part due to increased costs associated with maintenance and repairs items for both recoverable and non-recoverable categories as well as weather related events at the properties. This trend (of expense growth exceeding inflation) is not expected to continue. Year to date as at July 31, 2004 the increase in same asset operating expense was 3%.

## REALTY TAX

The realty tax expense increased 15% to \$948 thousand for the three months ended July 31, 2004 from \$822 thousand for the same period last year.

AS AT JULY 31,	2004	2003	CHANGE		YTD	YTD	CHANGE	
	(\$000's)	(\$000's)	(\$000's)	(%)	(\$000's)	(\$000's)	(\$000's)	(%)
Same asset realty taxes	\$ 736	\$ 692	\$ 44	6%	\$ 2,375	\$ 2,249	\$ 126	6%
Acquisitions and exclusions	212	130	82	63%	572	157	415	264%
Total realty taxes	\$ 948	\$ 822	\$ 126	15%	\$ 2,947	\$ 2,406	\$ 541	22%

On a same-asset basis, realty tax expense increased 6% year-over year. This increase results 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 JULY 31,	2004	2003	CHANGE		YTD	YTD	CHANGE	
	(\$000's)	(\$000's)	(\$000's)	(%)	(\$000's)	(\$000's)	(\$000's)	(%)
Operating costs	\$ 1,321	\$ 1,253	\$ 68	5%	\$ 4,627	\$ 3,814	\$ 813	21%
Realty taxes	948	822	126	15%	2,947	2,406	541	22%
Property operating expenses	\$ 2,269	\$ 2,075	\$ 194	9%	\$ 7,574	\$ 6,220	\$ 1,354	22%

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

### ➤ KEY PERFORMANCE INDICATOR

Net operating income for same assets year to date July 31, 2004 has increased by \$264 thousand compared to the same period last year. The increase is due to general rent increases on existing leases and a reduction in operating expenses for the quarter. Straight lined rents accounted for \$122 thousand or 46% of this increase. Certain leases contain cost recovery formulas based on the consumer price index and this may lead to lags in the recovery of costs from period to period which may lead to quarter-to-quarter fluctuations in Net Operating Income. Same asset net operating income increased 3% for both the quarter and year to date compared to the same period in 2003 which is consistent with management's expectations.

### Same Asset Property Net Operating Income

AS AT JULY 31,	2004	2003	CHANGE		YTD	YTD	CHANGE	
	(\$000's)	(\$000's)	(\$000's)	(%)	(\$000's)	(\$000's)	(\$000's)	(%)
Same asset property revenue	\$ 4,356	\$ 4,310	\$ 46	1%	\$ 14,219	\$ 13,705	\$ 514	4%
Same asset property operating expenses	1,776	1,811	(35)	(2%)	6,122	5,872	250	4%
Same asset property net operating income	\$ 2,580	\$ 2,499	\$ 81	3%	\$ 8,097	\$ 7,833	\$ 264	3%

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$338 thousand for the three months ended July 31, 2004 compared to \$156 for the same period last year. Of this increase, \$112 thousand is related to the recording of employee stock options vesting during the period. The remainder of this increase is attributable to increases in corporate insurance, audit fees, general administrative services, and compliance filing fees. At July 31, 2004 the year-to-date general administration expenses increased 22% after adjusting for the stock option compensation. Given the continuously changing disclosure and reporting requirements applicable to public entities like Plazacorp, it is reasonable to conclude these costs will escalate by rates exceeding general inflation.

### INVESTMENT INCOME

Investment income year-to-date as at July 31, 2004 has increased to \$810 thousand from \$725 thousand for the same period in 2003. This increase is consistent with Management's expectation and reflects an increase in income from non-consolidated joint ventures.

### 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 has significantly increased depreciation charges. The Company amortizes leasing commissions and free rent granted for tenant improvements constructed or tenant allowances paid in cash collectively "Tenant acquisition costs" over the term of the respective leases.

During the third quarter of 2004 amortization increased \$627 thousand compared to the third quarter of 2003. The increase was as follows:

AS AT JULY 31,	2004	2003	CHANGE	YTD	YTD	CHANGE
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Same-asset amortization	\$ 888	\$ 768	\$ 120	\$ 2,874	\$ 2,296	\$ 578
Acquisitions and exclusions	619	112	\$ 507	1,227	232	\$ 995
Total amortization	\$ 1,507	\$ 880	\$ 627	\$ 4,101	\$ 2,528	\$ 1,573

Amortization will continue at high levels for the foreseeable future until significant tenant expires occur and the resulting tenant acquisition costs are fully amortized.

### **Gain of Disposition of Property**

There were no dispositions of property during the three months ended July 31, 2004.

On March 22, 2004 Plazacorp sold 50% interests in three properties to Retrocom Mid-Market REIT. The gross proceeds of disposal were \$15.9 million and the cost of the assets sold including disposition costs was \$13.4 million for a gain of \$2.5 million before taxes. The agreement of purchase and sale calls for adjustments to the purchase price subsequent to closing for certain items estimated at closing such that the reported gain may change but this change should not be material. This gain was reported in the quarter ended April 30, 2004.

Disposition of surplus land at Promenades St. Francois during the quarter ended July 31, 2003 resulted in a gain of \$96 thousand.

### **Capital Taxes**

The company records capital taxes based on estimates of the total yearly cost using current tax rates and exemptions. For the nine months ended July 31, 2004 the company and its subsidiaries recorded \$277 thousand in capital taxes compared to \$300 thousand at July 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. Acquisitions or dispositions of assets may cause significant changes in capital tax provisions during a quarter.

### **Income Tax Expense**

The Company records income taxes during quarterly periods based on its estimate for the taxes for the full fiscal year and the impact of timing differences during the year and current quarter. The financial statements include the estimated pro-rated income taxes payable by consolidated subsidiaries based on estimates for the current years. During the nine-months ended July 31, 2004 the estimated income taxes were:

	<u>Nine Months Ended July 31, 2004</u>	<u>Nine Months Ended July 31, 2003</u>
(000's)		
Current taxes	\$ 113	\$ 111
Future taxes	<u>\$ 86</u>	<u>\$ 364</u>
Total	<u>\$ 199</u>	<u>\$ 475</u>

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

### PART III

## LIQUIDITY AND FINANCIAL CONDITION

### LIQUIDITY AND CAPITAL RESOURCES

As outlined in strategy, 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.

### 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 July 31, 2004, the Company had drawn \$0.4 million under the facility and pledged the Main Street Plaza project in Fredericton, N.B. as security. The remaining facility may be drawn subject to standard lending terms. Subsequent to July 31, 2004 and up to September 22, 2004, the company has drawn an additional \$0.6 million under the line. During the quarter the company retired \$1.2 million in the acquisition facility by funding a long term mortgage on the Connell Road project in Woodstock NB in the amount of \$1.6 million. The loan bears interest at 6.229% and has a term of 10 years with an amortization period of 25 years.

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.

Both of these 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 July 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.

### **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.

On March 22, 2004 the Company sold a 50% interest in three properties to Retrocom Mid-Market REIT.

- Les Promenades St. Francois, Laval, Quebec
- Staples Plaza, Dartmouth, Nova Scotia
- Lansdowne Plaza, Saint John, New Brunswick

Each of these properties had undergone significant redevelopment and had entered a stable income and growth period. Management determined that funds from this sale 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 locked in equity in slow growth properties into higher growth activities. The company has no current plans to dispose of properties.

On June 30<sup>th</sup> 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 11% debentures. At July 31, 2004, \$3.3 million of the 11% debentures had been exchanged for Series III debentures and \$.3 million were redeemed. The remaining \$1.4 million in debentures mature September 28, 2004 pursuant to a notice of redemption dated June 30, 2004. The remaining \$5.0 million of debenture proceeds will be used to fund property investments and for general corporate purposes. The offering reduces cash interest costs on the replaced debentures by \$0.13 million per annum. 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**

The Company expects Plaza LPC Commercial Trust to refinance Les Promenades du Cuivre and repay mortgage bond funds, which will then be available for use in new properties or redevelopments. Management is confident that this refinancing will occur before October 31, 2004 but this is not assured. The funds invested in Les Promenades du Cuivre are \$5.05 million. In the interim the Company intends to assign the loan to a chartered bank as security for advances under its acquisition line. Any funds advanced from this refinancing and/or assignment will be secured by mortgage charges in favor of the trustee for the mortgage bonds or held as segregated cash.

## DEBT REPAYMENT SUMMARY

The effective average interest rate for conventional and short-term mortgages is 7.60%. The average term to maturity of the mortgages outstanding is 5.98 years. The average remaining amortization or repayment period on fixed rate mortgage debt is 20.7 years.

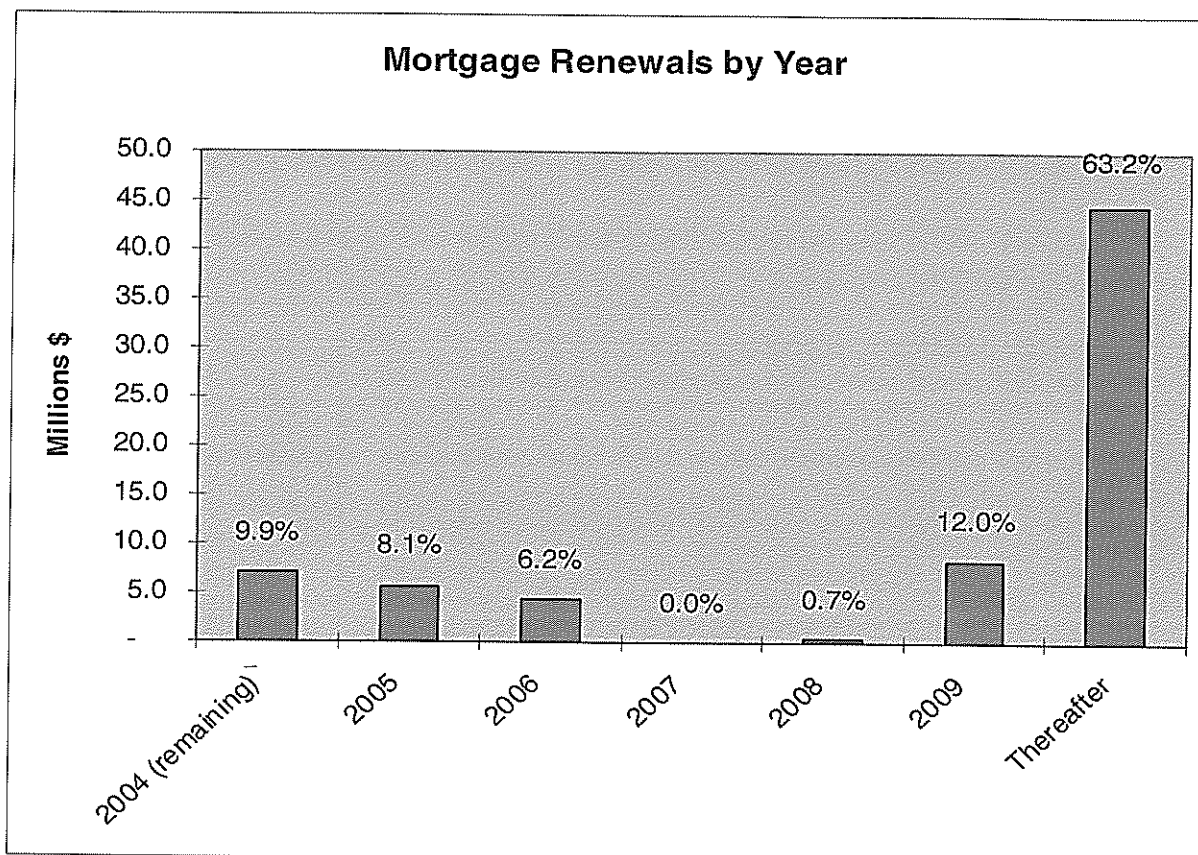
The Company is subject to risk of interest rate fluctuations. The Company minimizes its interest rate risk by ensuring that debt maturities are staggered over a number of years, allowing the Company to minimize the risk of unfavorable interest rate or capital market conditions in any one period.

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)	2004	2005	2006	2007	2008	2009	Thereafter
Periodic amortized principal payments	\$ 453	\$ 1,760	\$ 1,786	\$ 1,819	\$ 1,868	\$ 1,681	\$ 4,508
Mortgage due on maturity	7,003	5,684	4,335	-	492	8,431	44,473
	<u>\$ 7,456</u>	<u>\$ 7,444</u>	<u>\$ 6,121</u>	<u>\$ 1,819</u>	<u>\$ 2,360</u>	<u>\$ 10,112</u>	<u>\$ 48,981</u>
Percentage of total Weighted average interest Rate of mortgages maturing	9.90%	8.10%	6.20%	0.00%	0.70%	12.00%	63.10%
	8.31%	6.53%	6.71%	-	7.30%	6.45%	7.46%

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 96.6% of total mortgage debt.



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

	July 31, 2004	July 31, 2003	Change
Mortgage debt	7.60%	7.50%	0.11%
Bank operating facilities	4.75%	5.67%	-0.92%
Total	7.60%	7.49%	0.11%

➤ **KEY PERFORMANCE INDICATOR**

The weighted average cost of mortgage debt increased to 7.60% for the three month period ended July 31, 2004 from 7.50% for the same period in 2003, and the weighted average term to maturity decreased to 6.0 years from 6.8 years in July 2003. The increase to the weighted average interest rate was due to the funding of long-term debt at Tacoma Center, the replacement of floating rate debt on the acquisition line with fixed rate debt and the assumption of \$10 million in debt at 201 Chain Lake Drive at an average rate of 8.246%. 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 \$15.5 million.

Management believes that Plazacorp has sufficient unused bank line 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)	Total	Payments Due by Period			
		Remaining 2004	1-3 years, 2005 to 2007	4-5 years, 2008 to 2009	After 5 years
<b>Contractual Obligations</b>					
Long-term mortgage debt	\$ 84,293	\$ 7,456	\$ 15,384	\$ 12,472	\$ 48,981
Capital lease obligations	-	-	-	-	-
Bonds & debentures	24,775	1,425	-	23,350	-
Operating ground leases	34,275	199	3,972	2,677	27,427
Development activities	15,474	15,179	295	-	-
Other long-term obligations	-	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 158,817</b>	<b>\$ 24,259</b>	<b>\$ 19,651</b>	<b>\$ 38,499</b>	<b>\$ 76,408</b>

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 July 31, 2004 are as follows:

(000's)	Remaining 2004	2005	Annual Payments			
			2006	2007	2008	2009
<b>Properties held by Subsidiaries</b>	\$93	\$559	\$559	\$561	\$567	\$567
<b>Properties held by Plazacorp</b>	106	764	764	765	767	776
<b>Totals</b>	<b>\$199</b>	<b>\$1,323</b>	<b>\$1,323</b>	<b>\$1,326</b>	<b>\$1,334</b>	<b>\$1,343</b>

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 \$8.5 million.

**PART IV**

**SUMMARY OF QUARTERLY INFORMATION**

August 1, 2002 to July 31, 2004

(000's)	Q3'04	Q2'04	Q1'04	Q4'03	Q3'03	Q2'03	Q1'03	Q4'02
Rental income	\$ 6,172	\$ 6,211	\$ 6,041	\$ 5,534	\$ 5,130	\$ 5,063	\$ 5,050	\$ 5,361
Net Income for the period	26	2,610	90	343	101	150	216	24
Basic earning per share EPS	0.001	0.083	0.003	0.027	0.003	0.005	0.007	0.010
Diluted earnings per share	0.002	0.067	0.003	0.025	0.003	0.0048	0.0069	0.010
Dividends paid	720	678	624	601	600	599	599	591
Dividends per share	0.0225	0.0225	0.02	0.02	0.02	0.02	0.02	0.02
Weighted average shares outstanding	31,786	31,581	31,458	30,028	29,984	29,958	29,738	29,645
Total assets	138,115	131,767	121,128	113,545	106,178	103,478	103,535	105,358
Mortgages payable	84,293	83,315	78,787	74,032	67,865	68,369	68,600	69,001
Bonds and debentures payable	12,387	12,869	13,037	11,256	11,309	10,050	10,050	10,050
Notes payable	1,935	1,957	2,033	3,541	2,304	2,732	2,833	2,962
Bank indebtedness	223	-	-	405	92	252	264	240

## NOTES TO SUMMARY OF QUARTERLY RESULTS TABLE

The real estate assets of the Company have grown from 25 assets at April 30, 2002 to 45 assets at July 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.

## SUMMARY OF ANNUAL INFORMATION

(000's)	2003	2002	2001
Total revenue	\$ 20,874	19,600	16,340
Net income	809	399	1,082
Net income per share – basic	0.027	0.014	0.040
Diluted net income per share	0.025	0.014	0.040
Dividends paid	2,399	591	-
Dividend per share	\$ 0.08	\$ 0.02	\$ -
Weighted average shares outstanding	29,927	29,265	27,015
Total assets	113,545	105,358	98,194
Mortgages payable	74,037	69,001	60,978
Bonds and debentures payable	18,050	10,050	5,050
Notes payable	3,541	2,962	6,535
Bank indebtedness	\$ 405	240	582

### NOTES TO SUMMARY OF YEARLY RESULTS TABLE

The real estate assets of the Company have grown from 13 assets at November 1, 2000 to 35 assets at October 31, 2003.

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 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 perform the procedures listed below. Many of these procedures are subject to estimation and Management judgment.

1. Estimate the value of the building "as if vacant" as of the acquisition date;
2. Allocate that value among land, site improvements and building;
3. Allocate the value of the above and below-market leases to the intangible assets;
4. Calculate the value and associated life of the tenant relationships, if any, by taking the direct identifiable benefits of the tenant relationship and discounting that to its present value; and this amount is recorded as an intangible asset and amortized over the life of the respective tenancy.
5. Estimate the fair value of the tenant improvements and leasing commissions.

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

This estimate is critical insofar as it may impact on the allocation of the purchase price of a purchased asset between land, buildings, tenant improvements, intangible assets and liabilities and thus impact on the corresponding amortization period of the related asset.

## **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 \$2.65 million (2003 – nil).

Changes to the amounts allocated to these balance sheet classifications from April 30, 2004 result from 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 \$1.27 million (2003 – nil).

## REVENUE

Effective February 1, 2004 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 February 1, 2004.

Management has determined the impact to the rental revenue will be as follows:

(000's)	
2004 (9 months)	Increase in rental revenue by \$278
2005	Increase in rental revenue by \$268
2006	Increase in rental revenue by \$133
2007	Increase in rental revenue by \$63
2008	Increase in rental revenue by \$8
2009	Decrease in rental revenue by \$52
2010 & Beyond	Decrease in rental revenue by \$698

During the three months ended July 31, 2004 the impact of straight lining rent was an increase in rental revenue of \$91 thousand.

This projection is revised based on tenancy in place at each quarter end.

## FUTURE CHANGES IN ACCOUNTING POLICY

On November 1, 2004 as required by CICA 3860 the Company will reclassify convertible debentures from substantially an equity classification to substantially a debt classification. The Company has not yet determined the impact of this change in accounting principles on the financial statements. The Company may chose to adopt this recommendation at an earlier date. There is no impact on the Company's creditor arrangements as a result of this change.

## **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 July 31, 2004 Plazacorp held 45 properties 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. However, interest rate spreads over Government of Canada Bonds have tightened over the last nine months. The favorable availability has been offset by increases in bond rates. 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.

Plazacorp has invested in one mortgage and further financing risk arises in the event that the borrower defaults on the repayment of said mortgage to Plazacorp. Plazacorp has endeavored to ensure that adequate security has been provided in support of such mortgage. Currently the mortgage secures an asset with a loan to value ratio of less than 65% based on an appraisal dated December 2003.

## 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 by property type so that exposure to business sectors is lessened.

Currently, no one tenant represents more than 6.6% of total revenues. The top 10 tenants collectively represent approximately 32% of total revenues. Plazacorp's ten largest tenants based upon current monthly gross rent are as follows:

	<b>% of Gross Revenue</b>
1. Dollarama	6.6%
2. Staples Business Depot	5.7%
3. Loblaws	3.5%
4. Marks Work Warehouse	3.4%
5. Reitmans	3.1%
6. Canadian Tire	2.5%
7. Cleve's Sporting Goods	2.1%
8. Shoppers Drug Mart	2.0%
9. Sears and Sears Franchisees	1.8%
10. Bulk Barn	1.7%

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.

	July 31, 2004	October 31, 2003
National	79.5%	74.0%
Regional	6.4%	6.7%
Local & Non Retail	14.1%	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 has completed to date in 2004, 296,590 square feet of new leasing deals at market rates thus increasing our occupied or committed space by 186,992 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 expires, by square footage, for Plazacorp's portfolio from July 31, 2004 to October 31, 2004:

### BALANCE OF 2004 LEASE EXPIRIES BY ASSET CLASS & REGION

Region	Strip Plazas	Enclosed Malls	Single-User	Total
Quebec	2,100	11,010	-	13,110
New Brunswick	6,670	13,849	-	20,519
Nova Scotia	16,323	-	-	16,323
PEI	10,062	-	-	10,062
<b>Total</b>	<b>35,155</b>	<b>24,859</b>	<b>-</b>	<b>60,014</b>

### LEASE ROLL-OVER BY ASSET CLASS

Year	Strip Plazas		Enclosed Malls		Single-User		Total	
	SF	%	SF	%	SF	%	SF	%
2004	35,155	2.0%	24,859	5.9%	-	-	60,014	2.7%
2005	140,834	8.1%	61,869	14.7%	-	-	202,703	9.1%
2006	142,996	8.2%	46,884	11.2%	-	-	189,880	8.5%
2007	138,866	8.0%	103,150	24.5%	-	-	242,016	10.8%
2008	145,727	8.4%	62,959	15.0%	-	-	208,686	9.4%
2009	132,013	7.6%	44,592	10.6%	-	-	176,605	7.9%
Thereafter	910,698	52.7%	53,097	12.6%	76,759	100.0%	1,040,554	46.6%
Vacant	87,824	5.1%	22,899	5.4%	-	-	110,723	5.0%
<b>Sub-total</b>	<b>1,734,113</b>	<b>100.0%</b>	<b>420,309</b>	<b>100.0%</b>	<b>76,759</b>	<b>100.0%</b>	<b>2,231,181</b>	<b>100.0%</b>
Interests In joint ventures	359,789		251,165		-		610,954	
<b>Total</b>	<b>2,093,902</b>		<b>671,474</b>		<b>76,759</b>		<b>2,842,135</b>	

## 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
2004	\$ 11.70	\$ 17.99	\$ -
2005	\$ 14.05	\$ 14.32	\$ -
2006	\$ 13.53	\$ 16.63	\$ -
2007	\$ 14.87	\$ 12.51	\$ -
2008	\$ 14.85	\$ 16.04	\$ -
2009	\$ 17.87	\$ 14.63	\$ -
Thereafter	\$ 14.31	\$ 16.97	\$ 13.79
Total average	\$ 14.46	\$ 15.58	\$ 13.79
Weighted average remaining lease term	7.91 years	3.17 years	10.30 years

On average, Plazacorp's embedded or contractual gross rents expiring in 2004 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 effect of hypothetical changes in occupancy by 100 basis points on net operating income would be approximately \$167 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 95.2% for the three months ended July 31, 2004 compared to 95.6% for the same period last year. The change in occupancy rates is largely 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. Significant portions of this space have been released and management believes that the remaining space can be re-leased at market value in the short term.

Average occupancy in the enclosed malls was 94.7 % as at July 31, 2004 compared to 94.7 % for the same period last year. Occupancy for single user assets remained stable at 100%. The pre-leased space in properties under development is 96.5%.

Overall the portfolio, excluding developments and joint-venture property is 95.1% leased compared to 95.6% in July 2003 and 94.5% leased overall including all property types. 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	31,808,153	\$ 16,947,708
Employees Share Options	246,667	\$ 185,000
Series 1 Convertible Debentures	3,500,000	\$ 3,500,000
Series 2 Convertible Debentures	4,000,000	\$ 4,800,000
Series 3 Convertible Debentures	<u>6,250,000</u>	<u>\$ 10,000,000</u>
Total adjusted shares O/S	45,804,820	\$ 35,432,708

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.

Plazacorp has agreements with individual unit holders as an investor liquidity measures in LPC Commercial Trust (until June 1, 2005) and with units holders of Northwest Centre Commercial Trust (until April 30, 2006) whereby unit holders 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 unit holder 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 regulation would be required prior to making an offer to unit holders 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 handle 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 charged 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. Renewals are charged 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

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

(000's)	2004 YTD Total	2003 YTD Total
Management fees	\$738	\$718
Leasing fees	424	\$263
Development fees	265	\$102
Financing fees	66	-
Acquisition fees	302	\$38
Disposition fees	242	-
<b>Total fees</b>	<b>\$2,037</b>	<b>\$1,121</b>

### SHARE ISSUANCE

In the third quarter of 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 in 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>
	644,835

During the three months ended July 31, 2004, the company issued 166,667 shares to Earl Brewer, a director of the company and a company controlled by him pursuant to the conversion of \$200,000 of Series II Convertible Debentures.

**NOTES PAYABLE TO RELATED PARTIES**

Notes payable as at July 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 have no fixed terms of repayment and are repayable on sale or refinancing of the related asset.
- Interest bearing notes that are advanced from time-to-time to assist in financing property acquisitions and development costs.

(000's)	Maturity Date	Interest Rate	July 31, 2004	October 31, 2003
<b>Interest bearing notes:</b>				
Les Immeubles Plaza Z Corp and related entities controlled by Michael Zakuta, a director of the Company	No set terms	7.5% 10%	799	1,161 350
NASA Developments, a company controlled by Michael Zakuta, Earl Brewer, Richard Hamm and Paul Leger, all directors of the Company	No set terms	10%	-	495
Kilgoire Investments Ltd., a company controlled by Richard Hamm, a director of the Company	No set terms	10%	-	350
<b>Non-Interest bearing notes:</b>				
Various companies owned (directly and indirectly) and controlled by Michael Zakuta, director of the Company	No set terms	N/A	443	612
<b>Total</b>			1,242	2,968

## 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 14 of the July 31, 2004 consolidated financial statements detail the Company's joint venture arrangements.

## OUTLOOK

Year to date 2004 has been an active and successful period for Plazacorp on many fronts. The Company is in a development period and expects to increase its income producing assets significantly over the next year.

The key performance indicators, discussed throughout the MD&A, address how Management measures performance and progress, and how shareholders realize the benefits.

### KEY PERFORMANCE INDICATORS SUMMARY

- OCCUPANCY
  - ⇒Slight decreased year-over-year in strip plazas by 0.4%.
  - ⇒Enclosed malls remained stable.
  - ⇒Single use properties unchanged at 100% occupancy.
  - ⇒Overall occupancy at 94.5% including joint ventures.
  
- SAME-ASSET PROPERTY NET OPERATING INCOME
  - ⇒Increased 3% for current quarter.
  
- WEIGHTED AVERAGE COST OF DEBT
  - ⇒Increase in the weighted average cost of debt of 11 basis points.
  
- FUNDS FROM OPERATIONS
  - ⇒Increased 0.04¢ per share compared to previous quarter.
  
- EBITDA
  - ⇒Improvement of 24% for the quarter compared to same period last year.

The primary benefit to Shareholders is reliable and, over time, increasing dividends. Dividends to shareholders increased 12.5% for 2004 over 2003 and the Company expects to maintain distributions at the current level for the balance of the year.

Plazacorp was faced with numerous challenges during 2003 and 2004. The remainder of 2004 will undoubtedly present 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 2004, 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 Annual Information Form, Material Change reports and all other continuous 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](http://www.sedar.com).


**Plazacorp Retail Properties Ltd.**

**Consolidated Balance Sheet**

As at (000's)	July 31, 2004 (unaudited)	October 31, 2003
<b>Assets</b>		
Income producing properties (Note 2)	\$ 118,752	\$ 100,284
Mortgage receivable (Note 3)	5,050	5,050
Cash and cash equivalents	3,864	1,669
Accounts receivable	1,247	620
Prepaid expenses	2,868	2,184
Deferred charges (Note 4)	2,065	2,388
Intangible assets (Note 5)	2,648	-
Refundable capital gains tax (Note 10)	271	-
Investment in limited partnerships and trusts (Note 15)	1,350	1,350
	<u>\$ 138,115</u>	<u>\$ 113,545</u>
<b>Liabilities</b>		
Mortgages payable (Note 6)	\$ 84,293	\$ 74,036
Bonds and debentures payable (Note 7)	12,387	11,256
Notes payable (Note 8)	1,935	3,541
Bank indebtedness (Note 9)	223	405
Accounts payable and accrued liabilities	3,593	2,328
Dividend payable	716	601
Income taxes payable (Note 10)	639	412
Future income tax liability (Note 10)	3,067	2,981
Intangible liabilities (Note 5)	1,272	-
	<u>108,125</u>	<u>95,560</u>
Non-controlling interest in net assets	9	275
<b>Shareholders' Equity</b>		
Equity portion of convertible debt (Note 7)	12,388	2,294
Share capital (Note 11)	16,948	15,167
Contributed surplus	379	267
Retained earnings (Deficit)	266	(18)
	<u>29,981</u>	<u>17,710</u>
	<u>\$ 138,115</u>	<u>\$ 113,545</u>

*See accompanying notes to the consolidated financial statements*

Approved by the Board:



J. Paul Leger  
Director



Richard Hamm  
Director

<b>Plazacorp Retail Properties Ltd.</b>	<b>nine months</b>	<b>nine months</b>
<b>Consolidated Statement of Retained Earnings and Deficit</b>	<b>ended July 31,</b>	<b>ended July 31,</b>
<b>(000's)</b>	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Retained earnings (Deficit), beginning of period	(18)	1,635
<b>Net income for the period</b>	<b>2,726</b>	<b>466</b>
Equity distribution in respect of convertible debt	(282 )	(31)
Dividends declared during the period	<u>(2,160)</u>	<u>(1,799)</u>
<b>Retained earnings, end of period</b>	<b>\$ 266</b>	<b>\$ 271</b>

*See accompanying notes to the consolidated financial statements*

Plazacorp Retail Properties Ltd. Consolidated Statement of Income	three months ended July 31, 2004 (unaudited)	three months ended July 31, 2003 (unaudited)	nine months ended July 31, 2004 (unaudited)	nine months ended July 31, 2003 (unaudited)
<i>(000's) – Except Per Share Amounts</i>				
Rental revenue	\$ 5,914	\$ 4,872	\$ 17,613	\$ 14,519
Operating expenses	<u>2,269</u>	<u>2,075</u>	<u>7,574</u>	<u>6,220</u>
<b>Net property operating income</b>	<b>3,645</b>	<b>2,797</b>	<b>10,039</b>	<b>8,299</b>
Investment income	<u>258</u>	<u>258</u>	<u>810</u>	<u>725</u>
<b>Income from property and investments</b>	<b>3,903</b>	<b>3,055</b>	<b>10,849</b>	<b>9,024</b>
Financing costs	<u>1,844</u>	<u>1,629</u>	<u>5,377</u>	<u>4,872</u>
<b>Income before undernoted</b>	<b><u>2,059</u></b>	<b><u>1,426</u></b>	<b><u>5,472</u></b>	<b><u>4,152</u></b>
Administrative expenses	338	156	565	306
Amortization & depreciation	1,507	880	4,101	2,528
Capital taxes	<u>106</u>	<u>101</u>	<u>277</u>	<u>300</u>
<b>Income before undernoted</b>	<b>108</b>	<b>289</b>	<b>529</b>	<b>1,018</b>
Gain on disposal of income producing properties	<u>-</u>	<u>96</u>	<u>2,544</u>	<u>96</u>
<b>Income before income taxes and non-controlling interest</b>	<b><u>108</u></b>	<b><u>385</u></b>	<b><u>3,073</u></b>	<b><u>1,114</u></b>
Income tax expense - current	37	54	113	111
- future	<u>6</u>	<u>173</u>	<u>86</u>	<u>364</u>
	<b>43</b>	<b>227</b>	<b>199</b>	<b>475</b>
<b>Income before non-controlling interest</b>	<b>65</b>	<b>158</b>	<b>2,874</b>	<b>639</b>
Non-controlling interest	<u>39</u>	<u>57</u>	<u>148</u>	<u>173</u>
<b>Net income for the period</b>	<b><u>26</u></b>	<b><u>101</u></b>	<b><u>2,726</u></b>	<b><u>466</u></b>
<b>Basic earnings per share</b>	<b><u>\$ 0.001</u></b>	<b><u>\$ 0.003</u></b>	<b><u>\$ 0.086</u></b>	<b><u>\$ 0.016</u></b>
Weighted average number of shares outstanding	<u>31,786</u>	<u>29,984</u>	<u>31,615</u>	<u>29,893</u>
<b>Diluted earnings per share</b>	<b><u>\$ 0.002</u></b>	<b><u>\$ 0.003</u></b>	<b><u>\$ 0.071</u></b>	<b><u>\$ 0.015</u></b>

*See accompanying notes to the consolidated financial statements*

Plazacorp Retail Properties Ltd. Consolidated Statement of Cash Flows	three months ended July 31, 2004 (unaudited)	three months ended July 31, 2003 (unaudited)	nine months ended July 31, 2004 (unaudited)	nine months ended July 31, 2003 (unaudited)
(000's)				
<b>Cash obtained from (used for):</b>				
<b>Net income</b>	\$ 26	\$ 101	\$ 2,726	\$ 466
<b>Operating activities</b>				
Items not affecting cash				
Amortization	1,507	880	4,101	2,528
Gain on disposal	-	(96)	(2,544)	(96)
Stock option compensation	112	-	112	(66)
Non-controlling interest	39	57	148	173
Future income taxes	6	173	86	364
Funds from operations	<u>1,690</u>	<u>1,115</u>	<u>4,629</u>	<u>3,369</u>
Tenant inducements	(180)	(553)	(364)	(720)
Change in non-cash working capital	<u>(209)</u>	<u>721</u>	<u>(89)</u>	<u>(45)</u>
	<u>1,301</u>	<u>1,283</u>	<u>4,176</u>	<u>2,604</u>
<b>Financing activities</b>				
Bank indebtedness	223	(160)	(182)	(147)
Notes receivable	-	(1,400)		(1,400)
Notes payable funded	67	-	121	-
Notes payable repaid	(89)	(428)	(1,726)	(658)
Issue of common shares	222	38	1,698	20
Issue of common shares pursuant to option agreements	8	-	83	98
Distribution in respect of equity portion of convertible debt	(119)	(31)	(282)	(31)
Dividends paid to non-controlling interests	(138)	(123)	(414)	(369)
Dividends paid to shareholders	(720)	(600)	(2,045)	(1,798)
Proceeds from bonds and debentures	10,000	3,500	15,000	3,500
Redemption of bonds and debentures	(3,775)	-	(3,775)	-
Proceeds from mortgage financing and assumptions	1,610	199	16,744	1,341
Mortgage repayments at maturity and assumptions	(207)	(355)	(5,298)	(314)
Mortgage principal repayments	<u>(425)</u>	<u>(348)</u>	<u>(1,191)</u>	<u>(1,038)</u>
	<u>6,657</u>	<u>292</u>	<u>18,733</u>	<u>(796)</u>
<b>Investing activities</b>				
Acquisition, development and redevelopment	(5,983)	(1,758)	(36,939)	(1,947)
Net proceeds from disposition of property	-	565	15,902	5,615
Increase in mortgage receivable	-	-	-	(5,050)
Increase in other assets	172	(157)	323	(418)
	<u>(5,811)</u>	<u>(1,350)</u>	<u>(20,714)</u>	<u>(1,800)</u>
<b>Increase in cash during the period</b>	<b>2,147</b>	<b>225</b>	<b>2,195</b>	<b>8</b>
Cash , beginning of period	<u>1,717</u>	<u>2,212</u>	<u>1,669</u>	<u>2,429</u>
<b>Cash , end of period</b>	<b>\$ 3,864</b>	<b>\$ 2,437</b>	<b>\$ 3,864</b>	<b>\$ 2,437</b>

*See accompanying notes to the consolidated financial statements*

**Plazacorp Retail Properties Ltd.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
SUPPLEMENTAL CASH FLOW DISCLOSURE**

- 1) On December 4, 2003, a 25% interest in Carrefour des Seigneurs, a retail strip plaza located in Terrebonne, Quebec was acquired for \$700 thousand and was paid partially with the placement of a \$525 thousand first mortgage.
- 2) On December 8, 2003, a 50% interest in 209 Chain Lake Drive, a retail strip plaza located in Halifax, Nova Scotia was acquired for \$5.98 million and was partially paid with the placement of a \$4.48 million mortgage.
- 3) On March 12, 2004, 681 Mountain Road, a single use retail building located in Moncton, New Brunswick was acquired at a price of \$1.25 million for cash.
- 4) On March 22, 2004, a 50% interest in each of Woodlawn Staples Plaza, a retail strip plaza located in Dartmouth, Nova Scotia, Les Promenades St-Francois a retail strip plaza located in Laval, Quebec and Lansdowne Place, a retail strip plaza located in Saint John, New Brunswick was sold to Retrocom Mid-Market REIT for proceeds of \$15.9 million and with Retrocom assuming \$10.1 million in mortgage debt.
- 5) On April 14, 2004, 201 Chain Lake Drive, a retail strip plaza located in Bayers Lake Park, Halifax, NS was acquired at a price of \$14.5 million and was paid partially with cash, the assumption of a \$4.04 million first mortgage and placement of a \$6.6 million second mortgage. The holder of the second mortgage, CREIT., has an option to acquire a 50% interest in the property at the Company's cost before April 14, 2005.
- 6) On July 27, 2004, Tri-County Mall, a retail strip plaza located in Yarmouth, Nova Scotia, was acquired at a price of \$2.58 million for cash.
- 7) Cash interest paid including convertible debenture interest during the three months ended July 31, 2004 was \$2.12 million (nine months ended July 31, 2004 was \$5.90 million) (July 31, 2003 – three months ended \$1.79 million, nine months ended \$4.94 million).
- 8) Cash income and capital tax installments paid during the three months ended July 31, 2004 were \$20 thousand (nine months ended July 31, 2004 - \$473 thousand) (July 31, 2003 - three months ended were \$61 thousand, nine months ended \$503 thousand).
- 9)
  - i) Mortgages assumed by the Company on the acquisition of properties totaled \$4.04 million during 2004.
  - ii) Mortgages assumed by purchasers on the disposition of properties total \$10.08 million during 2004.
- 10) On July 27, 2004, the Company placed a \$1.61 million 25 year mortgage at 6.2% on Connell Road Plaza.

## 1. 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:

<u>Entities</u>	Ownership Interest	
	July 31, 2004	October 31, 2003
<b><u>Accounting Method – Consolidation</u></b>		
Exhibition Plaza Inc.	55%	55%
McAllister Drive Plaza Inc.	55%	55%
Centre Commercial Plaza Theriault Inc.	100%	100%
Les Galeries Montmagny (1988) Inc.	50%	50%
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%	10% <sup>(1)</sup>
Commercial Street Plaza Trust	100%	0%
(1) Prior to October 1, 2003, the date of acquisition of 100% of the partnership units, this partnership was reported at cost.		

### **Accounting Method – Proportionate Consolidation**

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%	100% <sup>(1)</sup>
Staples Plaza – Woodlawn, NS	50%	100% <sup>(1)</sup>
Lansdowne Place, NB	50%	100% <sup>(1)</sup>
209 Chain Lake Drive, NS	50%	0%

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

### b) Income producing 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 three month or nine month period ending July 31, 2004 (three month and nine month period ending July 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 will now allocate 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, estimated lease-up costs, the value of above and below market leases; and v) 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.

**c) Properties under development**

Interest incurred while a property is under significant development or redevelopment is capitalized until completion and included in the cost of the property.

**d) Revenue**

i) Rental income includes rent earned from tenants under lease arrangements; including, base rent, percentage rents, property taxes, 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 February 1, 2004, in accordance with CICA 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 three months ended July 31, 2004, which had not yet been billed was \$91 thousand (nine months ended July 31, 2004 - \$184 thousand).

iii) Investment income includes interest income and income 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. The amount related to joint ventures is proportionately consolidated in the financial statements and is included in income producing properties. For financial statement presentation purposes in the consolidated statement of cash flows, tenant improvements and inducements incurred on properties under development and redevelopment are treated as investing activities; those incurred on developed properties 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. Intangible assets related to tenant relationship and related re-leasing costs are amortized over varying period ranging from the lease term and anticipated renewal periods to a period 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 term of permanent financing in place on completion of property development or redevelopment. 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, prepaid expense, 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 market rates for each related instrument with similar terms and conditions. As at July 31, 2004, the fair value of the Company's long-term debt exceeds the recorded value by \$4.21 million (fair value exceeded recorded value by \$3.38 million at October 31, 2003).

The fair value of the Company's mortgage receivable is equal to its carrying value due to imminent maturity of the instrument.

**h) Use of estimates**

The preparation of the Company's financial statements in conformity with GAAP 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**

Stock-based payments and direct awards to non-employees, stock appreciation rights and similar awards to employees that are to be settled in cash or equity instruments, are to be accounted for using the fair value method of accounting.

#### j) Investments 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.

#### 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.

### 2 Income Producing Properties

(000's)	July 31, 2004		October 31, 2003	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 22,216	-	22,216	14,153
Buildings	89,601	(10,352)	79,249	71,131
Tenant acquisition costs -	23,789	(8,119)	15,670	13,526
Furnishings and equipment	572	(314)	258	94
Parking lot improvements	2,039	(680)	1,359	1,380
	<u>\$ 138,217</u>	<u>(19,465)</u>	<u>118,752</u>	<u>100,284</u>

Interest capitalized during the three months ended July 31, 2004 was \$20 thousand (nine months ended \$51 thousand) (July 31, 2003 three month ended \$6 thousand, nine-months ended \$17 thousand).

### 3 Mortgage Receivable

Mortgage receivable consists of a \$5.05 million first mortgage recorded at cost on issuance, on Les Promenades du Cuivre, a property owned by Plaza LPC Commercial Trust. The mortgage bears interest at 12% per annum, payable monthly, interest only and matures on December 31, 2004 (see note 7).

### 4 Deferred Charges

Deferred Charges consist of the following:

(000's)	April 30, 2004		October 31, 2003	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Deferred finance charges	\$ 2,439	\$ (793)	\$ 1,646	\$ 1,942
Other deferred charges	461	(42)	419	446
	<u>\$ 2,900</u>	<u>\$ (835)</u>	<u>2,065</u>	<u>\$ 2,388</u>

## 5 Intangible Assets and Liabilities

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

(000's)	July 31, 2004		October 31, 2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Above market tenant leases	\$ 127	(11)	116	-
Tenant relationships	2,785	(253)	2,532	-
	\$ 2,912	(264)	2,648	-

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

(000's)	July 31, 2004		October 31, 2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Below market tenant leases	\$ 1,391	(119)	1,272	-

## 6 Mortgages Payable

Conventional mortgages total \$84.3 million and include fixed rate mortgages and non interest bearing mortgages recorded at cost on issuance. Fixed rates mortgages total \$81.4 million (October 31, 2003 - \$67.2 million), bear interest at rates ranging from 4.5% to 8.46%, and have maturity dates ranging from October 2004 to July 2014. 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).

Principal repayments and maturities of the above noted conventional mortgages over the next five years and thereafter are as follows:

(000's)	Year ending October 31	Recurring Principal Repayments	Balance of Mortgages Maturing
	2004 (remaining)	\$ 453	\$ 7,003
	2005	1,760	5,684
	2006	1,786	4,335
	2007	1,819	-
	2008	1,868	492
	2009	1,681	8,431
	Thereafter	4,508	44,473
	Total	\$ 13,875	\$ 70,418

Short-term construction mortgages total \$1.41 million (October 31, 2003 - \$6.46 million) and consist of two short-term, floating rate, mortgages bearing interest at the bank's prime lending rate plus 0.75% and maturing on October 31, 2004.

The company has a revolving acquisition and development facility with a Canadian chartered bank in the amount of \$10.0 million. 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 +  $\frac{3}{4}$  %, with standby fees of  $\frac{3}{4}$  % per annum on the unused facility. At July 31, 2004, the company had drawn \$400 thousand under the facility and pledged Main Street Plaza in Fredericton, NB as security.

The effective weighted average interest rate for conventional and short-term construction mortgages as at July 31, 2004 is 7.60% (October 31, 2003 – 7.35%). The average term to maturity as at July 31, 2004 is 6.0 years (October 31, 2003 – 6.7 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.

## 7 Bonds and Debentures Payable

Bonds and debentures payable consist of the following:

(000's)	Maturity Date	Interest Rate	April 30, 2004	October 31, 2003
Mortgage Bonds	June 20, 2008	12%	\$ 5,050	\$ 5,050
Debentures	September 28, 2004	11%	1,425	5,000
Series 1 Convertible Subordinated Debentures (debt component)	April 30, 2008	9.5%	1,039	1,206
Series 2 Convertible Subordinated Debentures (debt component)	October 31, 2008	9.5%	1,579	-
Series 3 Convertible Subordinated Debentures (debt component)	April 30, 2009	8.5%	3,294	-
<b>Total</b>			<b>\$12,387</b>	<b>\$11,256</b>

Mortgage bonds payable of \$5.05 million, paying interest at 12% per annum, mature on June 20, 2008 and are secured by a \$5.05 million first mortgage on Les Promenades du Cuivre, a property owned by Plaza LPC Commercial Trust (October 31, 2003 - \$5.05 million).

Debentures payable of \$1.425 million are unsecured and bear interest at the rate of 11% per annum with principal maturing on September 28, 2004 pursuant to the notice of redemption dated June 30, 2004. On September 21, 2004 the Company paid over to the trustee of these debentures sufficient funds to redeem the amount outstanding plus accrued interest on maturity.

Series 1 Convertible Subordinated Debentures in the amount of \$3.5 million are unsecured, bear interest at 9.5% per annum payable quarterly, will mature on April 30, 2008 and may be converted into Plazacorp common shares at the option of the holder at any time at \$1.00 per share. Plazacorp has the right to redeem the debentures for either cash or common shares any time after May 1, 2006 or on maturity. If the redemption price is satisfied by issuing common 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. Redemption from May 1, 2006 to April 30, 2007 may only occur 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.

Series 2 Convertible Subordinated Debentures in the amount of \$4.8 million are unsecured, bear interest at 9.5% per annum, payable quarterly, mature on October 31, 2008 and may be converted into Plazacorp common shares at the option of the holder at any time at \$1.20 per share. Plazacorp has the right to redeem the debentures for either cash or common shares any time after October 31, 2006 or on maturity. If the redemption price is satisfied by issuing common 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. Redemption from November 31, 2006 to October 31, 2007 may only occur 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. Debentures totalling \$200 thousand in principal were converted to 167 thousand common shares on May 7, 2004 (see notes 11 and 13).

Series 3 Convertible Subordinated Debentures in the amount of \$10 million are unsecured, bear interest at 8.5% per annum, payable quarterly, mature on April 30, 2009 and may be converted into Plazacorp common shares at the option of the holder at any time at \$1.60 per share. Plazacorp has the right to redeem the debentures for either cash or common shares any time after April 30, 2007 or on maturity. If the redemption price is satisfied by issuing common 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. Redemption from April 30, 2007 to April 30, 2008 may only occur 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.

The obligations resulting from these convertible debentures are recorded as an instrument with a debt component and an equity component due to the possibility of their redemption in shares, as follows:

(000's)	Equity Component	Debt Component	Total
Series 1 9.5% Convertible Debentures	\$2,461	\$1,039	\$3,500
Series 2 9.5% Convertible Debentures	3,221	1,579	4,800
Series 3 8.5% Convertible Debentures	6,706	3,294	10,000
<b>Total Convertible Debentures</b>	<b>\$12,388</b>	<b>\$5,912</b>	<b>\$18,300</b>

## 8 Notes Payable

Notes Payable consists of the following:  
(000's)

<b>Interest bearing notes:</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>July 31, 2004</b>	<b>October 31, 2003</b>
Les Immeubles Plaza Z Corp and related entities controlled by Michael Zakuta, a director of the Company	no set terms	7.5%	799	1,161
		10%	-	350
NASA Developments, a company controlled by Michael Zakuta, Earl Brewer, Richard Hamm and Paul Leger, all directors of the company	no set terms	10%	-	495
Kilgorie Investments Ltd., a company controlled by Richard Hamm, a director of the Company	no set terms	10%	-	350
Unrelated parties	December 1, 2006	8%	100	100
<b>Non-interest bearing notes:</b>				
Various companies owned (directly and indirectly) and controlled by Michael Zakuta, director of the Company	no set terms	N/A	443	612
Unrelated parties and non-controlling interest investors	no set terms	N/A	593	473
<b>Total</b>			<u>1,935</u>	<u>3,541</u>

## 9 Bank Indebtedness

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

## 10 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 is as follows:

(000's)	Nine months ended July 31, 2004	Nine months ended July 31, 2003
Taxes at a combined effective rate of 40% (July 31, 2003 – 40%)	\$ 676	\$ 539
Permanent differences due to mutual fund corporation treatment of capital gains and stock option compensation	(464)	(24)
Tax savings from subsidiaries' loss carry forwards And small business deductions	(13)	(40)
	<u>\$ 199</u>	<u>\$ 475</u>

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)	July 31, 2004	October 31, 2003
<u>Future Income Tax Assets</u>		
Loss carry-forwards of Plazacorp Retail Properties Ltd.	\$ 991	991
Loss carry-forwards of subsidiaries	92	105
	<u>1,083</u>	<u>1,096</u>
<u>Future Income Tax Liabilities</u>		
Income producing properties	2,364	2,786
Tenant acquisition costs	1,479	929
Deferred financing costs	307	362
	<u>4,150</u>	<u>4,077</u>
<u>Net Future Tax Liability</u>	<u>\$ 3,067</u>	<u>2,981</u>

As at October 31, 2003, the Company had income tax loss carry-forwards in the amount of \$2.4 million, expiring as follows:

(000's)	Amount
Year	
2008	\$ 60
2009	2,037
2010	303
Total	<u>\$ 2,400</u>

The benefit of these losses has been recognized in the financial statements to offset 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 paid dividends in the amount of \$1.43 million and \$299 thousand has been offset against the capital gains tax refund account.

## 11 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)	July 31, 2004		October 31, 2003	
	Shares	\$'s	Shares	\$'s
Common shares outstanding, beginning of period	30,042	\$15,167	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	110	83	433	105
Shares issued through dividend reinvestment plan	71	80	52	45
Shares issued through debt conversion	167	200	-	-
Common shares outstanding, end of period	31,808	\$16,948	30,042	\$15,167

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 July 31, 2004, the Company had redeemed no shares under the mutual fund corporation provisions.

7.02 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 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 13 - 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 three months ended July 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 will also 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 quarter ended July 31, 2004, shareholders were issued 17 thousand shares at an average price of \$1.28 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. A reconciliation between the weighted average number of shares used to calculate basic and diluted earnings per share is as follows:

(000's)	Three months ended July 31, 2004	Three months ended July 31, 2003	Nine months ended July 31, 2004	Nine months ended July 31, 2003
Weighted average number of shares	31,786	29,984	31,615	29,893
Effect of shares to be issued on past acquisitions	-	1,418	-	1,418
Effect of dilutive stock options	118	57	104	57
Effect of dilutive debenture conversions	9,587	2,994	7,810	998
Weighted average number of diluted shares	41,491	34,453	39,529	32,366

## 12 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 vest in even tranches over the first, second, and third anniversaries of the grant date.

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

(000's)	Directors Options		Employees Options	
	2004	2003	2004	2003
Options outstanding, start of period	-	400	367	400
Options granted	-	-	-	-
Options expired	-	-	(10)	-
Options exercised	-	(400)	(110)	(33)
Options outstanding, end of period	-	-	247	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	247	August 3, 2006	117

The cumulative amount of compensation expense based on application of the CICA recommendation on stock-based compensation is \$379 thousand, including options issued to directors and exercised during prior years and has been charged to contributed surplus for the current period and prior fiscal years.

The weighted average fair value of all options vesting in the period was determined using the Black-Scholes model with the following assumptions: a 2 year expected life; a 17% expected volatility; consideration of current dividends; and a risk-free rate of return of 2.38%. Compensation expense recorded during the three months ended July 31, 2004 was \$112 thousand (nine months ended July 31, 2004 - \$112 thousand; three months ended July 31, 2003 – nil; nine months ended July 31, 2003 – (\$66 thousand) and was included in general and administrative expenses.

### 13 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.

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

(000's)	Charged to	Nine months ended July 31, 2004	Nine months ended July 31, 2003
Management fees	Property operating expenses	\$ 738	\$ 718
Leasing fees	Tenant acquisition costs	424	263
Development fees	Income producing properties	265	102
Financing fees	Deferred charges	66	-
Acquisition fees	Income producing properties	302	38
Disposition fees	Gain or loss on sale of property	242	-
<b>Total</b>		<b>\$ 2,037</b>	<b>\$ 1,121</b>

The Company has issued 1,417,663 common shares in settlement of an obligation arising from past corporate acquisitions, (see Note 11 – 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
<b>Total shares issued to related parties</b>	<b>644,835</b>

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 \$200,000.

#### 14 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 Les Immeubles RSM Inc., University Plaza (SC) Inc., S.E.C. Rimouski Bureau En Gros, Centre Commercial Dufferin (2001) Inc., Carrefour des Seigneurs, 209 Chain Lake Drive, Staples Plaza – Woodlawn, Les Promenades St. Francois and Lansdowne Place:

(000's)	July 31, 2004	October 31, 2003
Assets	\$29,966	\$5,003
Liabilities	20,697	3,802
Rental income	2,239	846
Expenses, including financing costs but excluding amortization	1,291	513
Net income	382	189
Funds from (Applied to)		
Cash flow from operating activity	948	333
Cash flow from investing activity	(586)	1
Cash flow from financing activity	\$6,192	\$(111)

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 \$3.67 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 its 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.

## 15 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) – Except Percentages	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.

## 16 Contingencies, Commitments and Guarantees

### a) 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 July 31, 2004 is \$8.5 million (October 31, 2003 – Nil) with an estimated weighted average remaining term of 8.35 years.

### b) 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)	Remaining		Annual Payments			
	2004	2005	2006	2007	2008	2009
Properties held by Subsidiaries	\$93	\$559	\$559	\$561	\$567	\$567
Properties held by Plazacorp	106	764	764	765	767	776
<b>Totals</b>	<b>\$199</b>	<b>\$1,323</b>	<b>\$1,323</b>	<b>\$1,326</b>	<b>\$1,334</b>	<b>\$1,343</b>

### c) 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 July 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 July 31, 2004, the Company was in compliance with these requirements.

### d) Developments

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

(000's)	Payments Due by Period				
	Total	Remaining 2004	1-3 years, 2005 to 2007	4-5 years, 2008 to 2009	After 5 years
<b>Contractual Obligations</b>					
Capital lease obligations	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds and debentures	24,775	1,425	-	23,350	-
Operating ground leases	34,275	199	3,972	2,677	27,427
Development activities	15,474	15,179	295	-	-
Other long-term obligations	-	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$ 74,524</b>	<b>\$ 16,803</b>	<b>\$ 4,267</b>	<b>\$ 26,027</b>	<b>\$ 27,427</b>

### 17 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.

### 18 Comparative amounts

Certain comparative figures have been reclassified to conform to the presentation for the current year.

### 19 Auditor Review

The Company's auditor has not reviewed these interim consolidated financial statements.