Financial Statements

Gulf & Pacific Equities Corp.

For the Years Ended December 31, 2008 and 2007

INDEX

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AUDITORS' REPORT

To the Shareholders of
Gulf & Pacific Equities Corp.

We have audited the balance sheets of **Gulf & Pacific Equities Corp.** as at **December 31, 2008 and 2007** and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at **December 31, 2008 and 2007** and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

March 31, 2009
Toronto, Ontario

Gulf & Pacific Equities Corp.

Balance Sheets
As at December 31

	2008	2007
Assets		
Revenue-producing properties (note 4)	$ 28,161,437	$ 28,570,431
Cash	10,262	191,544
Intangible assets (note 5)	529,316	675,438
Prepaid expenses (note 18)	387,815	75,363
Accounts receivable	42,477	376,792
Accrued rent receivable	279,555	226,270
	$ 29,410,862	$ 30,115,838
Liabilities		
Mortgages payable (note 6)	$ 22,776,695	$ 23,189,762
Convertible debentures (note 7)	2,470,521	2,495,704
Purchase price payable (note 9)	658,776	658,776
Loans payable (note 8)	1,000,000	1,000,000
Intangible liabilities (note 10)	594,708	753,307
Accounts payable and accrued liabilities	793,169	766,594
	28,293,869	28,864,143
Commitments (note 11)		
Subsequent Events (note 19)		
Shareholders' Equity		
Share Capital (note 12)	2,816,462	2,749,312
Equity Component of Convertible Debentures (note 7)	974,343	1,059,883
Contributed Surplus (note 13)	1,337,809	838,609
Deficit	(4,011,621)	(3,396,109)
	1,116,993	1,251,695
	$ 29,410,862	$ 30,115,838

The accompanying notes form an integral part of these financial statements

Approved on behalf of the Board

(Signed) "Anthony Cohen", Director (Signed) "Greg K.W. Wong" , Director

Gulf & Pacific Equities Corp.

Statements of Operations Comprehensive Loss and Deficit
For the Years Ended December 31

	2008	2007
Revenue		
Rental	$ 3,094,059	$ 3,237,451
Common area and realty tax recoveries	1,290,286	1,241,839
Interest and other	4,216	10,715
	4,388,561	4,490,005
Expenses		
Interest	1,966,499	2,117,667
Operating costs and realty taxes	1,573,204	1,459,276
Administration	745,212	654,013
Amortization	563,293	567,672
Loss on extinguishment of convertible debentures	155,865	-
Stock-based compensation (note 12)	-	77,204
	5,004,073	4,875,832
Net Loss and Comprehensive Loss	(615,512)	(385,827)
Deficit - Beginning of Year	(3,396,109)	(2,995,768)
Debt Settlement Costs (note 12)	-	(14,514)
Deficit - End of Year	$ (4,011,621)	$ (3,396,109)
Loss per Share - Basic and Diluted (note 1(k))	$ (0.07)	$ (0.05)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted (note 1(k))	8,749,342	8,346,715

The accompanying notes form an integral part of these financial statements

Gulf & Pacific Equities Corp.

Cash Flow Statements
For the Years Ended December 31

	2008	2007
Cash Provided By (Used In):		
Operating Activities		
Net loss	$ (615,512)	$ (385,827)
Add (deduct) items not affecting cash:		
Accretion of discount on convertible debentures	217,316	245,116
Amortization of deferred financing costs	119,781	179,753
Amortization of revenue-producing properties	575,770	594,284
Amortization of capital assets	-	1,679
Debt settlement expense	-	14,226
Amortization of intangible assets	146,122	158,366
Amortization of intangible liabilities	(158,599)	(186,659)
Loss on extinguishment of convertible debentures	155,865	-
Stock-based compensation (note 12)	-	77,204
	440,743	698,142
Changes in non-cash balances related to operations:		
Prepaid expenses	(72,452)	(15,826)
Accounts receivable	334,315	(239,211)
Accounts payable and accrued liabilities	26,575	232,077
Accrued rent receivable	(53,285)	(131,914)
	675,896	543,268
Financing Activities		
Repayment of mortgages payable	(722,802)	(442,718)
Repayment of convertible debentures	-	(3,000)
Deferred financing and leasing costs	-	(19,500)
Shares issued on exercise of options	32,400	-
	(690,402)	(465,218)
Investing Activities		
Additions to revenue-producing properties	(166,776)	(8,246)
Increase (Decrease) in Cash	(181,282)	69,804
Cash - beginning of year	191,544	121,740
Cash - end of year	$ 10,262	$ 191,544
Supplemental Cash Flow Information		
Interest paid	$ 1,683,371	$ 1,675,445

The accompanying notes form an integral part of these financial statements

Gulf & Pacific Equities Corp. ("the Company") was incorporated under the Business Corporations Act (Alberta) on April 8, 1998 and on June 17, 1998 filed Articles of Amendment to remove certain private corporation restrictions. The Company is listed on the TSX Venture Exchange as "TSX-V: GUF". The Company commenced active operations during the 1999 fiscal year. The Company owns and operates commercial rental properties in Western Canada.

1. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) Revenue-producing properties and intangible assets/liabilities

Revenue-producing properties are stated at cost. Amortization is provided over the estimated useful lives of the assets using the declining balance method at the following annual rates:

Asset	Rate
Building	2%
Paving	8%

Upon acquisition of revenue producing properties, the Company allocates the purchase price to the components of the revenue producing properties acquired: the amounts allocated to land and building are based on their estimated fair values; above- and below-market in-place operating leases are determined based on the present value of the difference between the rents payable under the contractual terms of the leases and estimated market rents; lease origination costs for in-place operating leases are determined based on the estimated costs that would be incurred to put the existing leases in place under the same terms and conditions; tenant relationships are measured based on the present value of the estimated avoided costs if a tenant were to renew its lease at expiry, discounted by the probability of such renewal. Above- and below-market in-place operating leases and lease origination costs are amortized on a straight-line basis over the remaining terms of the leases. The value associated with acquired tenant relationships is amortized on a straight-line basis over the expected term of the relationships.

b) Deferred financing and leasing costs

Financing fees incurred in connection with long-term debt financing are included with the related debt and are amortized using the effective interest rate basis. Leasing costs are deferred and amortized on a straight-line basis over the term of the related lease. Amortization is included in administration expense for the year.

1. Summary of Significant Accounting Policies (continued)

c) Impairment of long lived assets

Long-lived assets include revenue-producing properties and intangible assets. The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount might not be recoverable. If the sum of the undiscounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

d) Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in the statement of operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses, included in the statement of comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

Cash	Held for trading
Accounts receivable	Loans and receivables
Accrued rent receivable	Loans and receivables
Mortgages payable	Other liabilities
Convertible debentures	Other liabilities
Purchase price payable	Other liabilities
Loans payable	Other liabilities
Accounts payable and accrued liabilities	Other liabilities

Financial instruments with substantive characteristics of both a financial liability and equity instrument are accounted for using the split accounting method to provide separate classification of the liability and equity elements. The initial liability balance recognized is less than the cash required to be repaid at maturity. Therefore, the liability balance is accreted over the term of the debt. The accretion represents the amortization of the debt discount net of actual interest paid. The accretion of the original debt discount is charged to interest expense over the term of the debt.

1. Summary of Significant Accounting Policies (continued)

e) Stock-based compensation

The Company has a stock-based compensation plan. The Company accounts for all stock-based payments to employees and non-employees using the fair value based method.

Under the fair value based method, stock-based payments are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The Company uses a Black-Scholes option pricing model to determine fair value. The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Any consideration paid by the directors and officers on exercise of stock options and a proportionate share of contributed surplus is credited to capital stock.

f) Issue costs

The Company accounts for costs related to issuing equity as a charge against retained earnings (deficit) in the period incurred.

g) Revenue recognition

The Company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

The Company uses the straight-line method of recognizing rental revenue whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is charged to accrued rent receivable.

Common area and realty tax recoveries are taken into income monthly based on estimated recoveries for the year and reconciled to actual on an annual basis. Interest and other income is recognized on an accrual basis.

h) Income taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and tax loss carryforwards, and are measured using the enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the beginning and ending balances of the future income tax assets and liabilities.

1. Summary of Significant Accounting Policies (continued)

i) Statement of cash flows

The Company has adopted the indirect method of reporting cash flows, under which the net cash flow from operations is reported by adjusting net earnings for the effects of non-cash items and net changes in non-cash balances related to operations.

j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. The significant areas of estimation include impairment of assets, useful lives of assets to calculate amortization, measurement of stock-based compensation, bifurcation of convertible debentures and fair values of financial instruments.

k) Loss per share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated on the weighted average number of common shares outstanding increased to include potentially issuable common shares from the assumed exercise of common share purchase options, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options. As the Company had a loss in each of the two years presented, basic and diluted loss per share are the same, as the exercise of all options would be anti-dilutive.

2. New Accounting Policies

a) Capital disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 - Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures addressing this standard are included in note 15.

b) Financial instruments disclosures and presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862 - Financial Instruments – Disclosures, and Handbook Section 3863 - Financial Instruments - Presentation. These sections require the Company to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments to its financial position and performance, the nature and extent of risks arising from such financial instruments and how it manages those risks, as well as additional details on financial asset and liability categories. Disclosures addressing this standard are included in note 14.

2. New Accounting Policies (continued)

c) General Standards of Financial Statement Presentation

Effective January 1, 2008, CICA Handbook Section 1400 was amended to require management to make an assessment of an entity's ability to continue as a going concern. Management has made this assessment on the basis of projected cash flows and concluded that there are currently no material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

3. Future Accounting Changes

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("ASB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed that January 1, 2011 would be the effective date of the initial adoption of IFRS. The Company is required to have an IFRS transition plan in place and begin implementation before the end of 2009 to ensure the opening balance sheet is translated to IFRS and dual accounting systems can record transactions over 2010 on both a Canadian GAAP and IFRS basis. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

Goodwill and Intangible Assets

The CICA issued a new accounting standard, Handbook Section 3064 - Goodwill and Intangible Assets, and made amendments to Handbook Section 1000 - Financial Statement Concepts. Section 3064 will replace Handbook Section 3062 - Goodwill and Other Intangible Assets and Handbook Section 3450 - Research and Development Costs. The objectives of these amendments and new section are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

Costs that do not meet the definition and recognition criteria for assets must be expensed as incurred. Certain costs that meet the definition of an asset will be capitalized. This new standard and corresponding amendments will be effective for the Company in the first quarter of 2009 and will be applied retroactively with restatement of the comparative period. The Company is currently in the process of evaluating the potential impact of this standard and amendments on its financial statements.

4. Revenue Producing Properties

a) 2008

	Cost	Accumulated amortization	Net book Value
Land	$ 4,116,501	$ -	$ 4,116,501
Building	24,821,790	2,095,313	22,726,477
Paving	1,748,946	430,487	1,318,459
	$ 30,687,237	$ 2,525,800	$ 28,161,437

4. Revenue Producing Properties (continued)

b) 2007

	Cost	Accumulated amortization	Net book Value
Land	$ 4,116,501	$ -	$ 4,116,501
Building	24,655,013	1,634,191	23,020,822
Paving	1,748,946	315,838	1,433,108
	$ 30,520,460	$ 1,950,029	$ 28,570,431

5. Intangible Assets

Intangible assets are lease origination costs, tenant relationships and above-market leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible assets is as follows:

	2008	2007
Intangible assets		
Lease origination costs	$ 54,173	$ 54,173
Tenant relationships	24,415	24,415
Above-market rate leases	769,578	769,578
	848,166	848,166
Less accumulated amortization		
Lease origination costs	(23,933)	(14,238)
Tenant relationships	(12,121)	(7,689)
Above-market rate leases	(282,796)	(150,801)
	$ 529,316	$ 675,438

6. Mortgages Payable

	2008	2007
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of $4,310, due March 2012	$ 150,443	$ 190,454
Mortgage payable, bearing interest at 7.05%, repayable monthly in blended principal and interest payments of $1,544, due January 2010	177,670	183,629
Vendor take back mortgage bearing interest at 8.5%, monthly payments of interest only, due January 2009	1,500,000	1,500,000
Mortgage payable, bearing interest at 5.32%, repayable monthly in blended principal and interest payments of $53,996, due January 2012	8,649,156	8,836,606
Mortgage payable, bearing interest at 15.00%, monthly payments of interest only due December 2008 (note 19)	1,000,000	1,000,000
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of $24,300, due October 2011	3,825,669	3,908,656
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of $48,506, due October 2013	7,650,414	7,816,810
	22,953,353	23,436,155
Unamortized mortgage financing costs	(176,657)	(246,393)
	$ 22,776,695	$ 23,189,762

The mortgages are secured by a general security agreement, the underlying revenue-producing properties, an assignment of rents and an assignment of fire insurance. The vendor take back mortgage and $1,000,000 mortgage at 15.00% are subordinated to the other mortgages payable.

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization (see note 1(b)).

6. Mortgages Payable (continued)

Principal repayments required under the terms of the mortgages after giving effect to the subsequent refinancing (note 19) are approximately as follows:

2009	$ 749,328
2010	2,110,468
2011	4,193,416
2012	9,012,072
2013	6,888,069
	$ 22,953,353

7. Convertible Debentures

	December 31, 2008		December 31, 2007	
	Face Value	Carrying amount	Face value	Carrying amount
8% debentures	$ 2,956,250	$ 2,514,634	$ 2,960,000	$ 2,589,863
Unamortized deferred financing costs	-	(44,114)	-	(94,159)
	$ 2,956,250	$ 2,470,521	$ 2,960,000	$ 2,495,704

The face value of the convertible debentures consists of the following:

(i) $896,250 of the convertible debentures bear interest at 8%, mature September 1, 2013 and are unsecured. On August 29, 2008, the holders of the convertible debentures which were due on September 1, 2008, agreed to a five year extension of the debentures with the new due date being September 1, 2013. These debentures can be converted by the holder into common shares of the Company at one common share for each $0.40 principal amount of debentures. Management has determined that the extension of the existing convertible debenture resulted in substance in the extinguishment and refinancing of debt in accordance with the Emerging Issues Committee Abstract - EIC 88 "Debtor's Accounting for a Modification or Exchange of Debt Instruments".

As a result, the fair value of the debt component of the new debenture was determined to be $611,205 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be $444,660. The difference of $155,865, between the fair value of the convertible debentures of $1,055,865 and the carrying value of the original convertible debentures of $900,000, was expensed as a non-recurrent loss on extinguishment of debt.

Consequently, the original allocation of $528,000 to the equity component was transferred to contributed surplus.

7. Convertible Debentures (continued)

(ii) $2,060,000 of the convertible debentures bear interest at 8%, mature November 18, 2009 and are unsecured. The debentures can be converted by the holder into common shares of the Company at one common share for each $0.315 principal amount of debentures. The Company has the option to redeem the debentures at any time prior to maturity for the aggregate of the face value of the debentures plus earned interest. The Company has the right to force early conversion of the debentures in the event that the common shares of Corporation trade for a period of five consecutive days (a "Trading Period") at a price equal to or above the following price and the cumulative trading volume of the common shares of the Company during this Trading Period represents not less than 5% of Corporation's issued and outstanding common shares: $0.60 per common share at any time during the two year period from the closing date. These convertible debentures were issued on November 18, 2004 in connection with a private placement. The Company issued 2,300 units at $1,000 per unit. Each unit consisted of an unsecured convertible debenture in the amount of $1,000 and 1,500 common share purchase warrants.

8. Loans Payable

During 2006, the Corporation entered into an unsecured loan agreement for $500,000 with a related corporation, bearing interest at 6.0% with monthly payments of interest only, due November 2007. The companies are related since they have the same President.

During 2006 the Corporation entered into an unsecured loan agreement for $500,000 with another related corporation, bearing interest at 6.0% with monthly payments of interest only, due November 2007. The companies are related since they have directors in common.

During 2007, the maturity dates of the loans were extended to November 2008.

During 2008, the maturity dates of the loans were extended to November 2009.

Interest expense on the loans during the year amounted to $60,000. At December 31, 2008, interest of $5,000 (2007 - $5,000) is unpaid and is included in accounts payable and accrued liabilities.

9. Purchase Price Payable

In December 2006, the Company acquired the Tri-City Mall in Cold Lake, Alberta and agreed to pay an additional $658,776 if and when the property became fully leased at any time up to December 31, 2021. Since the Company expects to fully lease the property by this time, the obligation has been fully provided for and was added to the cost of the acquisition. As at December 31, 2008, the property was 95% leased.

10. Intangible Liabilities

Included in intangible liabilities are below-market tenant leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible liabilities is as follows:

	2008	2007
Intangible liabilities		
Below-market leases	$ 957,439	$ 957,439
Less accumulated amortization		
Below-market leases	(362,731)	(204,132)
	$ 594,708	$ 753,307

11. Commitments

Minimum annual lease payments required under an operating lease are approximately as follows:

2009	$ 33,015
2010	33,228
2011	34,293
2012	36,636
2013	6,177
	$ 143,349

12. Share Capital

a) Authorized and issued

Authorized without limit as to number -

Preference shares
Common shares

Issued and fully paid:

Common shares	**Number**	**Amount**
Balance - December 31, 2006	8,093,735	$ 2,497,645
Issued for: conversion of debentures	578,568	251,667
Balance - December 31, 2007	8,672,303	2,749,312
Issued for: conversion of debentures	9,375	5,950
exercise of options	180,000	61,200
Balance - December 31, 2008	8,861,678	$ 2,816,462

12. Share Capital (continued)

a) Authorized and issued (continued)

During the year ended December 31, 2008, the Company issued 9,375 common shares pursuant to the conversion of $3,750 debentures. The carrying value of the liability component and equity component of the debentures of $3,750 and $2,200 respectively has been allocated to the common shares.

During the year, the Company issued 180,000 common shares at a price of $0.18 per share, for gross proceeds of $32,400 upon exercise of options by directors and officers of the Company under its stock option plan. An amount of $28,800 has been moved from contributed surplus representing the non-cash cost transfer.

During the year ended December 31, 2007, the Company issued 578,568 common shares pursuant to the conversion of $207,000 debentures. The carrying value of the liability component and equity component of the debentures of $181,563 and $36,810 respectively, plus accrued interest of $4,554 forfeited, and the fair value of the incremental number of shares issued due to the early conversion of $28,740 has been allocated to the common shares. Debt settlement costs of the equity component of $14,514 have been charged to retained earnings.

On March 11, 2008, the Company announced its intention to make a normal course issuer bid (the "Bid") for up to 546,051 of its common shares, representing 10% of the Company's public float.

The Bid commenced on March 10, 2008 and continued until March 9, 2009, at which time it was renewed until March 9, 2010. The Bid will continue until the earlier of March 9, 2010 and the date by which the Company has acquired the maximum 546,051 shares which may be purchased under the Bid. The Bid will be made through the facilities of the TSX Venture Exchange and the purchase and payment for the securities will be made in accordance with the Exchange requirements at the market price of the shares at the time of acquisition. All units purchased by the Company under the Bid will be cancelled.

As at December 31, 2008, no shares have been purchased under the normal course issuer bid.

b) Stock-based compensation

The Stock Option Plan reserves a maximum of 10% of the issued and outstanding shares of the Company (determined at the time of the stock option grant) for issuance upon the exercise of stock options granted pursuant to the Stock Option Plan. Stock options granted have a term that does not exceed 5 years and the exercise prices and vesting provisions are determined by the board of directors.

A summary of the status of the Company’s Plan as at December 31, 2008 and 2007 and the changes during the years are presented below:

12. Share Capital (continued)

b) Stock-based compensation (continued)

	2008		2007	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of year	824,000	$ 0.276	750,000	$ 0.275
Granted	-		364,000	0.300
Exercised	(180,000)	0.180	-	
Expired/cancelled	-		(290,000)	0.305
Outstanding, end of year	644,000	$ 0.302	824,000	$ 0.276
Exercisable, end of year	644,000	$ 0.302	824,000	$ 0.276

At December 31, 2008, 644,000 options which had been granted to certain directors, officers, employees and consultants to purchase common shares of the Company subject to various requirements were outstanding as follows:

Outstanding	Exercisable	Year of grant	Exercise price per option	Expiry date
150,000	150,000	2005	$ 0.305	June 1, 2010
130,000	130,000	2006	$ 0.305	June 9, 2011
364,000	364,000	2007	$ 0.300	April 26, 2012
644,000	644,000			

During the year ended December 31, 2008, the Company did not issue any options.

During the year ended December 31, 2007, the Company granted 364,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Company's common stock at a price of $0.30 per share until April 26, 2012. The estimated fair value of $77,204 has been recorded as stock-based compensation. The following assumptions were used in the Black-Scholes pricing model:

Expected dividend paid	Nil
Risk-free interest rate`	4.14%
Expected life	5.0 years
Expected volatility	88%

The weighted average grant-date fair value of options granted in 2007 was $0.212.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

13. Contributed Surplus

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants. The changes during 2008 and 2007 are as follows:

	2008	2007
Balance - beginning of year	$ 838,609	$ 341,405
Transfer from equity component of convertible debentures	528,000	-
Transfer from paid-in capital created in 2004 on modification of convertible debentures	-	420,000
Options granted (note 12)	-	77,204
Options exercised (note 12)	(28,800)	-
Balance - end of year	$ 1,337,809	$ 838,609

14. Financial Instruments and Risk Management

a) Interest rate risk

Interest rate cash flow risk is minimized through the Company's current strategy of having the mortgages payable in fixed rate arrangements, however is subject to price risk

b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant.

c) Fair values

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The carrying value of the Company's mortgages, convertible debentures, and loans payable approximates fair value as the interest rates are similar to rates obtainable for similar financial instruments in the current marketplace.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 15. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

As at December 31, 2008, the Company's financial liabilities include accounts payable and accrued liabilities, with contractual maturities of less than one year, convertible debentures (note 7), loans payable (note 8), purchase price payable (note 9) and mortgages payable (note 6).

15. Capital Management

The Company's objectives when managing capital are:

a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and

b) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

The Company sets the amount of capital in proportion to risk. The Company includes equity in its definition of capital. Equity is comprised of capital stock, equity component of convertible debentures, contributed surplus and deficit. The Company manages capital structure and makes adjustments in light of changes in economic conditions and the risk characteristic of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

16. Related Party Transactions

During the year ended December 31, 2008, the Company:

a) Charged related parties rent totalling approximately $39,086 (2007 - $34,641). The companies are related by virtue of the fact that they have the same President. As at December 31, 2008, included in accounts receivable is an amount of $22,260 (2007 - $11,180) due from these related parties

b) Was charged consulting fees of $112,100 (2007 - $66,000) by an officer. As at December 31, 2008, included in accounts payable is an amount of $26,250 (2007 - $nil) due to the officer.

c) Incurred accounting fees of $104,026 (2007 - $91,750) with an accounting firm in which one of the Corporation's officers is a partner. As at December 31, 2007, accounts payable and accrued liabilities included $89,392 (2007 - $55,010) payable to this accounting firm.

d) Was charged fees of $28,328 (2007 - $Nil) by an architectural firm, which has a director in common.

e) other related party transactions are disclosed in note 8.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17. Income Taxes

a) Income tax recovery attributable to the loss differs from the amounts computed by applying the combined federal and provincial income tax rates of 33% (2006 - 34%) to the pretax loss as a result of the following:

	2008	2007
Loss for the year	$ (615,512)	$ (385,827)
Income tax recovery computed at statutory rates	(204,000)	(128,000)
Reduction in income tax recovery resulting from:		
Non-deductible expense	124,000	102,000
Change in valuation allowance and other	80,000	26,000
	$ -	$ -

b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities as at December 31, 2008 and 2007 are presented below:

	2008	2007
Future tax assets:		
Issue costs	$ -	$ 7,000
Revenue-producing properties	623,000	456,000
Non-capital loss carryforwards	23,000	96,000
	646,000	559,000
Less: valuation allowance	546,000	384,000
	100,000	175,000
Future tax liabilities:		
Accrued rent receivable	81,000	66,000
Intangibles	19,000	109,000
	100,000	175,000
Net future tax assets	$ -	$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences and loss carry forwards become deductible. Based on the absence of historical taxable income and the difficulty of making reliable projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the Corporation will not realize the benefits of these deductible differences and has accordingly provided a valuation allowance.

17. Income Taxes (continued)

c) At December 31, 2008, the Corporation had net capital loss carry forwards for federal income tax purposes in Canada of approximately $26,000. The net capital loss carry forwards have no expiry dates.

At December 31, 2008, the Corporation had non-capital loss carry forwards of approximately $79,000 which are available to reduce taxable income of future years and expire as follows:

2016	$ 48,000
2027	31,000
	$ 79,000

18. Terms of Financing

Under the terms of a mortgage on one of the Company's properties, a payment amounting to $240,000 has been made as of December 31, 2008. This payment was made at the rate of $20,000 per month commencing one year prior to the lease renewal date of an anchor tenant, and is payable to a maximum of 12 months. This amount is repayable to the Company when the space is leased to a new anchor tenant, subject to the terms of the agreement. Accordingly, this payment has been included in prepaid expenses.

19. Subsequent Events

a) In January 2009, the Company raised a new $1.0 million three year second mortgage on one of its properties at 6.3% to retire the $1.0 million mortgage payable, bearing interest at 15%.

b) In January 2009, the Company extended the $1.5 million vendor take back mortgage on one of its properties by one year at the same rate of 8.5%.

c) In January 2009, the Company remortgaged one of its properties with a new 5 year mortgage of $536,250 at 8.4%.

d) In January 2009, the majority of the holders of the convertible debentures due in November of 2009 voted to withhold the five year extension of the debentures, with the proposed new due date being November 2014.

e) In March 2009, the Company extended its normal course issuer bid to March 9, 2010.

20. Comparative Figures

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