Condensed Financial Statements

Gulf & Pacific Equities Corp.

For the Six Months Ended June 30, 2012
(Stated in Canadian Dollars)

Unaudited

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NOTICE TO READER

The accompanying unaudited condensed financial statements have been prepared by the Company's management and the Company’s independent auditors have not performed a review of these interim financial statements

Gulf & Pacific Equities Corp.

Condensed Statements of Financial Position
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

	June 30, 2012	December 31, 2011
Assets		
Cash	$ 890,495	$ 946,753
Other amounts receivable (note 5)	1,107,753	1,073,209
Prepaid expenses	43,107	78,654
Investment properties (note 3)	28,090,000	28,090,000
	$ 30,131,355	$ 30,188,616
Liabilities		
Mortgages payable (note 6)	$ 14,571,463	$ 14,343,817
Convertible debentures (note 7)	3,566,269	3,367,975
Purchase price payable (note 8)	658,776	658,776
Deferred income taxes	975,000	1,175,000
Accounts payable and accrued liabilities	506,124	520,274
	20,277,632	20,065,842
Commitments (note 10)		
Shareholders' Equity		
Share Capital (note 11)	2,835,212	2,835,212
Equity Component of Convertible Debentures (note 7)	1,179,712	1,131,712
Contributed Surplus (note 12)	2,500,695	2,418,796
Retained Earnings	3,338,104	3,737,054
	9,853,723	10,122,774
	$ 30,131,355	$ 30,188,616

The accompanying notes form an integral part of these condensed financial statements.

Approved on behalf of the Board

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

Gulf & Pacific Equities Corp.

Condensed Statements of Comprehensive Income (Loss)
For the Six Months Ended June 30
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

	Six Months Ended		Three Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue				
Rental	$ 1,037,585	$ 1,583,484	$ 523,857	$ 812,728
Common area and realty tax recoveries	440,530	521,546	263,460	297,490
Interest and other	20,803	152	10,798	59
	1,498,918	2,105,182	798,115	1,110,277
Expenses				
Interest	824,666	1,020,583	430,429	511,263
Operating costs and realty taxes	661,352	759,587	370,807	425,900
Administration	369,253	353,091	205,640	202,352
Share-based compensation (note 11)	81,899	38,497	81,899	38,497
	1,937,170	2,171,758	1,088,775	1,178,012
Net Loss before fair value adjustment and income taxes	(438,252)	(66,576)	(290,660)	(67,735)
Fair value adjustment (note 3)	(112,698)	-	(9,064)	-
Net Loss before income taxes	(550,950)	(66,576)	(299,724)	(67,735)
Deferred income tax recoveries (expense)	152,000	-	103,000	-
Net Income (Loss) and Comprehensive Income (Loss)	$ (398,950)	$ (66,576)	$ (196,724)	$ (67,735)
Loss per Share - Basic and Diluted (note 2(i))	$ (0.04)	$ (0.01)	$ (0.02)	$ (0.01)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	8,936,678	8,861,678	8,936,678	8,861,678

The accompanying notes form an integral part of these condensed financial statements.

Gulf & Pacific Equities Corp.

Condensed Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2012
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

	Share Capital		Equity Component of Convertible	Contributed	Retained	
	Shares	Amount	Debentures	Surplus	Earnings	Total
Balance - December 31, 2010	8,861,678	$ 2,816,462	$ 1,273,995	$ 2,380,299	$ 4,014,182	$ 10,484,938
Share based compensation (note 11)	-	-	-	38,497	-	38,497
Net income	-	-	-	-	(66,576)	(66,576)
Balance - June 30, 2011	8,861,678	$ 2,816,462	$ 1,872,512	$ 2,418,796	$ 3,947,606	$ 11,055,376

	Share Capital		Equity Component of Convertible	Contributed	Retained	
	Shares	Amount	Debentures	Surplus	Earnings	Total
Balance -December 31, 2011	8,936,678	$ 2,835,212	$ 1,131,712	$ 2,418,796	$ 3,737,054	$ 10,122,774
Share based compensation (note 11)	-	-	-	81,899	-	81,899
Convertible debentures deferred tax change	-	-	48,000	-		48,000
Net income	-	-	-	-	(398,950)	(398,950)
Balance - June 30, 2012	8,936,678	$ 2,835,212	$ 1,179,712	$ 2,500,695	$ 3,338,104	$ 9,853,723

The accompanying notes form an integral part of these condensed financial statements.

Gulf & Pacific Equities Corp.

Condensed Statements of Cash Flow
For the Six Months Ended June 30
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

	Six Months Ended		Three Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Cash Provided By (Used In):				
Operating Activities				
Net income	$ (398,950)	$ (66,576)	$ (196,724)	$ (67,735)
Add (deduct) items not affecting cash:				
Accretion of discount on convertible debentures	191,623	134,690	107,421	71,915
Amortization of deferred financing costs	48,033	31,538	28,897	15,769
Deferred income taxes	(152,000)	-	(103,000)	-
Amortization of deferred leasing costs	5,250	-	2,625	-
Accrued rent receivable	(12,948)	(99,444)	(11,689)	(86,348)
Interest expense	584,921	824,073	294,039	410,401
Fair value adjustment	112,698	-	9,064	-
Share-based compensation (note 11)	81,899	38,497	81,899	38,497
	460,526	862,778	212,532	382,499
Changes in non-cash balances related to operations:				
Prepaid expenses	854	17,541	(6,946)	57,668
Accounts receivable	(34,544)	(24,445)	(3,705)	(43,920)
Accounts payable and accrued liabilities	(8,822)	285,659	(181,578)	264,855
	418,014	1,141,533	20,303	661,102
Financing Activities				
Repayment of mortgages payable	(13,861,179)	(324,620)	(3,535)	(163,446)
Receipt of mortgage proceeds	14,500,000	-	-	-
Loans payable	-	(42,833)	-	(20,580)
Interest paid	(590,249)	(823,073)	(405,526)	(503,826)
Financing costs paid	(417,844)	5,981	(2,014)	2,223
	(369,272)	(1,184,545)	(411,075)	(685,629)
Investing Activities				
Investment property expenditures	(105,000)	-	-	-
Decrease in Cash	(56,258)	(43,012)	(390,772)	(24,527)
Cash - beginning of period	946,753	64,382	1,281,267	45,897
Cash - end of period	$ 890,495	$ 21,370	$ 890,495	$ 21,370

The accompanying notes form an integral part of these condensed 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 primary offices are located at 1300 Bay Street, Suite 300, Toronto, Ontario M5R 3K8. 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.

These financial statements were authorized for issuance by the Board of Directors on August 23, 2012.

1. Basis of Presentation

In 2010 the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effectively for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis.

a) Statement of Compliance

The Company's interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 interim financial statements do not include all of the information required for annual financial statements.

The significant accounting policies (note 2) have been applied consistently to all periods presented in these consolidated financial statements with the exception of exemptions taken under IFRS for the purposes of transitioning to IFRS.

The policies applied in the Company's consolidated financial statements are based on IFRS effective as of June 30, 2012. The date that the Board of Directors approved the statements is August 23, 2012.

b) Basis of Measurement

The Company's financial statements have been prepared on the historical cost basis except for investment properties and cash which have been measured at fair value.

c) Functional and Presentation Currency

The Company's functional currency is Canadian Dollars and the financial statements are presented in Canadian Dollars.

d) Critical judgments, accounting estimates and assumptions

The Company makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ. The estimates and assumptions that the Company considered critical are described below.

1. Basis of Presentation (continued)

d) Critical judgments, accounting estimates and assumptions (continued)

i) Investment properties

The fair value of the investment properties is determined based on either internal valuation models incorporating market evidence and valuations performed by independent third party appraisers. The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as tenant profiles, future revenue streams and overall repair and condition of the property) and discount rates applicable to those cash flows. These estimates are based on market conditions existing at the reporting date. The following approaches, either individually or in combination, are used in the determination of the fair value of the investment properties:

The Direct Capitalization Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal (when obtained) and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an external appraisal is not obtained at the reporting date, management prepares internal valuations, for each investment property, to estimate the fair value.

Judgment is also applied in determining the extent and frequency of independent appraisals in order to determine fair values. The significant assumptions used by management in estimating the fair value of investment properties are set out in Note 3.

In addition, the Company makes judgments with respect to whether tenant improvement expenditures represent an asset with a future economic benefit to the Company which impacts whether or not such amounts are treated as additions to the investment properties.

ii) Leases

The Company makes judgments in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property, are operating or finance leases. The Company has determined that all of its leases are operating leases.

1. Basis of Presentation (continued)

d) Critical judgments, accounting estimates and assumptions (continued)

Additional critical accounting estimates and assumptions include those used for estimating deferred taxes and purchase price payable, assessing the allowance for doubtful accounts on trade receivables, estimating the fair value of share-based compensation and determining the values of financial instruments for disclosure purposes.

2. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

a) Fair value of investment property

Significant portions of the Company's operating assets are considered investment properties under IAS 40, Investment Property ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. The Company's revenue producing properties are classified as investment properties. Investment properties are initially measured at cost including transaction costs under IAS 40. However, subsequent to initial recognition, investment properties are recorded at fair value, which reflects current market conditions, at each financial position statement date. Gains and losses from changes in fair values are recorded in net income in the period in which they arise.

Leasing costs and lease incentives, which include costs incurred to make leasehold improvements to tenants' space, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction of investment properties revenue.

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 capitalized as part of the investment property.

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments

IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") requires classification of financial instruments into one of the following categories: financial assets and liabilities at fair value through profit and loss, held-to-maturity investments, loans and receivables, available-for-sale securities, and other financial liabilities. The Company determines the classification of its financial assets and liabilities at initial recognition.

All of the Company's financial instruments are initially measured at fair value, with subsequent measurements dependent on the classification of each financial instrument. Financial assets at fair value through profit or loss include cash which is measured at fair value and all gains and losses are included in net loss in the period in which they arise. Other amounts receivable, debenture proceeds receivable and accrued rent receivable are recorded at amortized cost. The Company has no financial assets classified as available-for-sale or as held-to-maturity. Other financial liabilities at amortized cost include accounts payable and accrued liabilities, mortgages payable, convertible debentures, purchase price payable and loans payable.

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, using the residual method with debt component recognized at fair value and residual allocated to the conversion feature, classified as equity. 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 using the effective interest rate method.

Long-term debt is initially recognized at fair value less directly attributable transactions costs. After initial recognition, long-term debt is subsequently measured at amortized cost using the effective interest rate method.

Impairment

The Company assesses at each balance sheet date whether there is objective evidence that financial assets other than those designated as "fair value through the statement of income" are impaired. When impairment has incurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate. When available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the year. Impairment losses may be reversed in subsequent years.

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

The Company's financial assets and liabilities recorded at fair value on the statement of financial position have been categorized into three categories based on a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (ie. as prices) or indirectly (ie. derived from prices);

Level 3 - valuation techniques using inputs for the asset and liability that are not based on observable market data (unobservable inputs).

d) Share-based payments

Share-based compensation granted to directors, officers and employees is measured at the fair value of the grants on the grant date. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using an accepted option pricing model. IFRS requires an initial estimate of the number of equity settled instruments that are expected to vest based on expected forfeitures, and subsequently adjustments are made to the estimate to reflect the actual number of equity settled instruments that vest, unless forfeitures are due to market based vesting conditions. Compensation expense is recognized over the tranche’s vesting period, based on the number of awards expected to vest, by increasing contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The fair value of options granted to consultants is determined using fair value of the goods or services received. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Company cannot be reliably measured, they are measured at fair value of the equity instruments issued. The resulting value is charged to operations over the service period. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

2. Summary of Significant Accounting Policies (continued)

e) Issue costs

The Company accounts for costs related to issuing equity as a charge against share capital in the period incurred.

f) 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.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

g) 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, deferred 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 or substantively enacted tax rates and laws expected to apply when these differences reverse. Income tax assets are recognized to the extent that management believes that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 deferred income tax assets and liabilities. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

2. Summary of Significant Accounting Policies (continued)

h) 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.

In accordance with IAS 7, Statement of Cash Flows, interest expense is reflected as a financing activity.

i) Income (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, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the weighted average number of shares that would be issued on the conversion of all potentially dilutive options and warrants into common shares.

If the number of shares increases or decreases as a result of capitalization, bonus issue, share splits or share consolidation, earnings per share is accounted for retrospectively. If these transactions occur after the reporting period but prior to the issuance of the financial statements, loss per share is calculated based on the new number of shares.

j) Related party transactions

All transactions with related parties are in the normal course of business and are measured at the amount agreed to by the parties involved in the transactions.

k) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

2. Summary of Significant Accounting Policies (continued)

l) Future accounting changes

IFRS 9 (Financial Instruments: Classification and Measurement), effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2015 and has not yet determined the potential impact on the Company's financial statements.

In May 2011, the IASB issued IFRS 13, Fair Value Measurements ("IFRS 13"). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information be provided in the financial statements that enables the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, and the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The company has not determined the impact of IFRS 13 on its financial statements.

IAS 12, income taxes, amendments applicable to the measurement of deferred tax assets and liabilities where investment property is measured using the fair value model, are effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

3. Investment Properties

Balance - December 31, 2011	$ 28,090,000
Leasing costs	99,750
Accrued rent receivable	12,948
Fair value adjustments	(112,698)
Balance - June 30, 2012	$ 28,090,000

The Company determines the fair value of each investment property internally based upon the direct capitalization income approach with reference to the direct comparison approach and external appraisers for additional support. The fair value is determined by applying a capitalization rate to stabilized net operating income which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the investment property. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the income and non recoverable capital expenditures.

3. Investment Properties (continued)

External appraisals for two of the most significant properties, out of four total properties, were obtained at November 24, 2011. At January 1, 2010 and December 31, 2010, the fair value was determined by updating cash flow information from external appraisals previously obtained and applying updated capitalization rates determined from available market data, material leasing activity and material changes in local market conditions. There were no significant changes in the market and leasing activity from the dates of the previous appraisals. Capitalization rates of 7.50% to 8.50% as at January 1, 2010, December 31, 2010, December 31, 2011 and June 30, 2012 were used in determining the fair value of the properties. The weighted average capitalization rates are 8.07% for January 1, 2010, 8.03% for December 31, 2010, 8.36% for December 31, 2011 and 8.36% for June 30, 2012. A 0.5% increase in capitalization rates has an approximate decrease of $1,538,000 (December 31, 2011 - $1,538,000) impact on the investment properties value.

4. Terms of Financing

Under the terms of a mortgage on one of the Company's properties, a payment amounting to $240,000 was made as of January 1, 2010. 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 was repayable to the Company when the space was leased to a new anchor tenant, subject to the terms of the agreement. Accordingly, this payment was included in prepaid expenses. In June 2011, the Company received repayment of $120,000 of this amount and in August 2011 received the remaining balance of $120,000. As of February 2012, the mortgage was paid in full and the account has since been closed.

5. Other Amounts Receivable

Other amounts receivable include trade accounts receivable of $107,753 (December 31, 2011 - $73,209) and an amount of $1,000,000 (December 31, 2011 - $1,000,000) due from the purchaser of an investment property sold in 2011, which is secured by a mortgage on the property, bears interest at 3% per annum and is due November 18, 2012.

6. Mortgages Payable

	June 30, 2012	December 31, 2011
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of $4,310, due March 1, 2012	$ -	$ 12,785
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of $4,650, due December 1, 2013	490,844	497,942
Vendor take back mortgage, bearing interest at 10%, monthly payments of interest only, due January 1, 2012	-	1,500,000
Mortgage payable, bearing interest at 5.32%, repayable monthly in blended principal and interest payments of $53,996, due January 1, 2012	-	8,023,969
Mortgage payable, bearing interest at 6.3%, repayable monthly in blended principal and interest payments of $11,212 due January 1, 2012	-	769,155
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of $24,300, due October 1, 2011 and extended to October 1, 2012 at 5.3%	-	3,548,173
Mortgage payable, bearing interest at 5.25%, with interest only payable for the first twelve months, due February 23, 2017	14,500,000	-
	14,990,844	14,352,024
Unamortized mortgage financing costs	(419,381)	(8,207)
	$ 14,571,463	$ 14,343,817

The mortgage is secured by a general security agreement, the underlying revenue-producing properties, an assignment of rents and an assignment of fire insurance.

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization (see note 2(b)).

7. Convertible Debentures

	June 30, 2012		December 31, 2011	
	Face value	Carrying amount	Face value	Carrying amount
8% - September 1, 2013 (i)	$ -	$ -	$ -	$ -
8% - November 18, 2014 (ii)	-	-	-	-
8% - December 31, 2014 (i, ii, iii)	3,587,500	2,762,403	3,587,500	2,600,137
8% - October 31, 2015 (iv)	1,115,000	844,806	1,115,000	815,448
	4,702,500	3,607,209	4,702,500	3,415,585
Unamortized deferred financing costs	-	(40,940)	-	(47,610)
	$ 4,702,500	$ 3,566,269	$ 4,702,500	$ 3,367,975

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

(i) The first series of the convertible debentures, with a face value of $900,000, bear interest at 8%, mature September 1, 2013 and are unsecured. These debentures could be converted by the holder into common shares of the Company at one common share for each $0.40 principal amount of debentures.

On December 31, 2009, the holders of $846,250 of these convertible debentures exchanged their holdings for the new 8% convertible debentures due December 31, 2014. The new debentures can be converted by the holder into common shares of the Company at a conversion price of $0.25 per share if converted prior to December 31, 2011, and $0.30 per share if converted prior to December 31, 2014. The fair value of the debt component of the new debentures was determined to be $559,175 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be $287,075. As a result, the difference between the fair value of the new convertible debentures of $846,250 and the carrying value of the old convertible debentures of $628,103, was applied as a reduction to the debt component of the new convertible debentures.

As the conversion feature of the original debt expired unexercised, the equity component of $444,660 was transferred to contributed surplus.

As at June 30, 2012, $Nil (December 31, 2011 - $Nil) of the original debentures were outstanding.

7. Convertible Debentures (continued)

(ii) The second series of the convertible debentures bore interest at 8%, matured November 18, 2009 and are unsecured. The debentures could be converted by the holder into common shares of the Company at one common share for each $0.425 principal amount of debentures. The Company had 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 had the right to force early conversion of the debentures in the event that the common shares of the Company 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 the Company'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.

On October 30, 2009, the holders of the debentures agreed to a 5 year extension of the debentures with the new due date being November 18, 2014. As the conversion feature had expired, the equity component of $529,683 was transferred to contributed surplus.

On December 31, 2009, the holders of $2,040,000 of these convertible debentures exchanged their holdings for the new 8% convertible debentures due December 31, 2014. The new debentures can be converted by the holder into common shares of the Company at a conversion price of $0.25 per share if converted prior to December 31, 2011, and $0.30 per share if converted prior to December 31, 2014. The fair value of the debt component of the new debentures was determined to be $1,310,537 based on an effective interest rate of 18%, and the residual allocated to the equity component was determined to be $729,463. There was no gain or loss on this transaction.

As at June 30, 2012 , $Nil (December 31, 2011 - $Nil) of this series of debentures were outstanding.

(iii) The third series of convertible debentures bear interest at 8%, mature December 31, 2014 and are unsecured. The debentures can be converted by the holder into common shares of the Company at a conversion price of $0.25 per share if converted prior to December 31, 2011, and $0.30 per share if converted prior to December 31, 2014.

On December 31, 2009, subscribers agreed to pay $720,000 for the new 8% convertible debentures due December 31, 2014. The fair value of the debt component of the new debentures was determined to be $462,543 based on an effective interest rate of 18%, and the residual value of the equity component was determined to be $257,457.

As at December 31, 2009, the new debenture had not been received and were shown as debenture proceeds receivable on the balance sheet. This amount was collected in 2010. During 2011, debentures amounting to $18,750 were converted to common shares.

As at June 30, 2012, the total debentures of this series outstanding amounted to $3,587,500 (2011 - $3,606,250).

7. Convertible Debentures (continued)

(iv) The fourth series of convertible debentures bear interest at 8%, mature October 31, 2015, are held by a related party and are unsecured. The related party and the Company are related by virtue of the fact that they have the same President. The debentures can be converted by the holder into common shares of the Company at a conversion price of $0.25 per share if converted prior to December 31, 2011, and $0.30 per share if converted prior to December 31, 2014.

In June 2011, the Company's shareholders' approved the conversion feature of the related party loan (note 9(i)). The fair value of the debt component of the convertible debentures was estimated at $785,285 based on an effective rate of 18% and the residual allocated to the equity component was determined to be $329,715

During the six months ended June 30, 2012, the Company incurred interest expense relating to the convertible debentures of $22,300. As at June 30, 2012, accounts payable and accrued liabilities included $14,867 payable to this related party.

As at June 30, 2012, the total debentures of this series outstanding amounted to $1,115,000 (December 31, 2011 - $1,115,000).

8. 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 June 30, 2012, the property was not fully leased.

9. Loans Payable

During 2006, the Company 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, which were subsequently extended to November 2010. The companies are related since they have the same President.

During 2006 the Company 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, which were subsequently extended to November 2010. The companies are related since they have directors in common.

On October 31, 2010 the unsecured loans totaling $1,000,000 were exchanged for 8% unsecured convertible debentures, for a 5 year term, maturing October 31, 2015 and bear interest from the date of issue at 8% per annum, payable semi-annually. The total face value of the debenture was $1,115,000, which includes the accrued interest of $115,000. Furthermore, the conversion feature within the debenture was subject to disinterested shareholder approval, therefore, until disinterested shareholder approval was obtained, this was recorded as a loan payable. The disinterested shareholder approval was received on June 9, 2011 and is subsequently recorded as a convertible debenture with a face value of $1,115,000 maturing October 31, 2015.

10. Commitments

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

2012	$ 18,531
2013	6,177
	$ 24,708

11. Share Capital

The Company is authorized to issue unlimited preference shares and unlimited common shares.

Common shares	**Number**	**Amount**
Balance - December 31, 2011	8,936,678	$ 2,835,212
Issued	-	-
Balance - June 30, 2012	8,936,678	$ 2,835,212

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 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.

The Bid commenced on March 11, 2008 and has been renewed each year until April 5, 2012 at which time the Bid was not renewed. No shares have been purchased under the normal course issuer bid.

a) Share-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 10 years and the exercise prices and vesting provisions are determined by the board of directors.

11. Share Capital (continued)

A summary of the status of the Company's Plan as at June 30, 2012 and June 30, 2011 and the changes during the periods are presented below:

	2012		2011	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of period	855,000	$ 0.253	884,000	$ 0.270
Granted	345,000	0.260	196,000	0.223
Expired	(309,000)	0.300	(225,000)	0.294
Outstanding, end of period	891,000	$ 0.239	855,000	$ 0.269
Exercisable, end of period	891,000	$ 0.239	855,000	$ 0.269

b) On April 30, 2012, the Company granted 345,000 stock options to directors, officers, and employees. Each option entitles the holder to purchase one share of the Company's common stock at a price of $0.26 per share until April 30, 2022. The options vested upon grant. The estimated fair value of $81,899 has been included in share-based compensation and contributed surplus.

Expected dividend yield	Nil
Risk-free interest rate	3.25%
Expected life	10.0 years
Expected volatility	103%

c) On April 20, 2011, the Company granted 96,000 stock options to directors, officers, and employees. Each option entitles the holder to purchase one share of the Company's common stock at a price of $0.215 per share until April 20, 2021. The options vested upon grant. The estimated fair value of $18,447 has been included in share-based compensation and contributed surplus.

Expected dividend yield	Nil
Risk-free interest rate	3.25%
Expected life	10.0 years
Expected volatility	91%

11. Share Capital (continued)

On June 23, 2011, the Company granted 100,000 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 $0.23 per share until June 23, 2021. The options vested upon grant. The estimated fair value of $20,050 has been included in share based compensation and contributed surplus.

Expected dividend yield	Nil
Risk-free interest rate	3.25%
Expected life	10.0 years
Expected volatility	91%

Expected volatility is based on the historical volatility of the Company.

At June 30, 2012, 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
200,000	200,000	2009	$ 0.250	February 20, 2014
150,000	150,000	2010	$ 0.200	June 21, 2020
96,000	96,000	2011	$ 0.215	April 20, 2021
100,000	100,000	2011	$ 0.230	June 23, 2021
345,000	345,000	2012	$ 0.260	April 30, 2022
891,000	891,000			

12. Contributed Surplus

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants as well as transfers from the equity component of convertible debentures.

13. Income Taxes

At December 31, 2011, the Company 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, 2011, the Company had no non-capital loss carry forwards available to reduce taxable income of future years.

14. Financial Instruments and Risk Management

Fair Value

The Company's accounts receivable, accrued rent receivable, debenture proceeds receivable and other financial liabilities, which includes mortgages payable, convertible debentures, purchase price payable, loans payable and accounts payable and accrued liabilities, are carried at amortized cost, which approximates fair value. Such fair value estimates are not necessarily indicative of the amounts that the Company might pay or receive in actual market transactions.

The Company had no embedded derivatives requiring separate recognition as at June 30, 2012 and December 31, 2011.

The company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair values of financial instruments); credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

The fair value hierarchy of financial instruments measured at fair value on the balance sheet includes cash at Level 1. The Company has no other financial instruments at Level 2 or Level 3.

Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates such as changes in equity prices, commodity prices or credit spreads.

The company manages market risk from the impact of changes in interest rates by funding assets with financial liabilities with similar interest rate characteristics.

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

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. The Company believes that the credit risk of accounts receivable is minimal as the balance receivable is limited to only $107,753. Cash is held at a Canadian chartered bank which has minimal risk. The amount due of $1,000,000 from the purchaser of the investment property is secured by a mortgage registered against the real estate and a general security agreement.

14. Financial Instruments and Risk Management (continued)

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. The Company is subject to the risk associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt with maturities over an extended period of time.

As at June 30, 2012, the Company's financial liabilities include accounts payable and accrued liabilities, with contractual maturities of less than one year, convertible debentures (note 7) 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, the equity component of convertible debentures, contributed surplus and retained earnings. The Company manages its 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 six months ended June 30, 2012, the Company:

a) Charged related parties rent totalling approximately $17,628 (June 30, 2011 - $17,628). The companies are related by virtue of the fact that they have the same President. As at June 30, 2012, included in accounts receivable is an amount of $64,280 due from these related parties.

b) Was charged consulting fees of $43,550 (June 30, 2011 - $43,550) by an officer. As at June 30, 2012, there were no amounts payable to this officer.

c) Incurred accounting fees of $66,600 (June 30, 2011 - $80,010) with an accounting firm in which one of the Company's officers is a partner. As at June 30, 2012, accounts payable and accrued liabilities included $15,000 payable to this accounting firm.

d) Other related party transactions are disclosed in note 7 and note 9.

These transactions are in the normal course of operations.