Financial Statements

Gulf & Pacific Equities Corp.

For the Years Ended December 31, 2012 and 2011
(Stated in Canadian Dollars)

INDEX

GULF & PACIFIC EQUITIES CORP.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements were prepared by the management of Gulf & Pacific Equities Corp., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

(Signed) "Anthony J. Cohen"
President and CEO

(Signed) "Greg K.W. Wong"
CFO

Toronto, Ontario
April 25, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Gulf & Pacific Equities Corp.:

We have audited the financial statements of Gulf & Pacific Equities Corp. which comprises the statement of financial position as at December 31, 2012 and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gulf & Pacific Equities Corp. as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

2500-201 Portage Avenue, Winnipeg, Manitoba, R3B 3K6, Phone: (204) 775-4531, 1 (877) 500-0795

MNP

Other Matter

The comparative figures as at December 31, 2011 and for the year then ended were audited by another firm of Chartered Accountants who expressed an unqualified opinion in their report dated April 30, 2012.

MNP LLP

Winnipeg, Manitoba
April 25, 2013

Chartered Accountant

Gulf & Pacific Equities Corp.

Statements of Financial Position
(Stated in Canadian Dollars)

	December 31, 2012	December 31, 2011
Assets		
Cash	$ 1,417,517	$ 946,753
Other amounts receivable (note 4)	148,208	1,073,209
Prepaid expenses	181,889	78,654
Investment properties (note 3)	28,090,000	28,090,000
	$ 29,837,614	$ 30,188,616
Liabilities		
Mortgages payable (note 5)	$ 14,610,584	$ 14,343,817
Convertible debentures (note 6)	3,741,401	3,367,975
Purchase price payable (note 7)	658,776	658,776
Deferred income taxes (note 10)	1,026,000	1,175,000
Accounts payable and accrued liabilities	567,618	520,274
	20,604,379	20,065,842
Commitments (note 8)		
Shareholders' Equity		
Share Capital (note 9)	2,835,212	2,835,212
Equity Component of Convertible Debentures (note 6)	1,131,712	1,131,712
Contributed Surplus	2,500,695	2,418,796
Retained Earnings	2,765,616	3,737,054
	9,233,235	10,122,774
	$ 29,837,614	$ 30,188,616

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

Approved on behalf of the Board

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

Gulf & Pacific Equities Corp.

Statements of Comprehensive Income (Loss)
For the Years Ended December 31
(Stated in Canadian Dollars)

	2012	2011
Revenue		
Rental	$ 1,939,906	$ 2,540,025
Common area and realty tax recoveries	821,658	948,221
Interest and other	38,432	7,629
	2,799,996	3,495,875
Expenses		
Interest	1,640,354	2,048,617
Operating costs and realty taxes	1,147,041	1,564,514
Administration (note 16)	728,591	749,107
Share-based compensation (note 9)	81,899	38,497
	3,597,885	4,400,735
Net Loss before fair value adjustment and income taxes	(797,889)	(904,860)
Fair value adjustment (note 3)	(322,549)	1,354,118
Net Income (Loss) before income taxes	(1,120,438)	55,954
Deferred income tax recoveries (note 10)	149,000	90,000
Net Income (Loss) and Comprehensive Income (Loss)	$ (971,438)	$ 145,954
Income (Loss) per Share - Basic and Diluted (note 2(h))	$ (0.11)	$ 0.02
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	8,936,678	8,866,815

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

Gulf & Pacific Equities Corp.

Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2012 and 2011
(Stated in Canadian Dollars)

	Share Capital										
	Shares		Amount		Equity Component of Convertible Debentures		Contributed Surplus		Retained Earnings		Total
Balance - December 31, 2010	8,861,678	$	2,816,462	$	883,995	$	2,380,299	$	3,591,100	$	9,671,856
Issue of convertible debentures	-		-		329,717		-		-		329,717
Issue of common shares	75,000		18,750		-		-		-		18,750
Share based compensation (note 9)	-		-		-		38,497		-		38,497
Convertible debentures deferred tax change	-		-		(82,000)		-		-		(82,000)
Net income	-		-		-		-		145,954		145,954
Balance - December 31, 2011	8,936,678	$	2,835,212	$	1,131,712	$	2,418,796	$	3,737,054	$	10,122,774

	Share Capital										
	Shares		Amount		Equity Component of Convertible Debentures		Contributed Surplus		Retained 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 9)	-		-		-		81,899		-		81,899
Convertible debentures deferred tax change	-		-		-		-				-
Net loss	-		-		-		-		(971,438)		(971,438)
Balance - December 31, 2012	8,936,678	$	2,835,212	$	1,131,712	$	2,500,695	$	2,765,616	$	9,233,235

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

Gulf & Pacific Equities Corp.

Statements of Cash Flow
For the Years Ended December 31
(Stated in Canadian Dollars)

	2012	2011
Cash Provided By (Used In):		
Operating Activities		
Net income (loss)	$ (971,438)	$ 145,954
Add (deduct) items not affecting cash:		
Accretion of discount on convertible debentures	362,137	295,214
Amortization of deferred financing costs	100,311	164,146
Deferred income tax recoveries	(149,000)	(90,000)
Amortization of deferred leasing costs	10,500	-
Accrued rent receivable	(58,249)	128,453
Interest expense	1,177,886	1,589,256
Property sale expenditures	-	393,304
Fair value adjustment	322,549	(1,354,118)
Share-based compensation (note 9)	81,899	38,497
	876,595	1,186,371
Changes in non-cash balances related to operations:		
Prepaid expenses	6,728	51,634
Other amounts receivable	925,001	18,716
Accounts payable and accrued liabilities	51,380	(498,427)
	1,859,704	758,294
Financing Activities		
Repayment of mortgages payable	(13,868,588)	(643,595)
Receipt of mortgage proceeds	14,500,000	240,000
Loans payable	-	(300,000)
Interest paid	(1,181,922)	(1,609,856)
Financing costs paid	(453,667)	(9,929)
Convertible debentures redeemed	-	(50,000)
	(1,004,177)	(2,373,380)
Investing Activities		
Sale of investment properties	-	2,497,457
Investment property expenditures	(384,763)	-
Increase in Cash	470,764	882,371
Cash - beginning of year	946,753	64,382
Cash - end of year	$ 1,417,517	$ 946,753

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

Gulf & Pacific Equities Corp. (“the Company”) was incorporated under the Business Corporations Act (Alberta) on April 8, 1998 and on June 17, 1998 filed Articles of Amendment to remove certain private corporation restrictions. The 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 April 25, 2013.

1. Basis of Presentation

a) Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company follows accounting policies under IFRS as disclosed in Note 2.

The policies applied in the Company's financial statements are based on IFRS effective as of December 31, 2012. The date that the Board of Directors approved the statements is April 25, 2013.

b) Basis of Measurement

The Company's 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.

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 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 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 included in, 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 included 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 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 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 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 comprehensive income (loss) 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, share capital 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.

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 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.

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 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.

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.

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.

In June 2011, the IASB made amendments to IAS 1, Presentation of Financial Statements (“IAS 1”). The amendments require that items of other comprehensive income are grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are required to be allocated on the same basis. The amendments to lAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company does not expect the amendments to IAS 1 to have a material impact on its financial statements.

(Stated in Canadian Dollars)

3. Investment Properties

	December 31, 2012	December 31, 2011
Balance - beginning of year	$ 28,090,000	$ 37,740,000
Additions	169,800	-
Leasing costs	94,500	124,335
Accrued rent receivable	58,249	(128,453)
Fair value adjustments	(322,549)	1,354,118
Disposals	-	(11,000,000)
Balance - end of year	$ 28,090,000	$ 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.

External appraisals for two of the most significant properties representing $26,400,000 of the total value, out of four total properties, were obtained at November 24, 2011. At December 31, 2012 and December 31, 2011, 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 December 31, 2011 and December 31, 2012 were used in determining the fair value of the properties. The weighted average capitalization rates are 8.36% for December 31, 2011 and 8.36% for December 31, 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. Other Amounts Receivable

Other amounts receivable include trade accounts receivable of $148,208 (December 31, 2011 - $73,209) and an amount of $Nil (December 31, 2011 - $1,000,000) due from the purchaser of an investment property sold in 2011.

(Stated in Canadian Dollars)

5. Mortgages Payable

	December 31, 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	483,434	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, until February 23, 2013, due February 23, 2017	14,500,000	-
	14,983,434	14,352,024
Unamortized mortgage financing costs	(372,850)	(8,207)
	$ 14,610,584	$ 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)).

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

2013	$ 835,187
2014	442,654
2015	466,197
2016	490,994
2017	12,748,402
	$ 14,983,434

(Stated in Canadian Dollars)

6. Convertible Debentures

	December 31, 2012		December 31, 2011	
	Face value	Carrying amount	Face value	Carrying amount
8% - December 31, 2014 (i)	3,587,500	2,900,506	3,587,500	2,600,137
8% - October 31, 2015 (ii)	1,115,000	877,216	1,115,000	815,448
	4,702,500	3,777,722	4,702,500	3,415,585
Unamortized deferred financing costs	-	(36,321)	-	(47,610)
	$ 4,702,500	$ 3,741,401	$ 4,702,500	$ 3,367,975

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

(i) This series of convertible debentures bear interest at 8%, mature December 31, 2014 and are unsecured. The debentures could have been 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 can be $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.

During 2012, debentures amounting to $Nil (December 31, 2011 - $18,750) were converted to common shares.

As at December 31, 2012, the total debentures of this series outstanding amounted to $3,587,500 (December 31, 2011 - $3,587,500).

(ii) 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 and the Company are related by virtue of the fact that they have the same President. The debentures could have been 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 can be $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. 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 year ended December 31, 2012, the Company incurred interest expense relating to the convertible debentures of $66,900. As at December 31, 2012, accounts payable and accrued liabilities included $37,167 payable to the related party in interest.

(Stated in Canadian Dollars)

6. Convertible Debentures (continued)

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

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 December 31, 2012, the property was not fully leased.

8. Commitments

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

2013	$ 6,177
	$ 6,177

9. Share Capital

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

Common shares	Number	Amount
Balance - January 1, 2011	8,861,678	$ 2,816,462
Issued during 2011	75,000	18,750
Balance - December 31, 2011 and December 31, 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. The shares have no par value.

(Stated in Canadian Dollars)

9. Share Capital (continued)

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.

A summary of the status of the Company's Plan as at December 31, 2012 and December 31, 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	$ 0.253
Exercisable, end of period	891,000	$ 0.239	855,000	$ 0.253

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%

(Stated in Canadian Dollars)

9. Share Capital (continued)

d) 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 December 31, 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			

(Stated in Canadian Dollars)

10. Income Taxes

a) The major components of income tax expense (recovery) are as follows:

	2012	2011
Deferred tax expense (recovery) relating to origination and reversal of temporary differences and unused tax losses	(185,000)	(99,000)
Deferred tax expense (recovery) relating to changes in tax rates	39,000	9,000
Benefit arising from previously unrecognized tax loss of a prior period used to reduce deferred tax expense	(3,000)	-
	$ (149,000)	$ (90,000)

b) Income tax recovery attributable to the income (loss) differs from the amounts computed by applying the combined federal and provincial income tax rates of 25.8% (2011 - 27.4%) to the pretax income (loss) as a result of the following:

	2012	2011
Net income (loss) before income taxes	$ (1,120,438)	$ 55,954
Income taxes computed at statutory rates	(276,000)	15,000
Non-deductible expense	21,000	11,000
Change in tax rates	39,000	9,000
Difference in tax rates for capital gains	42,000	(132,000)
Tax loss carried forward utilized	(3,000)	-
Other	28,000	7,000
Deferred income tax recoveries	$ (149,000)	$ (90,000)

(Stated in Canadian Dollars)

10. Income Taxes (continued)

c) The continuity of deferred tax assets and liabilities recorded in the financial statements is as follows:

	January 1, 2012	Recognized in income (loss)	Recognized in equity	December 31, 2012
Deferred tax assets				
Financing costs	$ 13,000	$ (4,000)	$ -	$ 9,000
Unused tax losses	-	114,000	-	114,000
Other	31,000	(31,000)	-	-
	44,000	79,000	-	123,000
Deferred tax liabilities				
Investment properties	(897,000)	(13,000)	-	(910,000)
Convertible debentures	(322,000)	83,000	-	(239,000)
	(1,219,000)	70,000	-	(1,149,000)
Net	$ (1,175,000)	$ 149,000	$ -	$ (1,026,000)

	January 1, 2011	Recognized in income (loss)	Recognized in equity	December 31, 2011
Deferred tax assets				
Financing costs	$ -	$ 13,000	$ -	$ 13,000
Unused tax losses	50,000	(50,000)	-	-
Other	33,000	(2,000)	-	31,000
	83,000	(39,000)	-	44,000
Deferred tax liabilities				
Investment properties	(935,000)	38,000	-	(897,000)
Financing costs	(18,000)	18,000	-	-
Convertible debentures	(313,000)	73,000	(82,000)	(322,000)
	(1,266,000)	129,000	(82,000)	(1,219,000)
Net	$ (1,183,000)	$ 90,000	$ (82,000)	$ (1,175,000)

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.

The Company had no embedded derivatives requiring separate recognition as at December 31, 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 statement of financial position 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.

A change of 0.5% in interest rates would impact the fair value of fixed rate mortgages payable by approximately $45,000. Changes in interest rates do not impact the cash flow of the fixed rate mortgages.

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 $148,208.

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to $84,200 (2011 - $44,360) which is due from related parties as described in note 13.

(Stated in Canadian Dollars)

11. 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 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 December 31, 2012, the Company's financial liabilities include accounts payable and accrued liabilities, debt component of convertible debentures (note 6) and mortgages payable (note 5).

The following are estimated maturities of the Company's financial liabilities at December 31, 2012 with convertible debentures disclosed at their face value:

	2013	2014	2015	2016	2017	Total
Accounts payable and accrued liabilities	$ 567,618	$ -	$ -	$ -	$ -	$ 567,618
Convertible debentures	-	3,587,500	1,115,000	-	-	4,702,500
Mortgages payable	835,187	442,654	466,197	490,994	12,748,402	14,983,434
	$ 1,402,805	$ 4,030,154	$ 1,581,197	$ 490,994	$ 12,748,402	$ 20,253,552

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.

(Stated in Canadian Dollars)

13. Related Party Transactions

During the year ended December 31, 2012, the Company:

a) Charged related parties rent totalling approximately $35,257 (December 31, 2011 - $35,257). The companies are related by virtue of the fact that they have the same President. As at December 31, 2012, included in accounts receivable is an amount of $84,200 (December 31, 2011 - $39,562) due from these related parties.

b) Was charged consulting fees of $87,100 (December 31, 2011 - $87,100) by an officer. As at December 31, 2012, accounts payable and accrued liabilities included $537 payable to this officer (December 31, 2011 - $Nil).

c) Incurred accounting fees of $107,405 (December 31, 2011 - $101,910) with an accounting firm in which one of the Company's officers is a partner. As at December 31, 2012, accounts payable and accrued liabilities included $17,055 (December 31, 2011 - $39,000) payable to this accounting firm.

d) Other related party transactions are disclosed in note 6ii.

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.

14. Management Compensation

Key management includes all directors (management and non-management directors) and the Chief Financial Officer. The Chief Executive Officer is a management director. The compensation paid or payable to key management for services is shown below:

	December 31, 2012	December 31, 2011
Salaries	$ 134,306	$ 132,000
Consulting	87,100	87,100
Directors fees	71,000	27,500
Share-based compensation	81,899	36,575
	$ 374,305	$ 283,175

(Stated in Canadian Dollars)

15. Revenue

The Company enters into long-term lease contracts with tenants for space in its properties. Initial lease terms are generally between 5 and 10 years. Leases generally provide for the tenant to pay the Company base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating cost and realty tax recoveries.

Minimum rent payments under non-cancellable operating leases are as follows:

Not later than 1 year	$ 1,284,867
Later than 1 year and not later than 5 years	3,869,502
Later than 5 years	845,671
	$ 6,000,040

16. Administration

The administration account is broken down as follows:

	2012	2011
Bank and service charges	$ 4,840	$ 6,739
Office & general	48,396	67,929
Interest and other	62,500	-
Professional fees	263,315	281,723
Rent	66,201	66,222
Taxes and fees	-	79,151
Transfer and filing fees	20,871	27,413
Wages and benefits	262,468	219,930
	$ 728,591	$ 749,107