Gulf & Pacific Equities Corp.

Financial Statements
December 31, 2007 and 2006

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Contents

DMCT

AUDITORS' REPORT

To the Shareholders of
Gulf & Pacific Equities Corp.

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

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

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

The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 26, 2007.

DMCT, LLP

DMCT, LLP, Licensed Public Accountants

March 27, 2008
Toronto, Ontario

Gulf & Pacific Equities Corp.

Balance Sheets
As at December 31, 2007 and 2006

	2007	2006
Assets		
Revenue-producing properties (note 3)	**$ 28,570,431**	$ 29,156,469
Cash	**191,544**	121,740
Deferred financing and leasing costs (note 4)	**7,126**	507,931
Intangible assets (note 5)	**675,438**	833,804
Prepaid expenses	**68,237**	52,411
Accounts receivable	**376,792**	137,581
Accrued rent receivable	**226,270**	94,356
Capital assets (note 6)	**-**	1,679
	$ 30,115,838	$ 30,905,971
Liabilities		
Mortgages payable (note 7)	**23,189,762**	23,878,873
Convertible debentures (note 8)	**2,495,704**	2,529,310
Purchase price payable (note 3)	**658,776**	658,776
Loans payable (note 9)	**1,000,000**	1,000,000
Intangible liabilities (note 10)	**753,307**	939,966
Accounts payable and accrued liabilities	**766,594**	539,071
	28,864,143	29,545,996
Commitments (note 11)		
Shareholders' Equity		
Share Capital (note 13)	**2,749,312**	2,497,645
Paid-in Capital	**420,000**	420,000
Equity Component of Convertible Debentures (note 13)	**1,059,883**	1,096,693
Contributed Surplus (note 14)	**418,609**	341,405
Deficit	**(3,396,109)**	(2,995,768)
	1,251,695	1,359,975
	$ 30,115,838	$ 30,905,971

See accompanying notes

On behalf of the board:

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

Gulf & Pacific Equities Corp.
Statements of Deficit
For the Years Ended December 31, 2007 and 2006

	2007	2006
Balance - Beginning of Year	**$ (2,995,768)**	$ (2,220,227)
Net loss	**(385,827)**	(764,238)
Debt settlement costs (note 13)	**(14,514)**	(11,303)
Balance - End of Year	**$ (3,396,109)**	$ (2,995,768)

See accompanying notes

Gulf & Pacific Equities Corp.

Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2007 and 2006

	2007	2006
Revenue		
Rental	$ 3,237,451	$ 1,659,451
Common area and realty tax recoveries	1,241,839	382,764
Interest and other	10,715	44,108
	4,490,005	2,086,323
Expenses		
Interest	2,117,667	1,383,895
Operating costs and realty taxes	1,459,276	434,790
Administration	654,013	557,185
Amortization	567,672	391,326
Stock-based compensation (note 13)	77,204	83,365
	4,875,832	2,850,561
Net Loss and Comprehensive Loss	$ (385,827)	$ (764,238)
Loss per Common Share-Basic and Diluted (note 17)	$ (0.05)	$ (0.10)
Weighted Average Number of Common Shares Outstanding Basic and Diluted (note 17)	8,346,715	7,814,795

See accompanying notes

Gulf & Pacific Equities Corp.

Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	2007	2006
Funds Provided (Used)		
Operating Activities		
Net loss	$ (385,827)	$ (764,238)
Accrued rent receivable	(131,914)	(11,483)
Accretion of discount on convertible debentures	245,116	311,014
Amortization of deferred financing and leasing costs	179,753	101,356
Amortization of revenue-producing properties	594,284	393,853
Amortization of capital assets	1,679	583
Amortization of intangible assets	158,366	14,362
Amortization of intangible liabilities	(186,659)	(17,473)
Loss on settlement of convertible debentures	14,226	13,121
Stock-based compensation (note 13)	77,204	83,365
	566,228	124,460
Changes in non-cash balances related to operations:		
Prepaid expenses	(15,826)	3,127
Accounts receivable	(239,211)	(85,341)
Accounts payable and accrued liabilities	232,077	(240,413)
	543,268	(198,167)
Financing Activities		
Increase in mortgages payable	-	22,000,000
Repayment of mortgages payable	(442,718)	(8,525,695)
Repayment of convertible debentures	(3,000)	-
Deferred financing and leasing costs	(19,500)	(365,040)
Proceeds from loans	-	1,000,000
Issuance of share capital upon exercise of options	-	66,797
	(465,218)	14,176,062
Investing Activity		
Additions to revenue-producing properties	(8,246)	(14,481,386)
Increase (Decrease) in Cash	69,804	(503,491)
Cash		
Beginning of Year	121,740	625,231
End of Year	$ 191,544	$ 121,740
Supplemental Cash Flows Information		
Interest paid	$ 1,675,445	$ 1,059,513

See accompanying notes

The Corporation was incorporated as Gulf & Pacific Equities Corp. 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 Corporation is listed on the TSX Venture Exchange. The Corporation commenced active operations during the 1999 fiscal year. The Corporation owns and operates commercial 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:

In 2006, deferred financing costs represented the unamortized cost of the issue of the convertible debentures and mortgages. Amortization was provided on a straight-line basis, over the term of the related debt and was included in interest expense for the year.

Starting on January 1, 2007, 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 (see change in accounting policy note 2(a)).

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, cont'd:

(c) Capital assets:

Capital assets are stated at cost. Amortization is provided for over the estimated useful lives of the assets using the declining balance method and the following annual rates:

Asset	Rate
Furniture and fixtures	20%
Office equipment	30%

(d) Long lived assets:

Long-lived assets, including revenue-producing properties, intangible assets and capital assets, are amortized over the useful lives. The Corporation 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.

(e) Financial instruments:

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.

(f) Stock-based compensation:

The Corporation has a stock-based compensation plan which is described in note 13. The Corporation 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 Corporation 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.

(g) Issue costs:

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

1. Summary of significant accounting policies, cont'd:

(h) Revenue recognition:

The Corporation 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.

The Corporation 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.

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.

(i) Income taxes:

The Corporation 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 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 Corporation's provision for current income taxes and the difference between the beginning and ending balances of the future income tax assets and liabilities.

(j) Statement of cash flows:

The Corporation 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.

(k) 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 and fair values of financial instruments.

2. Change in accounting policies:

a) Financial instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments, and Section 3865, Hedges.

These changes in accounting policy are not applied retroactively and accordingly, comparative amounts for prior periods, if any, have not been restated.

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Financial assets

Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

2. Change in accounting policies, cont'd:

Financial liabilities

Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
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

CICA Handbook Section 3865, Hedges, replaces CICA Handbook Accounting Guideline 13, Hedging Relationships, which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income.

CICA Handbook Section 1530, Comprehensive Income, establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income.

2. Change in accounting policies, cont'd:

Upon initial application of these new recommendations, all adjustments to the carrying amount of financial assets and liabilities are recognized as an adjustment to the opening balance of Deficit or Accumulated Other Comprehensive Income, depending on the classification of existing financial assets or liabilities. Under the recommendations, the Company has done a reclassification of deferred financing fees for an amount of $518,545 previously shown separately on the balance sheet as Deferred financing costs to the carrying amount of its related debt. The Company had no changes to Deficit, beginning of year and no Accumulated Other Comprehensive Income.

b) Accounting changes

Effective January 1, 2007, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective.

The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 20.

3. Revenue-producing properties:

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**

2006	Cost	Accumulated amortization	**Net book value**
Land	$ 4,116,501	$ -	**$ 4,116,501**
Building	25,629,459	1,164,524	**24,464,935**
Paving	766,254	191,221	**575,033**
	$ 30,512,214	$ 1,355,745	**$ 29,156,469**

In December 2006, the Corporation acquired the Tri-City Mall in Cold Lake, Alberta for $13,300,000 plus acquisition costs of $71,408. In addition, the Corporation agreed to pay an additional $658,776 if the property becomes fully leased at any time up to December 7, 2021. Since the Corporation expects to fully lease the property in 2008, this obligation has been fully provided for and added to the cost of the acquisition.

The acquisition was accounted for in accordance with the Corporation's accounting policies.

The purchase price was allocated as follows:

Land	**$ 2,700,000**
Building	**11,439,457**
Above-market leases	**769,578**
Lease origination costs	**54,173**
Tenant relationships	**24,415**
Below-market leases	**(957,439)**
	14,030,184
Less:	
Mortgage financing arranged	**(10,000,000)**
Loans payable financing arranged	**(1,000,000)**
Purchase price payable	**(658,776)**
Vendor take back mortgage	**(1,500,000)**
Total consideration paid in cash	**$ 871,408**

4. Deferred financing and leasing costs:

		2007		2006
Cost	**$**	**15,750**	$	712,166
Accumulated amortization		**(8,624)**		(204,235)
	$	**7,126**	$	507,931

As at January 1, 2007, financing charges are not shown as an asset, but are offset against the related debt (see note 1(b)).

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:

		2007		2006
Intangible assets				
Lease origination costs	**$**	**54,173**	$	54,173
Tenant relationships		**24,415**		24,415
Above-market leases		**769,578**		769,578
		848,166		848,166
Less accumulated amortization				
Lease origination costs		**(14,238)**		(1,402)
Tenant relationships		**(7,689)**		(788)
Above-market leases		**(150,801)**		(12,172)
Total net	**$**	**675,438**	$	833,804

6. Capital assets:

2007		Cost		Accumulated amortization		**Net book value**
Furniture and fixtures	$	3,455	$	3,455	**$**	**-**
Office equipment		6,505		6,505		**-**
	$	9,960	$	9,960	**$**	**-**

2006		Cost		Accumulated amortization		**Net book value**
Furniture and fixtures	$	3,455	$	2,693	**$**	**762**
Office equipment		6,505		5,588		**917**
	$	9,960	$	8,281	**$**	**1,679**

7. Mortgages payable:

	2007	2006
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of $4,310, due March 2012	**$ 190,454**	$ 227,856
Mortgage payable, bearing interest at 7.05%, repayable monthly in blended principal and interest payments of $1,544, due January 2010	**183,629**	189,192
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	**8,836,606**	9,000,000
Mortgage payable, bearing interest at 15.00%, monthly payments of interest only due December 2008	**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	**3,908,656**	3,987,299
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of $48,506, due October 2013	**7,816,810**	7,974,526
	23,436,155	23,878,873
Unamortized mortgage financing costs	**(246,393)**	-
	$ 23,189,762	$ 23,878,873

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)).

7. Mortgages payable, cont'd:

Principal repayments required under the terms of the mortgages are approximately as follows:

2008	**$ 1,482,487**
2009	**2,009,228**
2010	**703,901**
2011	**4,109,553**
2012	**8,242,917**
2013	**6,888,069**
	$ 23,436,155

8. Convertible debentures:

	December 31, 2007		December 31, 2006	
	Face Value	**Carrying amount**	Face value	Carrying amount
8% debentures	**$ 2,960,000**	**$ 2,589,863**	$ 3,170,000	$ 2,529,310
Unamortized deferred financing costs	**-**	**(94,159)**	-	-
	$ 2,960,000	**$ 2,495,704**	$ 3,170,000	$ 2,529,310

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

(i) $60,000 of the convertible debentures matured on January 1, 2007 and was converted by the holders into common shares of the Corporation at one common share for each $0.38 principal amount of debentures, except for $3,000 which was repaid in cash.

(ii) $900,000 of the convertible debentures bear interest at 8%, matured September 1, 2007, which was extended to September 1, 2008, and can be converted by the holder into common shares of the Corporation at one common share for each $0.40 principal amount of debentures.

8. **Convertible debentures**, cont'd:

(iii) $2,060,000 of 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 Corporation at the following rates: one common share for each $0.315 principal amount of debentures converted during the first two years from the closing date; one common share for each $0.350 principal amount of debentures converted during the third year from the closing date; $0.385 principal amount of debentures converted during the fourth year from the closing date; and $0.425 principal amount of debentures converted during the fifth year from the closing date. The Corporation 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 Corporation 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 prices and the cumulative trading volume of the common shares of the Corporation 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; and $1.00 per common share at any time during the third, fourth and fifth years from closing date.

These convertible debentures were issued on November 18, 2004 in connection with a private placement. The Corporation 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.

During 2006, $90,000 of the debentures were converted to 285,714 common shares (see note 13). During 2007, $150,000 of the debentures were converted to 428,571 common shares (see note 13).

9. 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. Interest on the loan to the end of the year of $2,500 has been accrued and has been included in interest expense.

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. Interest on the loan to the end of the year of $2,500 has been accrued and has been included in interest expense.

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

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

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:

		2007		2006
Intangible liabilities				
Below-market leases	**$**	**957,439**	$	957,439
Less accumulated amortization				
Below-market leases		**(204,132)**		(17,473)
Total net	**$**	**753,307**	$	939,966

11. Commitments:

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

2008	**$**	**30,625**
2009		**33,015**
2010		**33,228**
2011		**34,293**
2002		**36,636**
2013		**6,177**
	$	**173,974**

12. Financial instruments:

The fair values of accounts receivable, accrued rent receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their relatively short-terms to maturity.

Mortgages payable, convertible debentures, purchase price payable and loans payable liabilities are impacted by changes in market yields which can result in differences between the carrying amount and the fair value of such instruments. The fair value of the mortgages payable approximates $21,790,000. The fair values of the convertible debentures and loans payable approximate their carrying amounts .

13. 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 (i)	578,568	251,667
Balance - December 31, 2007	8,672,303	$ 2,749,312

During the 2007 year, the Corporation 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.

Common shares	Number	Amount
Balance - December 31, 2005	7,506,371	$ 2,265,871
Issued for: conversion of debentures (i)	285,714	120,577
exercise of options (ii)	301,650	111,197
Balance - December 31, 2006	8,093,735	$ 2,497,645

During the 2006 year, the Corporation:

i) Issued 285,714 common shares pursuant to the conversion of $90,000 debentures. The carrying value of the liability component and equity component of the debentures of $68,682 and $25,767 respectively, plus accrued interest of $1,703 forfeited, and the fair value of the incremental number of shares issued due to the early conversion of $24,425 has been allocated to the common shares.

Debt settlement costs of the equity component of $11,303 have been charged to retained earnings.

ii) Issued 301,650 common shares to directors and officers pursuant to the exercise of an equivalent number of stock options for cash proceeds of $66,797. The Corporation has allocated the $44,400 recorded value of these options to the common shares.

13. Share capital, cont'd:

(b) Stock-based compensation:

The Stock Option Plan reserves a maximum of 10% of the issued and outstanding shares of the Corporation (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.

During the 2006 year, the Corporation:

i) Granted 50,000 fully vested stock options to a director. Each option entitles the holder to purchase one share of the Corporation's common stock at a price of $0.305 per share until April 26, 2011. The estimated fair value of $14,665 has been recorded as stock-based compensation.

ii) Granted 300,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Corporation's common stock at a price of $0.305 per share until June 9, 2011. The estimated fair value of $68,700 has been recorded as stock-based compensation.

The weighted average grant-date fair value of options granted in 2006 was $0.238.

The fair value of stock options to directors, officers and employees was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	4.29%
Expected life	5.0 years
Expected volatility	88%

During the 2007 year, the Corporation granted 364,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Corporation'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 Corporation's stock options.

13. Share capital, cont'd:

A summary of the status of the Corporation's Plan as at December 31, 2007 and 2006 and the changes during the years are presented below:

	2007			2006		
	Options		**Weighted Average exercise price per option**	Options		Weighted Average exercise price per option
Outstanding, beginning of year	**750,000**	**$**	**0.275**	701,650	$	0.240
Granted	**364,000**		**0.300**	350,000		0.305
Exercised	**-**			(301,650)		0.221
Expired/cancelled	**(290,000)**		**0.305**	-		-
Outstanding, end of year	**824,000**	**$**	**0.276**	750,000	$	0.275
Exercisable, end of year	**824,000**	**$**	**0.276**	750,000	$	0.275

At December 31, 2007, 824,000 options which had been granted to certain directors, officers, employees and consultants to purchase common shares of the Corporation subject to various requirements were outstanding as follows:

Outstanding	Exercisable	Year of grant		Exercise price per option	Expiry date
180,000	180,000	2003	$	0.180	August 26, 2008
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
824,000	824,000				

14. Contributed surplus:

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants. The changes during 2007 and 2006 are as follows:

		2007		2006
Balance - beginning of year	**$**	**341,405**	$	100,040
Options granted (note 13)		**77,204**		83,365
Options exercised (note 13)		**-**		(44,400)
Warrants expired (note 15)		-		202,400
Balance - end of year	**$**	**418,609**	$	341,405

15. Warrants:

The Corporation issued 4,025,000 warrants in 2004 in connection with a private placement. Each warrant entitles the holder to acquire a common share of the Corporation for $0.40 until November 18, 2006. The Corporation has the right to accelerate the exercise period of the warrants to 30 days from the end of the Trading Period if the common shares of the Corporation trade at a price of $0.60 or more per common share for a Trading Period and the cumulative trading volume of the common shares of the Corporation during this Trading Period represents not less than 5% of Corporation's issued and outstanding common shares.

During the 2006 year, these warrants expired (see note 14).

16. Related party transactions:

During the year, the Corporation charged related parties rent totaling approximately $34,641 (2006 - $34,911). The companies are related by virtue of the fact that they have the same President. As at December 31, 2007, included in accounts receivable is an amount of $11,810 (2006 - $9,180) due from these related parties.

During the year, the Corporation was charged consulting fees of $66,000 (2006 - $36,000) by an officer.

During the year, the Corporation incurred accounting fees of $91,750 (2006 - $85,500) 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 $55,010 (2006 - $85,500) payable to this accounting firm.

Interest expense on loans payable to related parties is disclosed in note 9.

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. Loss per common share:

Loss per common share is calculated using the weighted average number of common shares outstanding computed on a daily basis.

The effect of the conversion of debentures and stock options would not have had a dilutive effect.

18. 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:

	2007	2006
Loss for the year	**$ (385,827)**	$ (764,238)
Income tax recovery computed at statutory rates	**(128,000)**	(260,000)
Reduction (increase) in income tax recovery resulting from:		
Difference between amortization for accounting and tax, share issue costs and deferred income	**136,000**	158,000
Non-deductible expense	**102,000**	134,000
Non-capital losses carried forward	**(110,000)**	(32,000)
	$ -	$ -

(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, 2007 and 2006 are presented below:

	2007	2006
Future tax assets:		
Issue costs	**$ 7,000**	$ 22,000
Revenue-producing properties	**456,000**	-
Non-capital loss carryforwards	**96,000**	183,000
	559,000	205,000
Less: valuation allowance	**384,000**	65,000
	175,000	140,000
Future tax liabilities:		
Accrued rent receivable	**66,000**	32,000
Intangibles	**109,000**	-
Revenue-producing properties	**-**	108,000
	175,000	140,000
Net future tax assets	**$ -**	$ -

The valuation allowance for future tax assets as at December 31, 2007 and December 31, 2006 was $384,000 and $65,000, respectively. The net change in the total valuation allowance for the year ended December 31, 2007 was an increase of $319,000. 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.

18. Income taxes, cont'd:

(c) At December 31, 2007, the Corporation had net capital loss carry forwards for federal income tax purposes in Canada of approximately $26,000. The net capital loss carryforwards have no expiry dates.

At December 31, 2007, the Corporation had non-capital loss carryforwards of approximately $332,000 which are available to reduce taxable income of future years and expire as follows:

2009	$	**136,000**
2010		**71,000**
2016		**94,000**
2027		**31,000**
	$	**332,000**

19. Subsequent event:

On March 11, 2008, the Corporation 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 Corporation's public float.

The Bid commenced on March 10, 2008 and will continue until the earlier of March 9, 2009 and the date by which the Corporation has acquired the maximum 546,051 shares which may be purchased under the Bid. The Bid will be made through the facilities of the TSXV 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 Corporation under the Bid will be cancelled.

20. Recent accounting pronouncements:

Recent accounting pronouncements issued and not yet effective:

Capital disclosures

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

Financial instruments disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type

20. Recent accounting pronouncements, cont'd:

of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

Financial instruments presentation

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

General standards on financial statement presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The changes are effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its financial statements.

Goodwill and intangible assets

On January 31, 2008, the CICA issued a new accounting standards Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 will replace Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard will be effective for the Company for the first quarter of 2009. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.