Financial Statements

Gulf & Pacific Equities Corp.

For the Three Months Ended March 31, 2011

Unaudited

INDEX

NOTICE TO READER

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

Gulf & Pacific Equities Corp.

Statements of Financial Position
(Unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Revenue-producing properties	$ 36,962,000	$ 36,962,000	$ 36,962,000
Cash	45,897	64,382	38,444
Prepaid expenses (note 12)	447,880	407,753	318,945
Debenture proceeds receivable (note 5(iii))	-	-	720,000
Accounts receivable	72,450	91,925	41,030
Accrued rent receivable	383,713	370,617	325,213
	$ 37,911,940	$ 37,896,677	$ 38,405,632
Liabilities			
Mortgages payable (note 4)	$ 21,844,551	$ 21,989,956	$ 22,549,628
Convertible debentures (note 5)	2,410,239	2,343,706	2,117,384
Purchase price payable	658,776	658,776	658,776
Loans payable (note 6)	1,357,747	1,380,000	1,173,268
Accounts payable and accrued liabilities	1,154,530	1,039,301	1,028,806
	27,425,843	27,411,739	27,527,862
Shareholders' Equity			
Share Capital (note 7)	2,816,462	2,816,462	2,816,462
Equity Component of Convertible Debentures (note 5)	1,273,995	1,273,995	1,273,995
Contributed Surplus	2,380,299	2,380,299	2,350,576
Retained Earnings	4,015,341	4,014,182	4,436,737
	10,486,097	10,484,938	10,877,770
	$ 37,911,940	$ 37,896,677	$ 38,405,632

The accompanying notes form an integral part of these interim 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
For the Three Months Ended March 31
Unaudited - See Notice to Reader

	2011	2010
Revenue		
Rental	$ 770,757	$ 693,178
Common area and realty tax recoveries	224,056	238,233
Interest and other	93	120
	994,906	931,531
Expenses		
Interest	509,320	485,566
Operating costs and realty taxes	333,688	327,420
Administration	150,739	152,638
	993,747	965,624
Net Income (Loss) and Comprehensive Income (Loss)	1,159	(34,093)
Retained Earnings - Beginning of Period	4,014,182	4,436,737
Retained Earnings - End of Period	$ 4,015,341	$ 4,402,644
Income (Loss) per Share - Basic and Diluted (note 2(k))	$ -	$ -
Weighted Average Number of Common Shares Outstanding - Basic and Diluted (note 2(k))	8,861,678	8,861,678

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

Gulf & Pacific Equities Corp.

Statement of Changes in Shareholders' Equity
For the three months ended March 31, 2011

	Common Stock		Equity Component of Convertible	Contributed	Accumulated	
	Shares	Amount	Debentures	Surplus	Earnings	Total
Balance - December 31, 2010	8,861,678	$ 2,816,462	$ 1,273,995	$ 2,380,299	$ 4,014,182	$ 10,484,938
Net income	-	-	-	-	1,159	1,159
Balance - March 31, 2011	8,861,678	$ 2,816,462	$ 1,273,995	$ 2,380,299	$ 4,015,341	$ 10,486,097

	Common Stock		Equity Component of Convertible	Contributed	Accumulated	
	Shares	Amount	Debentures	Surplus	Earnings	Total
Balance - January 1, 2010	8,861,678	$ 2,816,462	$ 1,273,995	$ 2,350,576	$ 4,436,737	$ 10,877,770
Net loss	-	-	-	-	(34,093)	(34,093)
Balance - March 31, 2010	8,861,678	$ 2,816,462	$ 1,273,995	$ 2,350,576	$ 4,402,644	$ 10,843,677

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

Gulf & Pacific Equities Corp.

Statements of Cash Flow
For the Three Months Ended March 31
Unaudited - See Notice to Reader

	2011	2010
Cash Provided By (Used In):		
Operating Activities		
Net loss	$ 1,159	$ (34,093)
Add (deduct) items not affecting cash:		
Accretion of discount on convertible debentures	62,775	57,926
Amortization of deferred financing costs	15,769	14,292
Amortization of revenue-producing properties	-	-
Amortization of intangible assets	-	-
Amortization of intangible liabilities	-	-
Stock-based compensation (note 7)	-	-
	79,703	38,124
Changes in non-cash balances related to operations:		
Prepaid expenses	(40,127)	(71,965)
Accounts receivable	19,475	(22,686)
Accounts payable and accrued liabilities	115,229	(145,063)
Accrued rent receivable	(13,096)	(12,746)
	161,184	(214,336)
Financing Activities		
Repayment of mortgages payable	(161,174)	(152,403)
Mortgages payable	-	-
Loans payable	(22,253)	(30,000)
Financing costs paid	3,758	(4,231)
Covertible debentures issued	-	720,000
Convertible debentures redeemed	-	-
	(179,669)	533,366
Investing Activities	-	-
Increase (Decrease) in Cash	(18,485)	319,030
Cash - beginning of period	64,382	38,444
Cash - end of period	$ 45,897	$ 357,474
Supplemental Cash Flow Information		
Interest paid	$ 413,672	$ 360,160

The accompanying notes form an integral part of these interim 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 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.

1. Basis of Presentation

In 2010 the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effectively for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements. In these interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These interim financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

The Company's interim financial statements reflect the results of operations for the three month periods ended March 31, 2011 and 2010, and the assets, liabilities and shareholders' equity as at March 31, 2011, December 31, 2010, and January 1, 2010.

a) Statement of Compliance

The Company's interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). These are the Company's first IFRS interim financial statements in which IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied (note 4). The IAS 34 interim financial statements do not include all of the information required for annual financial statements.

The significant accounting policies (note 2) have been applied consistently to all periods presented in preparing the opening statement of financial position at January 1, 2010 (note 3) for the purposes of transitioning to IFRS.

The policies applied in the Company's interim financial statements are based on IFRS effective , as of June 23, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS. (note 3)

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

1. **Basis of Presentation** (continued)

d) Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of operations during the reporting period. Significant estimates and assumptions include those related to the recoverability of resource properties, valuation of options and warrants and the ability to continue as a going concern. While management believes that the estimates and assumptions are reasonable, actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements and in preparing the opening IFRS statements of financial position at January 1, 2010 for the purpose of transitioning to IFRS, 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 property. Investment property is initially measured at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. Under the fair value model, changes in fair value are recorded in income in the period of change. The cost model is similar to accounting for such assets under Canadian GAAP, and uses the application of amortization.

The Company has applied the fair value model to account for investment property under IFRS. The choice reflects management's belief that the portfolio of properties generally fluctuate in value as opposed to depreciate in a prescribed manner. The fair value of investment property can be determined with a reasonable degree of accuracy and this policy provides better information as to the Company's asset base. At the Transition Date, the fair value of investment property was estimated to be approximately $9,494,270 greater than the carrying value under Canadian GAAP, including intangibles. The fair values were primarily determined by external valuation.

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, included in prepaid expenses, are deferred and amortized on a straight-line basis over the term of the related lease. Amortization is included in administration expense for the year.

2. Summary of Significant Accounting Policies (continued)

c) Impairment of long lived assets

Long-lived assets include revenue-producing properties. The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount might not be recoverable. If the sum of the undiscounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

d) Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in the statement of operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses, included in the statement of comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

Financial Asset and Liability	Classification	Subsequent Measurement
Cash and cash equivalents	Fair value through profit	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accrued rent receivable	Loans and receivables	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Purchase price payable	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Financial instruments with substantive characteristics of both a financial liability and equity instrument are accounted for using the split accounting method to provide separate classification of the liability and equity elements, using the relative fair value method. The initial liability balance recognized is less than the cash required to be repaid at maturity. Therefore, the liability balance is accreted over the term of the debt. The accretion represents the amortization of the debt discount net of actual interest paid. The accretion of the original debt discount is charged to interest expense over the term of the debt using the effective interest rate method.

Long-term debt is initially recognized at fair value less directly attributable transactions costs. After initial recognition, long-term debt is subsequently measured at amortized cost using the effective interest rate method. Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method.

2. Summary of Significant Accounting Policies (continued)

d) 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 marking 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).

e) Share-based payments

The Company has a share-based compensation plan. The Company accounts for all stock-based payments to employees and non-employees using the fair value based method.

Under the fair value based method, stock-based payments are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The Company uses a Black-Scholes option pricing model to determine fair value. The cost of share-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Any consideration paid by the directors and officers on exercise of stock options and a proportionate share of contributed surplus is credited to capital stock.

f) Issue costs

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

g) 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.

2. Summary of Significant Accounting Policies (continued)

g) Revenue recognition (continued)

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.

h) Income taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and tax loss carryforwards, and are measured using the enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Deferred 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.

i) Statement of cash flows

The Company has adopted the indirect method of reporting cash flows, under which the net cash flow from operations is reported by adjusting net earnings for the effects of non-cash items and net changes in non-cash balances related to operations.

j) Valuation of Investment properties

The fair value of investment property is partially determined by independent valuation experts (the "external valuator") using recognized valuation techniques and partially by management. The determination of the fair value of investment property requires the use of estimated such as future cash flows from assets and capitalization rates applicable to those assets. In addition, development risks such as construction and leasing risks are also taken into consideration when making fair value determinations.

k) Income (Loss) per share

Income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated on the weighted average number of common shares outstanding increased to include potentially issuable common shares from the assumed exercise of common share purchase options, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options. As the Company had a loss in the first of the two periods presented, basic and diluted loss per share are the same, as the exercise of all options would be anti-dilutive.

2. Summary of Significant Accounting Policies (continued)

l) Future Accounting Changes

IFRS 9 (Financial Instruments: Classification and Measurement), effective for annual periods beginning on or after January 1, 2013, 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, 2013 and has not yet determined the potential impact on the Company's financial statements.

3. Transition to IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS on the first date at which IFRS was applied, which was January 1, 2010 ("Transition Dates"). IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

IFRS 1 does not permit changes to estimates previously made. Accordingly, estimates used in the preparation of the Company's opening IFRS statements of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

On the Transition Date, the Company has elected not to retrospectively apply IFRS 2, Share-based Payments ("IFRS 2") to all share-based transactions at the date of transition. IFRS 2 will only be applied to equity instruments issued on or after, and that have not vested by, the Transition Date.

The Company has elected not to retrospectively apply IFRS 3, Business Combinations. ("IFRS 3"). IFRS 3 will only be applied to business combinations occurring on or after the Transition Date.

While adoption of IFRS has not changed the Company's cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of financial position and statement of operations have been reconciled to IFRS with the resulting differences explained.

3. Transition to IFRS (continued)

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
ASSETS				
Revenue-producing properties	$ 27,611,030	$ 9,350,970	(a)(c)	$ 36,962,000
Cash	38,444	-		38,444
Intangible assets	388,427	(388,427)	(a)	-
Prepaid expenses	318,945	-		318,945
Debenture proceeds receivable	720,000	-		720,000
Accounts receivable	41,030	-		41,030
Accrued rent receivable	325,213	-		325,213
	$ 29,443,089	$ 8,962,543		$ 38,405,632
LIABILITIES				
Mortgages payable	$ 22,549,628	$ -		$ 22,549,628
Convertible debentures	2,117,384	-		2,117,384
Purchase price payable	658,776	-		658,776
Loans payable	1,173,268	-		1,173,268
Intangible liabilities	451,002	(451,002)	(a)	-
Accounts payable and accrued liabilities	1,028,806	-		1,028,806
	27,978,864	(451,002)		27,527,862
SHAREHOLDERS' EQUITY				
Share Capital	2,816,462	-		2,816,462
Equity Component of Convertible Debentures	1,273,995	-		1,273,995
Contributed Surplus	2,350,576	-		2,350,576
Retained Earnings (Deficit)	(4,976,808)	9,413,545	(a)(c)	4,436,737
	1,464,225	9,413,545		10,877,770
	$ 29,443,089	$ 8,962,543		$ 38,405,632

3. Transition to IFRS (continued)

The March 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
ASSETS				
Revenue-producing properties	$ 27,467,730	$ 9,494,270	(a)(c)	$ 36,962,000
Cash	357,474	-		357,474
Intangible assets	353,205	(353,205)	(a)	-
Prepaid expenses	390,910	-		390,910
Debenture proceeds receivable	-	-		-
Accounts receivable	63,716	-		63,716
Accrued rent receivable	337,959	-		337,959
	$ 28,970,994	$ 9,141,065		$ 38,112,059
LIABILITIES				
Mortgages payable	$ 22,412,993	$ -		$ 22,412,993
Convertible debentures	2,162,728	-		2,162,728
Purchase price payable	658,776	-		658,776
Loans payable	1,150,143	-		1,150,143
Intangible liabilities	415,075	(415,075)	(a)	-
Accounts payable and accrued liabilities	883,742	-		883,742
	27,683,457	(415,075)		27,268,382
SHAREHOLDERS' EQUITY				
Share Capital	2,816,462	-		2,816,462
Equity Component of Convertible Debentures	1,273,995	-		1,273,995
Contributed Surplus	2,350,576	-		2,350,576
Retained Earnings (Deficit)	(5,153,496)	9,556,140	(a)(c)	4,402,644
	1,287,537	9,556,140		10,843,677
	$ 28,970,994	$ 9,141,065		$ 38,112,059

3. Transition to IFRS (continued)

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
ASSETS				
Revenue-producing properties	$ 27,256,885	$ 9,705,115	(a)(c)	$ 36,962,000
Cash	64,382	-		64,382
Intangible assets	248,128	(248,128)	(a)	-
Prepaid expenses	407,753	-		407,753
Accounts receivable	91,925	-		91,925
Accrued rent receivable	370,617	-		370,617
	$ 28,439,690	$ 9,456,987		$ 37,896,677
LIABILITIES				
Mortgages payable	$ 21,989,956	$ -		$ 21,989,956
Convertible debentures	2,343,706	-		2,343,706
Purchase price payable	658,776	-		658,776
Loans payable	1,380,000	-		1,380,000
Intangible liabilities	312,186	(312,186)	(a)	-
Accounts payable and accrued liabilities	1,039,301	-		1,039,301
	27,723,925	(312,186)		27,411,739
SHAREHOLDERS' EQUITY				
Share Capital	2,816,462	-		2,816,462
Equity Component of Convertible Debentures	1,273,995	-		1,273,995
Contributed Surplus	2,380,299	-		2,380,299
Retained Earnings (Deficit)	(5,754,991)	9,769,173	(a)(c)	4,014,182
	715,765	9,769,173		10,484,938
	$ 28,439,690	$ 9,456,987		$ 37,896,677

3. Transition to IFRS (continued)

The March 31, 2010 Canadian GAAP statement of operations and deficit for the three month period has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
Revenue				
Rental	$ 693,178	$ -		$ 693,178
Common area and realty tax recoveries	238,233	-		238,233
Interest and other	120	-		120
				-
	931,531	-		931,531
Expenses				
Interest	485,566	-		485,566
Operating costs and realty taxes	327,420	-		327,420
Administration	152,638	-		152,638
Amortization	142,595	(142,595)	(a)	-
Stock-based compensation	-	-		-
	1,108,219	(142,595)		965,624
Net Loss and Comprehensive Loss	(176,688)	142,595		(34,093)
Retained Earnings (Deficit) - Beginning of Period	(4,976,808)	9,413,545	(a)(c)	4,436,737
Retained Earnings (Deficit) - End of Period	$ (5,153,496)	$ 9,556,140		$ 4,402,644
Loss per share - basic and diluted	$ (0.02)			$ -
Weighted Average Number of Common Shares Outstanding - basic and diluted	8,861,678			8,861,678

3. Transition to IFRS (continued)

The December 31, 2010 Canadian GAAP statement of operations and deficit for the three month period has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
Revenue				
Rental	$ 2,785,478	$ -		$ 2,785,478
Common area and realty tax recoveries	1,041,813	-		1,041,813
Interest and other	1,830	-		1,830
				-
	3,829,121	-		3,829,121
Expenses				
Interest	1,947,650	-		1,947,650
Operating costs and realty taxes	1,432,836	189,124	(a)	1,621,960
Administration	652,343	-		652,343
Amortization	544,752	(544,752)	(a)	-
Stock-based compensation	29,723	-		29,723
	4,607,304	(355,628)		4,251,676
Net Loss and Comprehensive Loss	(778,183)	355,628		(422,555)
Retained Earnings (Deficit) - Beginning of Period	(4,976,808)	9,413,545	(a)(c)	4,436,737
Retained Earnings (Deficit) - End of Period	$ (5,754,991)	$ 9,769,173		$ 4,014,182
Loss per share - basic and diluted	$ (0.09)			$ (0.05)
Weighted Average Number of Common Shares Outstanding - basic and diluted	8,861,678			8,861,678

3. Transition to IFRS (continued)

The following summarizes the significant changes to the Company's accounting policies upon adoption of IFRS:

a) Investment properties

The Company considers its properties to be investment properties under IAS 40. The increase in the investment properties for IFRS represents the increase to fair value in respect of the Company's investment property, net of de-recognition of related intangible assets and liabilities which are inherently reflected in the fair value of commercial property.

b) Deferred taxes

The increase in deferred income tax liabilities under IFRS compared with Canadian GAAP primarily relates to the increased carrying values of the Company's investment properties. The deferred income tax liability under IFRS is determined by applying tax rates to temporary differences based on the assumption that the Company will ultimately realize upon the investment properties through sale.

c) Depreciation

In accordance with IFRS and the Company's policy choice, the Company measures investment property at fair value and records changes in fair value in income during the period of change. Under Canadian GAAP, investment property was recorded at cost and depreciated over its estimated life. In addition, the amortization if intangible assets and liabilities recognized on the acquisition of investment property was amortized under Canadian GAAP, which is not the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of investment property.

d) Presentation differences

Certain presentation differences between previous GAAP and IFRS have no impact on reported or total equity. Some income statement and balance sheet items have been reclassified into other Some income statement and balance sheet items have been renamed under IFRS.

4. Mortgages Payable

The mortgages are secured by a general security agreement (except for the mortgage of $931,837 which is secured by a second ranking general security agreement), the underlying revenue-producing properties, an assignment of rents and an assignment of fire insurance. The vendor take back mortgage is subordinated to the other mortgages payable.

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

	March 31, 2011	December 31, 2010
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of $4,310, due March 2012	$ 49,864	$ 61,812
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of $4,650, due December 1, 2013	508,098	511,298
Vendor take back mortgage, bearing interest at 8.5%, monthly payments of interest only, due January 2011	1,500,000	1,500,000
Mortgage payable, bearing interest at 5.32%, repayable monthly in blended principal and interest payments of $53,996, due January 2012	8,189,616	8,243,397
Mortgage payable, bearing interest at 6.3%, repayable monthly in blended principal and interest payments of $11,212 due January 1, 2012	832,538	853,018
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of $24,300, due October 2011	3,621,799	3,645,688
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of $48,506, due October 2013	7,241,768	7,289,644
	21,943,683	22,104,857
Unamortized mortgage financing costs	(99,132)	(114,901)
	$ 21,844,551	$ 21,989,956

5. Convertible Debentures

	March 31, 2011		December 31, 2010	
	Face value	Carrying amount	Face value	Carrying amount
8% - September 1, 2013	$ 50,000	$ 50,000	$ 50,000	$ 50,000
8% - December 31, 2014	3,606,250	2,416,613	3,606,250	2,353,838
	3,656,250	2,466,613	3,656,250	2,403,838
Unamortized deferred financing costs	-	(56,374)	-	(60,132)
	$ 3,656,250	$ 2,410,239	$ 3,656,250	$ 2,343,706

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

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

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

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

As at December 31, 2009 and 2010, $50,000 of the original debentures were outstanding without any conversion feature.

5. Convertible Debentures (continued)

(ii) The second series of the convertible debentures bore interest at 8%, matured November 18, 2009 and are unsecured. The debentures could be converted by the holder into common shares of the Company at one common share for each $0.425 principal amount of debentures. The Company had the option to redeem the debentures at any time prior to maturity for the aggregate of the face value of the debentures plus earned interest. The Company had the right to force early conversion of the debentures in the event that the common shares of the Company trade for a period of five consecutive days (a "Trading Period") at a price equal to or above the following price and the cumulative trading volume of the common shares of the Company during this Trading Period represents not less than 5% of the Company's issued and outstanding common shares: $0.60 per common share at any time during the two year period from the closing date. These convertible debentures were issued on November 18, 2004 in connection with a private placement. The Company issued 2,300 units at $1,000 per unit. Each unit consisted of an unsecured convertible debenture in the amount of $1,000 and 1,500 common share purchase warrants.

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

On December 31, 2009, the holders of $2,040,000 of these convertible debentures exchanged their holdings for the new 8% convertible debentures due December 31, 2014. The new debentures can be converted by the holder into common shares of the Company at a conversion price of $0.25 per share if converted prior to December 31, 2011, and $0.30 per share if converted prior to December 31, 2014. The fair value of the debt component of the new debentures was determined to be $1,310,537 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be $729,463. Management determined that this exchange of debentures resulted in substance in the extinguishment and refinancing of debt in accordance with EIC 88. There was no gain or loss on this transaction.

As at December 31, 2009, $20,000 of the original debentures were outstanding and the conversion feature had expired. During 2010, the Company redeemed the remaining $20,000 of these original debentures. At December 31, 2010, there are no debentures of this series outstanding

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

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

5. Convertible Debentures (continued)

As at December 31, 2009, the new debentures had not been received and were shown as debenture proceeds receivable on the balance sheet. This amount was collected in 2010.

As at March 31, 2011 and December 31, 2010, the total debentures of this series outstanding amounted to $3,606,250.

6. Loans Payable

(i) During 2006, the Company entered into an unsecured loan agreement for $500,000 with a related corporation, bearing interest at 6.0% with monthly payments of interest only, due November 2007, which were subsequently extended to November 2010. The companies are related since they have the same President.

During 2006 the Company entered into an unsecured loan agreement for $500,000 with another related corporation, bearing interest at 6.0% with monthly payments of interest only, due November 2007, which were subsequently extended to November 2010. The companies are related since they have directors in common.

On October 31, 2010 the unsecured loans were exchanged for 8% unsecured convertible debentures, maturing October 31, 2015, for face value plus accrued interest of $115,000. The conversion feature is subject to disinterested shareholder approval, which is expected in June 2011. As a result, until disinterested shareholder approval is obtained, this is recorded as a loan payable. At December 31, 2010, $1,115,000 was outstanding.

The Debentures have a 5 year term, maturing October 31, 2015 and bear interest from the date of issue at 8% per annum, payable semi-annually.

On June 9, 2011, the disinterested shareholders approved the convertible feature.

(ii) During 2009, the Company entered into a loan agreement for $197,500 with a third party, bearing an effective interest of 17.56%. The Company made monthly payments of $10,000 on the first day of each month starting October 1, 2009 for a period of eleven months with a final payment of $115,000 on August 31, 2010. As at December 31, 2010 this loan was repaid in full.

(iii) During 2010, the Company entered into a loan agreement for $300,000 with a third party. The actual loan amount received was $265,000 which was net of total interest. This gives the loan an effective interest rate of 15.84% per annum. The Company is making monthly payments of $10,000 on the twenty-second day of each month starting January 22, 2011 for a period of eleven months with a final payment of $190,000 on December 21, 2011.

7. Share Capital

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

Common shares	**Number**	**Amount**
Balance - December 31, 2010 and March 31, 2011	8,861,678	$ 2,816,462

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 commenced on March 10, 2008 and continued until March 9, 2009, at which time it was renewed until March 9, 2010.

On March 9, 2010 the Bid was renewed until March 9, 2011. The Bid will continue until the earlier of March 9, 2011 and the date by which the Company has acquired the maximum 546,051 shares which may be purchased under the Bid. 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. On April 5, 2011, the Bid was renewed until April 5, 2012.

As at December 31, 2010, no shares have been purchased under the normal course issuer bid.

a) Share-based compensation

The Stock Option Plan reserves a maximum of 10% of the issued and outstanding shares of the Company (determined at the time of the stock option grant) for issuance upon the exercise of stock options granted pursuant to the Stock Option Plan. Stock options granted have a term that does not exceed 10 years and the exercise prices and vesting provisions are determined by the board of directors.

A summary of the status of the Company's Plan as at March 31, 2011 and March 31, 2010 and the changes during the periods are presented below:

	2011		**2010**	
	Options	**Weighted Average exercise price per option**	**Options**	**Weighted Average exercise price per option**
Outstanding, beginning of period	884,000	$ 0.270	884,000	$ 0.288
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(95,000)	(0.279)	-	-
Outstanding, end of period	-	$ 0.269	-	$ 0.288
Exercisable, end of year	789,000	$ 0.269	-	$ 0.288

7. Share Capital (continued)

a) Share-based compensation (continued)

At March 31, 2011, 789,000 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
130,000	130,000	2006	$ 0.305	June 9, 2011
309,000	309,000	2007	$ 0.300	April 26, 2012
200,000	200,000	2009	$ 0.250	February 20, 2014
150,000	150,000	2010	$ 0.200	June 21, 2020
789,000	789,000			

On April 20, 2011, 96,000 options were granted to certain directors, officers, employees and consultants, with an exercise price of $0.215 and expiring on April 20, 2021.

8. Income Taxes

The Company has not recorded a deferred income tax liability because it anticipates having sufficient deductions available to reduce taxable income to nil.

9. Financial Instruments and Risk Management

Fair Value

The Company's accounts receivable, accrued rent receivable, debenture proceeds receivable and other financial liabilities, which includes mortgages payable, convertible debentures, purchase price payable, loans payable and accounts payable and accrued liabilities, are substantially carried at amortized cost, which approximates fair value, except for the mortgages which have a fair value of approximately $22,440,000. Such fair value estimates are not necessarily indicative of the amounts that the Company might pay or receive in actual market transactions.

The Company had no embedded derivatives requiring separate recognition for the three months ended March 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.

9. 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 is subject to price risk.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. The Company believes that the credit risk of accounts receivable is minimal as the balance receivable is limited to only $72,450.

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 10. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. The Company is subject to the risk associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt with maturities over an extended period of time.

As at March 31, 2011, the Company's financial liabilities include accounts payable and accrued liabilities, with contractual maturities of less than one year, convertible debentures (note 5), loans payable (note 6) and mortgages payable (note 4).

10. 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.

10. Capital Management (continued)

The Company sets the amount of capital in proportion to risk. The Company includes equity in its definition of capital. Equity is comprised of capital stock, equity component of convertible debentures, contributed surplus and retained earnings. The Company manages 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.

11. Related Party Transactions

During the three months ended March 31, 2011, the Company:

a) Charged related parties rent totalling approximately $12,365. The companies are related by virtue of the fact that they have the same President. As at March 31, 2011, included in accounts receivable is an amount of $6,780 due from these related parties.

b) Was charged consulting fees of $21,775 by an officer. As at March 31, 2011, there were no amounts payable to this officer.

c) Incurred accounting fees of $35,297 with an accounting firm in which one of the Company's officers is a partner. As at March 31, 2011, accounts payable and accrued liabilities included $99,662 payable to this accounting firm.

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

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.

12. Terms of Financing

Under the terms of a mortgage on one of the Company's properties, a payment amounting to $240,000 has been made as of March 31, 2011. This payment was made at the rate of $20,000 per month commencing one year prior to the lease renewal date of an anchor tenant, and is payable to a maximum of 12 months. This amount is repayable to the Company when the space is leased to a new anchor tenant, subject to the terms of the agreement. Accordingly , this payment has been included in prepaid expenses. In June 2011, the Company received repayment of $120,000 of this amount.