Condensed Interim Financial Statements

Gulf & Pacific Equities Corp.

For the Nine Months Ended September 30, 2011

Unaudited

INDEX

NOTICE TO READER

The accompanying unaudited condensed 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.

Condensed Interim Statements of Financial Position
(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Revenue-producing properties	$ 36,962,000	$ 36,962,000
Cash (overdraft)	(90,004)	64,382
Prepaid expenses (note 13)	332,542	407,753
Accounts receivable	122,127	91,925
Accrued rent receivable	576,902	370,617
	$ 37,903,567	$ 37,896,677
Liabilities		
Mortgages payable (note 4)	$ 21,546,751	$ 21,989,956
Convertible debentures (note 5)	3,103,869	2,343,706
Purchase price payable	658,776	658,776
Loans payable (note 6)	200,751	1,380,000
Accounts payable and accrued liabilities	1,352,995	1,039,301
	26,863,142	27,411,739
Shareholders' Equity		
Share Capital (note 7)	2,816,462	2,816,462
Equity Component of Convertible Debentures (note 5)	1,872,512	1,273,995
Contributed Surplus	2,418,796	2,380,299
Retained Earnings	3,932,655	4,014,182
	11,040,425	10,484,938
	$ 37,903,567	$ 37,896,677

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

Approved on behalf of the Board

(Signed) "Constantine D. Buzunis" , Director   (Signed) "Greg K.W. Wong" , Director

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Comprehensive Income
For the Nine Months Ended September 30
Unaudited - See Notice to Reader

	Nine Months Ended		Three Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenue				
Rental	$ 2,387,710	$ 2,058,790	$ 804,226	$ 676,888
Common area and realty tax recoveries	769,531	802,329	247,985	237,568
Interest and other	181	503	29	208
	3,157,422	2,861,622	1,052,240	914,664
Expenses				
Interest	1,586,413	1,472,061	565,830	491,523
Operating costs and realty taxes	1,095,929	1,085,338	336,342	343,662
Administration	518,110	483,480	165,019	147,151
Stock-based compensation (note 7)	38,497	29,723	-	-
	3,238,949	3,070,602	1,067,191	982,336
Net Loss and Comprehensive Loss	(81,527)	(208,980)	(14,951)	(67,672)
Retained Earnings - Beginning of Period	4,014,182	4,436,737	3,947,606	4,295,429
Retained Earnings - End of Period	$ 3,932,655	$ 4,227,757	$ 3,932,655	$ 4,227,757
Loss per Share - Basic and Diluted (note 2(k))	$ (0.01)	$ (0.02)	$ -	$ (0.01)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted (note 2(k))	8,861,678	8,861,678	8,861,678	8,861,678

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 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
Share based compensation	-	-	-	38,497	-	38,497
Convertible debentures	-	-	598,517	-	-	598,517
Net loss	-	-	-	-	(81,527)	(81,527)
Balance - September 30, 2011	8,861,678	$ 2,816,462	$ 1,872,512	$ 2,418,796	$ 3,932,655	$ 11,040,425

	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
Share based compensation	-	-	-	29,723	-	29,723
Net loss	-	-	-	-	(208,980)	(208,980)
Balance - September 30, 2010	8,861,678	$ 2,816,462	$ 1,273,995	$ 2,380,299	$ 4,227,757	$ 10,698,513

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Cash Flow
For the Nine Months Ended September 30
Unaudited - See Notice to Reader

	2011	2010
Cash Provided By (Used In):		
Operating Activities		
Net loss	$ (81,527)	$ (208,980)
Add items not affecting cash:		
Accretion of discount on convertible debentures	235,106	176,954
Amortization of deferred financing costs	47,164	76,612
Stock-based compensation (note 7)	38,497	29,723
	239,240	74,309
Changes in non-cash balances related to operations:		
Prepaid expenses	75,211	(165,169)
Accounts receivable	(30,202)	(69,758)
Accounts payable and accrued liabilities	313,694	253,997
Accrued rent receivable	(206,285)	(36,253)
	391,658	57,126
Financing Activities		
Repayment of mortgages payable	(490,369)	(463,679)
Loans payable	(64,250)	(195,000)
Financing costs paid	8,575	-
Redemptions paid	-	(20,000)
Convertible debentures issued	-	720,000
	(546,044)	41,321
Increase (Decrease) in Cash	(154,386)	98,447
Cash - beginning of period	64,382	38,444
Cash (overdraft) - end of period	$ (90,004)	$ 136,891
Supplemental Cash Flow Information		
Interest paid	$ 1,247,036	$ 1,215,561

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 condensed interim financial statements reflect the results of operations for the nine and three month periods ended September 30, 2011 and 2010, and the assets, liabilities and shareholders' equity as at September 30, 2011, and December 31, 2010.

a) Statement of Compliance

The Company's interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 interim financial statements do not include all of the information required for annual financial statements.

The significant accounting policies (note 2) have been applied consistently to all periods presented. (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 November 24, 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)

1. Basis of Presentation (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

a) Fair Value of Investment Property (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

d) Financial instruments (continued)

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.

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).

2. Summary of Significant Accounting Policies (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

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 estimates 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 periods presented, basic and diluted loss per share are the same, as the exercise of all options would be anti-dilutive.

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 September 30, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
Assets				
Revenue-producing properties	$ 27,203,777	$ 9,758,223	(a)(c)	$ 36,962,000
Cash	136,890	-		136,890
Intangible assets	283,071	(283,071)	(a)	-
Prepaid expenses	484,114	-		484,114
Debenture proceeds receivable	-	-		-
Accounts receivable	110,788	-		110,788
Accrued rent receivable	361,466	-		361,466
	$ 28,580,106	$ 9,475,152		$ 38,055,258
Liabilities				
Mortgages payable	$ 22,133,255	$ -		$ 22,133,255
Convertible debentures	2,281,912	-		2,281,912
Purchase price payable	658,776	-		658,776
Loans payable	1,000,000	-		1,000,000
Intangible liabilities	345,667	(345,667)	(a)	-
Accounts payable and accrued liabilities	1,282,802	-		1,282,802
	27,702,412	(345,667)		27,356,745
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)	(5,593,062)	9,820,819	(a)(c)	4,227,757
	877,694	9,820,819		10,698,513
	$ 28,580,106	$ 9,475,152		$ 38,055,258

3. Transition to IFRS (continued)

The September 30, 2010 Canadian GAAP statement of comprehensive loss for the nine month period has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
Revenue				
Rental	$ 2,058,790	$ -		$ 2,058,790
Common area and realty tax recoveries	802,329	-		802,329
Interest and other	503	-		503
				-
	2,861,622	-		2,861,622
Expenses				
Interest	1,472,061	-		1,472,061
Operating costs and realty taxes	1,085,338	-		1,085,338
Administration	483,480	-		483,480
Amortization	407,274	(407,274)	(a)	-
Stock-based compensation	29,723	-		29,723
	3,477,876	(407,274)		3,070,602
Net Loss and Comprehensive Loss	(616,254)	407,274		(208,980)
Retained Earnings (Deficit) - Beginning of Period	(4,976,808)	9,413,545	(a)(c)	4,436,737
Retained Earnings (Deficit) - End of Period	$ (5,593,062)	$ 9,820,819		$ 4,227,757
Loss per share - basic and diluted	$ (0.07)			$ (0.02)
Weighted Average Number of Common Shares Outstanding - basic and diluted	8,861,678			8,861,678

3. Transition to IFRS (continued)

The September 30, 2010 Canadian GAAP statement comprehensive loss for the three month period has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
Revenue				
Rental	$ 676,888	$ -		$ 676,888
Common area and realty tax recoveries	237,568	-		237,568
Interest and other	208	-		208
				-
	914,664	-		914,664
Expenses				
Interest	491,523	-		491,523
Operating costs and realty taxes	343,662	-		343,662
Administration	147,151	-		147,151
Amortization	135,981	(135,981)	(a)	-
Stock-based compensation	-	-		-
	1,118,317	(135,981)		982,336
Net Loss and Comprehensive Loss	(203,653)	135,981		(67,672)
Retained Earnings (Deficit) - Beginning of Period	(5,389,409)	9,684,838	(a)	4,295,429
Retained Earnings (Deficit) - End of Period	$ (5,593,062)	$ 9,820,819		$ 4,227,757
Loss per share - basic and diluted	$ (0.02)			$ (0.01)
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.

4. Mortgages Payable

	September 30, 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	$ 25,355	$ 61,812
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of $4,650, due December 1, 2013	501,493	511,298
Vendor take back mortgage, bearing interest at 10%, monthly payments of interest only, due January 2012	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	8,079,911	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	790,611	853,018
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of $24,300, due October 2011	3,573,046	3,645,688
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of $48,506, due October 2013	7,144,072	7,289,644
	21,614,488	22,104,857
Unamortized mortgage financing costs	(67,737)	(114,901)
	$ 21,546,751	$ 21,989,956

The mortgages are secured by a general security agreement (except for the mortgage of $790,611 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)).

5. Convertible Debentures

	September 30, 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	2,549,043	3,606,250	2,353,838
8% - October 31, 2015 (i)	1,115,000	556,383	-	-
	4,771,250	3,155,426	3,656,250	2,403,838
Unamortized deferred financing costs	-	(51,557)	-	(60,132)
	$ 4,771,250	$ 3,103,869	$ 3,656,250	$ 2,343,706

(i) During the nine months ended September 30, 2011, the Company's shareholders' approved the conversion feature of the above related party loan. The relative fair value of the equity component of the convertible debentures was estimated at $598,517 and this amount has been allocated to the equity component of the debentures. The fair value of the equity component of the convertible debentures was estimated at the approval date based on the Black-Scholes pricing model, using the following assumptions:

Risk-free interest rate	2.25%
Expected life	4.30 years
Expected volatility	102%

During the nine months ended September 30, 2011, the Company incurred interest expense relating to the converted debentures of $66,900. As at September 30, 2011, accounts payable and accrued liabilities included $81,766 payable to this related party. The companies are related by virtue of the fact that they have the same President.

6. Loans Payable

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 September 30, 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 will be made through the facilities of the TSX Venture Exchange and the purchase and payment for the securities will be made in accordance with the Exchange requirements at the market price of the shares at the time of acquisition. All units purchased by the Company under the Bid will be cancelled.

The Bid commenced on March 11, 2008 and has been renewed each year. Most recently on April 5, 2011, the Bid was renewed until April 5, 2012.

As at September 30, 2011, 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 September 30, 2011 and September 30, 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	196,000	0.223	150,000	0.200
Exercised	-	-	-	-
Expired	(225,000)	0.294	(150,000)	0.305
Outstanding, end of period	855,000	$ 0.253	884,000	$ 0.270
Exercisable, end of period	855,000	$ 0.253	884,000	$ 0.270

7. Share Capital (continued)

b) On April 20, 2011, the Company granted 96,000 stock options to directors, officers, employees and consultants. Each option entitles the holder to purchase one share of the Company's common stock at a price of $0.215 per share until April 20, 2021. The options vested upon grant. The estimated fair value of $18,447 has been included in stock based compensation.

Expected dividend yield	Nil
Risk-free interest rate	3.25%
Expected life	10.0 years
Expected volatility	91%

c) On June 23, 2011, the Company granted 100,000 stock options to directors, officers, employees and consultants. Each option entitles the holder to purchase one share of the Company's common stock at a price of $0.23 per share until June 23, 2021. The options vested upon grant. The estimated fair value of $20,050 has been included in stock based compensation.

Expected dividend yield	Nil
Risk-free interest rate	3.25%
Expected life	10.0 years
Expected volatility	91%

At September 30, 2011, 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
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
96,000	96,000	2011	$ 0.215	April 20, 2021
100,000	100,000	2011	$ 0.230	June 23, 2021
855,000	855,000			

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 $21,600,000. 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 nine months ended September 30, 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:

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 $122,127.

9. Financial Instruments and Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 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 September 30, 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.

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 nine months ended September 30, 2011, the Company:

a) Charged related parties rent totalling approximately $28,442. The companies are related by virtue of the fact that they have the same President. As at September 30, 2011, included in accounts receivable is an amount of $30,442 due from these related parties.

11. Related Party Transactions (continued)

b) Was charged consulting fees of $65,325 by an officer. As at September 30, 2011, accounts payable and accrued liabilities included $6,800 payable to this officer.

c) Incurred accounting fees of $104,160 with an accounting firm in which one of the Company's officers is a partner. As at September 30, 2011, accounts payable and accrued liabilities included $92,910 payable to this accounting firm.

d) Other related party transactions are disclosed in note 5.

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 September 30, 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 and in August 2011 received the remaining balance of $120,000.

13. Subsequent Events

a) On October 18, 2011, the Company completed the sale of one of their properties for gross proceeds of $11,000,000.

b) On November 3, 2011, the Company provided notice of redemption to the registered holders of $50,000 convertible debentures, which will be redeemed on December 5, 2011.