
Condensed Financial Statements

Gulf & Pacific Equities Corp.

**For the Three Months Ended March 31, 2015
(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)

	March 31, 2015	December 31, 2014
Assets		
Cash	\$ 1,352,944	\$ 173,469
Other amounts receivable (note 4)	167,510	408,429
Prepaid expenses	39,056	39,056
Investment properties (note 3)	44,000,000	43,800,000
	<u>\$ 45,559,510</u>	<u>\$ 44,420,954</u>
Liabilities		
Mortgages payable (note 5)	\$ 23,674,994	\$ 17,983,163
Convertible debentures (note 6)	1,062,405	1,038,315
Purchase price payable (note 7)	658,776	658,776
Loan payable (note 8)	2,750,000	5,750,000
Deferred income taxes	1,031,000	1,179,000
Accounts payable and accrued liabilities	1,785,299	2,157,593
	<u>30,962,474</u>	<u>28,766,847</u>
Commitments (note 9)		
Shareholders' Equity		
Share Capital (note 10)	6,008,607	6,008,607
Equity Component of Convertible Debentures (note 6)	329,715	329,715
Contributed Surplus	2,784,668	2,784,668
Retained Earnings	5,474,046	6,531,117
	<u>14,597,036</u>	<u>15,654,107</u>
	<u>\$ 45,559,510</u>	<u>\$ 44,420,954</u>

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

For the Three Months Ended March 31

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(Stated in Canadian Dollars)

	2015	2014
Revenue		
Rental	\$ 715,173	\$ 699,236
Common area and realty tax recoveries	208,788	182,612
Interest and other	954	917
	<u>924,915</u>	<u>882,765</u>
Expenses		
Interest	347,302	541,377
Operating costs and realty taxes	343,815	238,774
Administration	196,569	180,906
Loss on sale of property	-	30,169
	<u>887,686</u>	<u>991,226</u>
Net Income (Loss) before fair value adjustment and income taxes	37,229	(108,461)
Fair value adjustment (note 3)	<u>(1,242,300)</u>	<u>5,273,456</u>
Net Income (Loss) before income taxes	(1,205,071)	5,164,995
Deferred income tax recoveries (expense)	<u>148,000</u>	<u>(562,000)</u>
Net Income (Loss) and Comprehensive Income (Loss)	<u>\$ (1,057,071)</u>	<u>\$ 4,602,995</u>
Income (Loss) per Share - Basic	<u>\$ (0.06)</u>	<u>\$ 0.51</u>
Income (Loss) per Share - Diluted	<u>\$ (0.06)</u>	<u>\$ 0.18</u>
Weighted Average Number of Common Shares Outstanding - Basic (note 10)	<u>17,574,019</u>	<u>9,030,011</u>
Weighted Average Number of Common Shares Outstanding - Diluted (note 10)	<u>22,181,686</u>	<u>25,362,678</u>

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 Three Months Ended March 31

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(Stated in Canadian Dollars)

	Share Capital		Equity	Contributed	Retained	Total
	Shares	Amount	Component of Convertible Debentures	Surplus	Earnings	
Balance - December 31, 2013	8,970,011	\$ 2,845,212	\$ 1,131,712	\$ 2,500,695	\$ 4,261,165	\$ 10,738,784
Exercise of options	-	30,000	-	-	-	30,000
Net income and comprehensive income	-	-	-	-	4,602,995	4,602,995
Balance - March 31, 2014	8,970,011	\$ 2,875,212	\$ 1,131,712	\$ 2,500,695	\$ 8,864,160	\$ 15,371,779

	Share Capital		Equity	Contributed	Retained	Total
	Shares	Amount	Component of Convertible Debentures	Surplus	Earnings	
Balance - December 31, 2014	17,574,019	\$ 6,008,607	\$ 329,715	\$ 2,784,668	\$ 6,531,117	\$ 15,654,107
Net income and comprehensive income	-	-	-	-	(1,057,071)	(1,057,071)
Balance - March 31, 2015	17,574,019	\$ 6,008,607	\$ 329,715	\$ 2,784,668	\$ 5,474,046	\$ 14,597,036

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

Gulf & Pacific Equities Corp.

Condensed Statements of Cash Flow
 For the Three Months Ended March 31
 Unaudited - See Notice to Reader
 (Stated in Canadian Dollars)

	2015	2014
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income (loss)	\$ (1,057,071)	\$ 4,602,995
Add (deduct) items not affecting cash:		
Accretion on convertible debentures	24,090	196,420
Amortization of deferred financing costs	8,776	25,530
Deferred income tax expense (recoveries)	(148,000)	562,000
Amortization of deferred leasing costs	47,324	28,938
Accrued rent receivable	(51,229)	10,264
Interest expense	314,436	335,064
Loss on sale of property	-	30,169
Fair value adjustment	1,242,300	(5,273,456)
	<u>380,626</u>	<u>517,924</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	-	(22,536)
Other amounts receivable	240,919	9,305
Accounts payable and accrued liabilities	(469,177)	43,941
	<u>152,368</u>	<u>548,634</u>
Financing Activities		
Repayment of mortgages payable	(305,480)	(113,767)
Receipt of mortgage proceeds	6,000,000	(500,000)
Loan payable	(3,000,000)	-
Interest paid	(217,552)	(189,187)
Financing costs paid	(11,466)	-
Exercise of stock options	-	30,000
	<u>2,465,502</u>	<u>(772,954)</u>
Investing Activities		
Sale of investment property	-	547,539
Investment property expenditures	(1,438,395)	(165,746)
	<u>(1,438,395)</u>	<u>381,793</u>
Increase in Cash	1,179,475	157,473
Cash - beginning of period	173,469	330,103
Cash - end of period	\$ 1,352,944	\$ 487,576

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

Gulf & Pacific Equities Corp.

Notes to the Condensed Financial Statements
For the Three Months Ended March 31, 2015
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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 registered address and records office of the Company is located at 18104 102 Avenue N.W., Edmonton, AB. 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. The Company does not have any affiliates nor is it the subsidiary of any entity.

These condensed financial statements were authorized for issuance by the Board of Directors on May 26, 2015.

1. Basis of Presentation

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 policies applied in the Company's financial statements are based on IFRS effective as of March 31, 2015. The Board of Directors approved the statements on May 26, 2015.

b) Basis of Measurement

The Company's condensed financial statements have been prepared on a going concern basis using the historical cost basis except for investment properties and cash which have been measured at fair value. Some prior year accounts have been reclassified to better conform with the current year's presentation. Specifically, leasing cost additions have been split out and presented as a separate line item from investment property additions in the table in note 3.

c) Functional and Presentation Currency

The Company's functional currency is Canadian Dollars and the condensed 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.

Gulf & Pacific Equities Corp.

Notes to the Condensed Financial Statements
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Unaudited - See Notice to Reader
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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 or 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.

Gulf & Pacific Equities Corp.

Notes to the Condensed Financial Statements
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1. Basis of Presentation (continued)

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

Additional critical accounting estimates and assumptions include those used for estimating current and 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 condensed 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 an orderly transaction between market participants and 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 fees

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.

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 and other financial liabilities. The Company determines the classification of its financial assets and liabilities at initial recognition.

Gulf & Pacific Equities Corp.

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2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

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 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 and the debt component of convertible debentures.

Financial instruments with substantive characteristics of both a financial liability and equity instrument are accounted for through separate classification of the liability and equity elements. The debt component is recognized at fair value and the residual value is allocated to the conversion feature, classified as equity. The initial liability balance recognized is less than the face value of the debt. 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. Transaction costs are allocated to the liability and equity elements in proportion to the allocation of the proceeds.

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 statement of financial position date whether there is objective evidence that financial assets other than those designated as "fair value through profit and loss" are impaired. When impairment has incurred, the cumulative loss is recognized in the statement of comprehensive income (loss). 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 recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. When an 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 comprehensive income (loss) in the year. Impairment losses may be reversed in subsequent years.

Gulf & Pacific Equities Corp.

Notes to the Condensed Financial Statements
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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, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

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Notes to the Condensed Financial Statements
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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.

Interest income is recognized in earnings on an accrual basis and to the extent not received at year end, recorded as a receivable.

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 IASB made amendments to IAS 12, Income Taxes ("IAS 12") that were applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40, Investment Property. The amendments, which were effective for annual periods beginning on or after January 1, 2012, introduced a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. This amendment had no impact on the condensed financial statements of the Company as the Company's deferred tax assets and liabilities with respect to investment properties are measured using the presumption of recovery through sale.

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.

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Notes to the Condensed Financial Statements
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2. Summary of Significant Accounting Policies (continued)

g) Income taxes (continued)

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.

h) Income (Loss) per share

Income (loss) per share is computed by dividing the income (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 income (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 condensed financial statements, income (loss) per share is calculated based on the new number of shares.

i) 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.

j) 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.

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2. Summary of Significant Accounting Policies (continued)

k) 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 that have matured and whose equity option was not converted.

l) Future accounting changes

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of this standard and amendments on its condensed financial statements.

IFRS 15, Revenue from Contracts and Customers (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2017. The Corporation is currently evaluating the impact of IFRS 15 on its condensed financial statements.

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3. Investment Properties

Balance - December 31, 2014	\$ 43,800,000
Additions	1,412,400
Leasing costs	25,995
Leasing costs amortization	(47,324)
Accrued rent receivable	51,229
Fair value adjustments	<u>(1,242,300)</u>
Balance - March 31, 2015	<u>\$ 44,000,000</u>

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.

External appraisals for two of the three properties, representing \$43,100,000 of the total value, were obtained for March 31, 2015. At March 31, 2015 and December 31, 2014, the fair value was determined from the information directly from the external appraisals and applying updated capitalization rates determined from available market data, material leasing activity and material changes in local market conditions. Capitalization rates of 7.00% to 7.25% as at December 31, 2014 and rates of 7.00% to 7.25% at March 31, 2015 were used in helping to determine the fair value of the properties. The weighted average capitalization rates are 7.18% for December 31, 2014 and 7.18% for March 31, 2015. The properties are classified at Level 3 on the fair value hierarchy.

4. Other Amounts Receivable

Other amounts receivable include trade accounts receivable \$105,766 and taxes receivable of \$61,744.

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5. Mortgages Payable

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Mortgage payable, bearing interest at 5.15%, repayable monthly in blended principal and interest payments of \$3,735, due December 1, 2018	\$ 440,967	\$ 446,447
Mortgage payable, bearing interest at prime plus 1.50%, repayable monthly in fixed principal payments plus interest, due September 1, 2019	18,533,333	13,766,667
Mortgage payable, bearing interest at prime plus 1.50%, repayable monthly in fixed principal payments plus interest, due September 1, 2019	<u>4,866,667</u>	<u>3,933,333</u>
	23,840,967	18,146,447
Unamortized mortgage financing costs	<u>(165,973)</u>	<u>(163,284)</u>
	<u>\$ 23,674,994</u>	<u>\$ 17,983,163</u>

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.

6. Convertible Debentures

	<u>March 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Face value</u>	<u>Carrying amount</u>	<u>Face value</u>	<u>Carrying amount</u>
8% - October 31, 2015 (i)	\$ 1,115,000	\$ 1,062,405	\$ 1,115,000	\$ 1,038,315
	<u>\$ 1,115,000</u>	<u>\$ 1,062,405</u>	<u>\$ 1,115,000</u>	<u>\$ 1,038,315</u>

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6. Convertible Debentures (continued)

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

- (i) This series of convertible debentures bear interest at 8%, mature October 31, 2015, are held by a related party and are unsecured. The related party, Ceyx Properties Ltd., 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 \$0.30 per share if converted prior to October 31, 2015.

The fair value of the debt component of the convertible debentures was estimated at issuance to be \$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 three months ended March 31, 2015, debentures amounting to \$Nil were converted to common shares.

As at March 31, 2015, accounts payable and accrued liabilities included \$44,600 payable to the related party in interest and the total debentures of this series outstanding amounted to \$1,062,405 in carrying value.

During the three months ended March 31, 2015, the Company incurred interest expense relating to this series of convertible debentures of \$29,733.

7. 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 contingency has been fully provided for and was added to the cost of the acquisition. As at March 31, 2015, the property was not fully leased.

8. Loan Payable

During the year ended December 31, 2013, the Company received loan proceeds of \$2,500,000 from a related corporation, Ceyx Properties Ltd.. During the year ended December 31, 2014, the Company received further proceeds of \$7,750,000 and also repaid \$4,500,000 of the balance outstanding. During the three months ended March 31, 2015, the Company received further proceeds of \$2,000,000 and also repaid \$5,000,000 of the balance outstanding. The balance outstanding as at March 31, 2015 is \$2,750,000.

The loan is unsecured, has no fixed terms of repayment, with access to a maximum value of up to \$6,000,000, with interest payable at 6% per annum. Interest is accrued but not compounded. The loan is to be used for financing of the leasing and development of the investment properties, along with general working capital purposes. The companies are related by virtue of the fact that they have the same President. The related corporation is not a subsidiary.

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9. Commitments

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

2015	\$	34,506
2016		47,073
2017		49,416
2018		<u>8,307</u>
	\$	<u>104,796</u>

10. Share Capital

The Company is authorized to issue unlimited preference shares and unlimited common shares. The number of issued and outstanding common shares and unexercised options and convertible debentures at March 31, 2015 and December 31, 2014 are as follows:

Common shares	Number	Amount
Shares outstanding - December 31, 2014 and March 31, 2015	<u>17,574,019</u>	<u>\$ 6,008,607</u>
Unexercised options	891,000	
Unexercised convertible debentures	<u>3,716,667</u>	
Total diluted shares - March 31, 2015	<u>22,181,686</u>	

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.

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10. Share Capital (continued)

A summary of the status of the Company's Plan as at March 31, 2015 and March 31, 2014 and the changes during the periods are presented below:

	2015		2014	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of period	891,000	\$ 0.266	891,000	\$ 0.239
Granted	-	-	-	-
Exercised	-	-	(120,000)	0.250
Expired	-	-	(80,000)	0.250
Outstanding, end of period	891,000	\$ 0.266	691,000	\$ 0.236
Exercisable, end of period	891,000	\$ 0.266	691,000	\$ 0.236

At March 31, 2015, 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	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
200,000	200,000	2014	\$ 0.370	April 25, 2024
891,000	891,000			

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11. Financial Instruments and Risk Management

Fair Value

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

Cash, trade accounts receivable, accrued rent receivable and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturities of these instruments. The valuation method is classified as Level 1 on the fair value hierarchy. Management has determined that the fair value of mortgages payable and debt components of convertible debentures does not differ from its carrying value as underlying interest rates are not materially different than current market conditions. The valuation method is classified as Level 2 on the fair value hierarchy. The Company has no financial instruments at Level 3.

The Company had no embedded derivatives requiring separate recognition as at March 31, 2015 and December 31, 2014.

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:

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.

The interest rates on the Company's mortgages payable are tied to the lender's prime lending rate. Changes in the lender's prime lending rate can cause fluctuations in the amounts of interest paid by the Company.

A change of 0.5% in the prime rate would impact the fair value of variable rate mortgages payable by approximately \$119,205.

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11. Financial Instruments and Risk Management (continued)

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 trade accounts receivable is minimal as the balance receivable is limited to only \$105,766.

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$64,500 which is due from related parties as described in note 13.

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 12. 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 March 31, 2015, the Company's financial liabilities include accounts payable and accrued liabilities, debt component of convertible debentures (note 6) and mortgages payable (note 5).

12. 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 share capital, 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.

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13. Related Party Transactions

During the three months ended March 31, 2015, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$1,500 and Ceyx Properties Ltd., \$3,390. The companies are related by virtue of the fact that they have the same President. As at March 31, 2015, included in accounts receivable is an amount of \$64,890 due from these related parties.
- b) Was charged consulting fees of \$25,498 by Greg K. W. Wong, an officer of the Company. As at March 31, 2015, accounts payable and accrued liabilities included \$9,416 of consulting fees payable to this officer.
- c) Incurred accounting fees of \$24,725 with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at March 31, 2015, accounts payable and accrued liabilities included \$63,725 payable to this accounting firm.
- d) Other related party transactions are disclosed in note 6ii and 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.