Consolidated Financial Statements

Gulf & Pacific Equities Corp.

For the Years Ended December 31, 2013 and 2012
(Stated in Canadian Dollars)

INDEX

Management's Responsibility for Financial Reporting	**1**
Independent Auditors' Report	**2**
Consolidated Statements of Financial Position	**3**
Consolidated Statements of Comprehensive Income (Loss)	**4**
Consolidated Statements of Changes in Shareholders' Equity	**5**
Consolidated Statements of Cash Flow	**6**
Notes to the Consolidated Financial Statements	**7 - 26**

GULF & PACIFIC EQUITIES CORP.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated 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, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Gulf & Pacific Equities Corp.:

We have audited the consolidated financial statements of Gulf & Pacific Equities Corp. and its subsidiary which comprise of the consolidated statement of financial position as at December 31, 2013 and 2012 and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gulf & Pacific Equities Corp. and its subsidiary as at December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Winnipeg, Manitoba
April 25, 2014

Chartered Accountants

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

Gulf & Pacific Equities Corp.

Consolidated Statements of Financial Position
(Stated in Canadian Dollars)

	December 31, 2013	December 31, 2012
Assets		
Cash	$ 330,103	$ 1,417,517
Other amounts receivable (note 4)	92,297	148,208
Prepaid expenses	78,808	181,889
Investment properties (note 3)	34,077,708	28,090,000
	$ 34,578,916	$ 29,837,614
Liabilities		
Mortgages payable (note 5)	$ 14,335,710	$ 14,610,584
Convertible debentures (note 6)	4,148,226	3,741,401
Purchase price payable (note 7)	658,776	658,776
Loan payable (note 8)	2,500,000	-
Deferred income taxes (note 11)	1,027,000	1,026,000
Accounts payable and accrued liabilities	1,170,420	567,618
	23,840,132	20,604,379
Commitments (note 9)		
Shareholders' Equity		
Share Capital (note 10)	2,845,212	2,835,212
Equity Component of Convertible Debentures (note 6)	1,131,712	1,131,712
Contributed Surplus	2,500,695	2,500,695
Retained Earnings	4,261,165	2,765,616
	10,738,784	9,233,235
	$ 34,578,916	$ 29,837,614

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

Approved on behalf of the Board

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

Gulf & Pacific Equities Corp.

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

	2013	2012
Revenue		
Rental	$ 1,697,206	$ 1,939,906
Common area and realty tax recoveries	695,200	821,658
Interest and other	9,575	38,432
	2,401,981	2,799,996
Expenses		
Interest	1,718,267	1,640,354
Operating costs and realty taxes	1,442,007	1,147,041
Administration (note 17)	774,905	728,591
Share-based compensation (note 10)	-	81,899
	3,935,179	3,597,885
Net Loss before fair value adjustment and income taxes	(1,533,198)	(797,889)
Fair value adjustment (note 3)	3,029,747	(322,549)
Net Income (Loss) before income taxes	1,496,549	(1,120,438)
Deferred income tax recoveries (expense) (note 11)	(1,000)	149,000
Net Income (Loss) and Comprehensive Income (Loss)	$ 1,495,549	$ (971,438)
Income (Loss) per Share - Basic	$ 0.17	$ (0.11)
Income (Loss) per Share - Diluted	$ 0.06	$ (0.11)
Weighted Average Number of Common Shares Outstanding - Basic (note 10)	8,937,401	8,936,678
Weighted Average Number of Common Shares Outstanding - Diluted (note 10)	25,470,068	8,936,678

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

Gulf & Pacific Equities Corp.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2013 and 2012
(Stated in Canadian Dollars)

	Share Capital		Equity Component of Convertible Debentures	Contributed Surplus	Retained Earnings	Total
	Shares	Amount				
Balance - December 31, 2011	8,936,378	$ 2,835,212	$ 1,131,712	$ 2,418,796	$ 3,737,054	$ 10,122,774
Share based compensation (note 10)	-	-	-	81,899	-	81,899
Net loss and comprehensive loss	-	-	-	-	(971,438)	(971,438)
Balance - December 31, 2012	8,936,378	$ 2,835,212	$ 1,131,712	$ 2,500,695	$ 2,765,616	$ 9,233,235

	Share Capital		Equity Component of Convertible Debentures	Contributed Surplus	Retained Earnings	Total
	Shares	Amount				
Balance - December 31, 2012	8,936,678	$ 2,835,212	$ 1,131,712	$ 2,500,695	$ 2,765,616	$ 9,233,235
Conversion of convertible debentures	33,333	10,000	-	-	-	10,000
Net income and comprehensive income	-	-	-	-	1,495,549	1,495,549
Balance - December 31, 2013	8,970,011	$ 2,845,212	$ 1,131,712	$ 2,500,695	$ 4,261,165	$ 10,738,784

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

Gulf & Pacific Equities Corp.

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

	2013	2012
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income (loss)	$ 1,495,549	$ (971,438)
Add (deduct) items not affecting cash:		
Accretion of discount on convertible debentures	388,664	362,137
Amortization of deferred financing costs	110,838	100,311
Deferred income tax expense (recoveries)	1,000	(149,000)
Amortization of deferred leasing costs	31,642	10,500
Accrued rent receivable	(110,670)	(58,249)
Interest expense	1,207,635	1,177,886
Fair value adjustment	(3,029,747)	322,549
Share-based compensation (note 10)	-	81,899
	94,911	876,595
Changes in non-cash balances related to operations:		
Prepaid expenses	95,981	6,728
Other amounts receivable	55,911	925,001
Accounts payable and accrued liabilities	623,063	51,380
	869,866	1,859,704
Financing Activities		
Repayment of mortgages payable	(835,186)	(13,868,588)
Receipt of mortgage proceeds	467,635	14,500,000
Loan payable	2,500,000	-
Interest paid	(1,227,896)	(1,181,922)
Financing costs paid	7,100	(453,667)
Convertible debentures redeemed	10,000	-
	921,653	(1,004,177)
Investing Activities		
Investment property expenditures	(2,878,933)	(384,763)
Increase (Decrease) in Cash	(1,087,414)	470,764
Cash - beginning of period	1,417,517	946,753
Cash - end of period	$ 330,103	$ 1,417,517

The accompanying notes form an integral part of these consolidated 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 registered address and records office of the Company is located at 18104 102 Avenue N.W., Edmonton, AB. The Company is listed on the TSX Venture Exchange as "TSX-V: GUF". The Company commenced active operations during the 1999 fiscal year. The Company owns and operates commercial rental properties in Western Canada. The Company does not have any affiliates nor is it the subsidiary of any entity. The Company owns one corporation, 766373 Alberta Ltd., which does not carry on active business.

These consolidated financial statements were authorized for issuance by the Board of Directors on April 25, 2014.

1. Basis of Presentation

a) Statement of Compliance

The Company's consolidated 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 consolidated financial statements are based on IFRS effective as of December 31, 2013. The date that the Board of Directors approved the statements is April 25, 2014.

b) Basis of Measurement

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

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

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

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

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

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

ii) Leases

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

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 consolidated financial statements unless otherwise indicated.

a) Fair value of investment property

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

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

b) Deferred financing fees

Financing fees incurred in connection with long-term debt financing are included with the related debt and are amortized using the effective interest rate basis.

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 recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management’s best estimate of the most probable set of conditions anticipated to prevail. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive income (loss) in the year. Impairment losses may be reversed in subsequent years.

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 consolidated 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 consolidated 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 that have matured and whose equity option was not converted.

l) New Accounting Policies

The Company adopted the following new standards in preparing these consolidated financial statements:

i) IFRS 13 - Fair Value Measurement

The IASB issued a new standard, IFRS 13, Fair Value Measurement (“IFRS 13”), which provides a standard definition of fair value, sets out a framework for measuring fair value and provides for specific disclosures about fair value measurements. IFRS 13 applies to all IFRS that require or permit fair value measurements or disclosures. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company adopted IFRS 13 as of January 1, 2013 on a prospective basis.

ii) IAS 1 - Presentation of 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 January 1, 2013. The adoption of the revised IAS 1 did not have an impact on the Company's consolidated results of operations, financial position and disclosures.

iii) IFRS 10 - Consolidated Financial Statements

The IASB issued a new standard, IFRS 10, Consolidated Financial Statements (“IFRS 10”), which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for consolidation and defines the principle of control. An investor controls an investee if the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 10 did not have an impact on the Company's consolidated results of operations, financial position and disclosures.

2. Summary of Significant Accounting Policies (continued)

m) Future accounting changes

IFRS 9 (Financial Instruments: Classification and Measurement), introduces new requirements for the classification and measurement of financial instruments. As the effective date has not yet been determined, management has not yet determined the potential impact on the Company's consolidated financial statements.

IFRIC 21, Levies ("IFRIC 21") provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and those where the timing and amount of the levy is certain. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. A liability is recognized progressively if the obligating event occurs over a period of time or, if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. Management is currently evaluating the impact of IFRIC 21 on the consolidated financial statements.

3. Investment Properties

	December 31, 2013	December 31, 2012
Balance - beginning of year	$ 28,090,000	$ 28,090,000
Additions	2,878,933	169,800
Leasing costs amortization	(31,642)	94,500
Accrued rent receivable	110,670	58,249
Fair value adjustments	3,029,747	(322,549)
Balance - end of year	$ 34,077,708	$ 28,090,000

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

3. Investment Properties (continued)

External appraisals for three of the four properties, representing $33,500,000 of the total value, were obtained in October 2013. At December 31, 2013 and December 31, 2012, the fair value was determined from the information directly from the external appraisals obtained during the year 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, 2012 and December 31, 2013 were used in helping to determine the fair value of the properties. The weighted average capitalization rates are 8.36% for December 31, 2012 and 8.36% for December 31, 2013. A 0.5% increase in capitalization rates has an approximate decrease of $1,867,744 on the investment properties value. The fourth property, which did not receive an appraisal, was sold subsequent to year end. See note 18. The value as at December 31, 2013 was set at the closing price. The properties that are not subject to a pending sale are classified at Level 3 on the fair value hierarchy, while the property to be sold is classified at Level 1.

4. Other Amounts Receivable

Other amounts receivable include trade accounts receivable of $69,236 (December 31, 2012 - $148,208) and a refund of taxes of $23,061 (December 31, 2012 - $Nil).

5. Mortgages Payable

	December 31, 2013	December 31, 2012
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of $4,650, due December 1, 2013	$ -	$ 483,434
Mortgage payable, bearing interest at 5.15%, repayable monthly in blended principal and interest payments of $3,735, due December 1, 2018	467,635	-
Mortgage payable, bearing interest at 5.25%, with interest only payable for the first twelve months, until February 23, 2013, repayable monthly in blended principal and interest payments of $97,250 after February 23 2013, due February 23, 2017	14,148,248	14,500,000
	14,615,883	14,983,434
Unamortized mortgage financing costs	(280,173)	(372,850)
	$ 14,335,710	$ 14,610,584

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.

5. Mortgages Payable (continued)

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

2014	$ 463,883
2015	488,546
2016	514,522
2017	12,773,170
2018	375,762
	$ 14,615,883

6. Convertible Debentures

	December 31, 2013		December 31, 2012	
	Face value	Carrying amount	Face value	Carrying amount
8% - December 31, 2014 (i)	$ 3,577,500	$ 3,215,694	$ 3,587,500	$ 2,900,506
8% - October 31, 2015 (ii)	1,115,000	950,692	1,115,000	877,216
	4,692,500	4,166,386	4,702,500	3,777,722
Unamortized deferred financing costs	-	(18,160)	-	(36,321)
	$ 4,692,500	$ 4,148,226	$ 4,702,500	$ 3,741,401

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 at $0.30 per share if converted prior to December 31, 2014.

The fair value of the debt component of the 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 the year ended December 31, 2013, debentures amounting to $10,000 were converted into 33,333 common shares.

As at December 31, 2013, the total debentures of this series outstanding amounted to $3,215,694 in carrying value.

6. Convertible Debentures (continued)

(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, Ceyx Properties Ltd., and the Company are related by virtue of the fact that they have the same President. The debentures can be converted by the holder into common shares of the Company at a conversion price of $0.30 per share if converted prior to October 31, 2015.

The fair value of the debt component of the convertible debentures was estimated at $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, 2013, debentures amounting to $Nil were converted to common shares.

As at December 31, 2013, accounts payable and accrued liabilities included $14,867 payable to the related party in interest and the total debentures of this series outstanding amounted to $950,692 in carrying value.

During the year ended December 31, 2013, the Company incurred interest expense relating to both series of convertible debentures of $375,825.

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, 2013, the property was not fully leased.

8. Loan Payable

During the year ended December 31, 2013, the Company received loan proceeds of $2,500,000 from a related corporation, Ceyx Properties Ltd.. The loan is unsecured, has no fixed terms of repayment, with access to a maximum value of up to $5,000,000, with interest payable at 6% per annum. Interest is accrued but not compounded. The loan is to be used for financing of the leasing and development of the investment properties, along with general working capital purposes. The companies are related by virtue of the fact that they have the same President. The related corporation is not a subsidiary.

9. Commitments

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

Year	Amount
2014	$ 44,091
2015	45,795
2016	47,073
2017	49,416
2018	8,307
	$ 194,682

10. Share Capital

The Company is authorized to issue unlimited preference shares and unlimited common shares. The number of issued and outstanding common shares and unexercised options and convertible debentures at December 31, 2013 and 2012 are as follows:

Common shares	Number	Amount
Shares outstanding - January 1, 2012 and December 31, 2012	8,936,678	$ 2,835,212
Issued (note 6(i))	33,333	10,000
Shares outstanding - December 31, 2013	8,970,011	$ 2,845,212
Unexercised options	891,000	
Unexercised convertible debentures	15,641,667	
Total diluted shares - December 31, 2013	25,502,678	

The Company had a normal course issuer bid that commenced on March 11, 2008 and was renewed each year until April 5, 2012 at which time the Bid was not renewed. No shares were purchased under the normal course issuer bid. The shares had no par value.

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, 2013 and December 31, 2012 and the changes during the periods are presented below:

	2013		2012	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of period	891,000	$ 0.239	855,000	$ 0.253
Granted	-	-	345,000	0.260
Expired	-	-	(309,000)	0.300
Outstanding, end of period	891,000	$ 0.239	891,000	$ 0.239
Exercisable, end of period	891,000	$ 0.239	891,000	$ 0.239

10. Share Capital (continued)

b) No stock options were granted during the year ended December 31, 2013.

c) 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%

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

At December 31, 2013, 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			

11. Income Taxes

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

	2013	2012
Deferred tax expense (recovery) relating to origination and reversal of temporary differences and unused tax losses	$ 1,000	$ (185,000)
Deferred tax expense (recovery) relating to changes in tax rates	-	39,000
Benefit arising from previously unrecognized tax loss of a prior period used to reduce deferred tax expense	-	(3,000)
	$ 1,000	$ (149,000)

11. Income Taxes (continued)

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% (2012 - 25.8%) to the pretax income (loss) as a result of the following:

	2013	2012
Net income (loss) before income taxes	$ 1,496,549	$ (1,120,438)
Income taxes computed at statutory rates	387,000	(276,000)
Non-deductible expense	2,000	21,000
Change in tax rates	-	39,000
Difference in tax rates for capital gains	(392,000)	42,000
Tax loss carried forward utilized	-	(3,000)
Other	4,000	28,000
Deferred income tax recoveries	$ 1,000	$ (149,000)

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

	January 1, 2013	Recognized in income (loss)	Recognized in equity	December 31, 2013
Deferred tax assets				
Financing costs	$ 9,000	$ (9,000)	$ -	$ -
Unused tax losses	114,000	307,000	-	421,000
	123,000	298,000	-	421,000
Deferred tax liabilities				
Investment properties	(910,000)	(399,000)	-	(1,309,000)
Convertible debentures	(239,000)	104,000	-	(135,000)
Financing costs	-	(4,000)	-	(4,000)
	(1,149,000)	(299,000)	-	(1,448,000)
Net	$ (1,026,000)	$ (1,000)	$ -	$ (1,027,000)

11. Income Taxes (continued)

	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)

12. Financial Instruments and Risk Management

Fair Value

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

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

The Company had no embedded derivatives requiring separate recognition as at December 31, 2013 and December 31, 2012.

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:

12. Financial Instruments and Risk Management (continued)

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 $73,079. 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 $92,297.

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to $58,000 (December 31, 2012 - $84,200) which is due from related parties as described in note 14.

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 13. 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, 2013, the Company's financial liabilities include accounts payable and accrued liabilities, debt component of convertible debentures (note 6) and mortgages payable (note 5).

12. Financial Instruments and Risk Management (continued)

Liquidity Risk (continued)

The following are estimated maturities of the Company's financial liabilities at December 31, 2013 with convertible debentures disclosed at their face value:

	2014	2015	2016	2017	2018	Total
Accounts payable and accrued liabilities	$ 1,170,420	$ -	$ -	$ -	$ -	$ 1,170,420
Convertible debentures	3,577,500	1,115,000	-	-	-	4,692,500
Loan payable	500,000	-	-	-	2,000,000	2,500,000
Mortgages payable	463,883	488,546	514,522	12,773,170	375,762	14,615,883
Purchase price payable	658,776	-	-	-	-	658,776
	$ 6,370,579	$ 1,603,546	$ 514,522	$ 12,773,170	$ 2,375,762	$ 23,637,579

13. 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.

14. Related Party Transactions

During the year ended December 31, 2013, the Company:

a) Charged rent to related parties, Plato Gold Corp., approximately $6,000 (December 31, 2012 - $24,000), and Ceyx Properties Ltd., approximately $13,593 (December 31, 2012 - $11,256). The companies are related by virtue of the fact that they have the same President. As at December 31, 2013, included in accounts receivable is an amount of $58,000 (December 31, 2012 - $84,200) due from these related parties.

14. Related Party Transactions (continued)

b) Was charged consulting fees of $87,100 (December 31, 2012 - $87,100) by Greg K. W. Wong, an officer of the Company. As at December 31, 2013, accounts payable and accrued liabilities included $Nil of consulting fees (December 31, 2012 - $537) payable to this officer.

c) Incurred accounting fees of $102,875 (December 31, 2012 - $107,405) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at December 31, 2013, accounts payable and accrued liabilities included $50,775 (December 31, 2012 - $17,055) payable to this accounting firm.

d) Other related party transactions are disclosed in note 6ii and note 8.

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

15. 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, 2013	December 31, 2012
Salaries	$ 132,000	$ 132,000
Consulting	87,100	87,100
Directors fees	71,000	71,000
Share-based compensation	-	81,899
	$ 290,100	$ 371,999

16. 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	$ 1,776,522
Later than 1 year and not later than 5 years	5,515,439
Later than 5 years	3,114,087
	$ 10,406,048

16. Revenue (continued)

Subsequent to the year ended December 31, 2013, various new leases were entered into with tenants resulting in the following minimum rent payments, of which include scheduled and expected rent increases:

Not later than 1 year	$	1,939,529
Later than 1 year and not later than 5 years		11,838,808
Later than 5 years		15,802,122
	$	29,580,459

17. Administration

The administration account is broken down as follows:

		2013		2012
Bank and service charges	$	4,621	$	4,840
Office & general		40,446		48,396
Interest and other		86,246		62,500
Professional fees		273,734		263,315
Rent		78,463		66,201
Transfer and filing fees		28,734		20,871
Wages and benefits		262,661		262,468
	$	774,905	$	728,591

18. Subsequent Events

Subsequent to the year ended December 31, 2013, the Company:

a) completed the sale of its property in Merritt, British Columbia for $607,000 effective February 28, 2014;

b) repaid $500,000 of the $2,500,000 on its loan payable;

c) had 80,000 stock options, with an average exercise price of $0.25 per option, expire unexercised;

d) had 120,000 stock options, with an average exercise price of $0.25 per option, exercised by the holders into 120,000 common shares.