Financial Statements

Gulf & Pacific Equities Corp.

For the Years Ended December 31, 2009 and 2008

INDEX

GULF & PACIFIC EQUITIES CORP.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with Canadian generally accepted accounting principles. 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 22, 2010

Collins Barrow
Chartered Accountants

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AUDITORS' REPORT

To the Shareholders of
Gulf & Pacific Equities Corp.

We have audited the balance sheets of **Gulf & Pacific Equities Corp.** as at **December 31, 2009 and 2008** and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at **December 31, 2009 and 2008** and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

April 6, 2010
Toronto, Ontario

Gulf & Pacific Equities Corp.

Balance Sheets
As at December 31

	2009	2008
Assets		
Revenue-producing properties (note 4)	$ 27,611,030	$ 28,161,437
Cash	38,444	10,262
Intangible assets (note 5)	388,427	529,316
Prepaid expenses (note 18)	318,945	387,815
Debenture proceeds receivable (note 7(iii))	720,000	-
Accounts receivable	41,030	42,477
Accrued rent receivable	325,213	279,555
	$ 29,443,089	$ 29,410,862
Liabilities		
Mortgages payable (note 6)	$ 22,549,628	$ 22,776,695
Convertible debentures (note 7)	2,117,384	2,470,521
Purchase price payable (note 8)	658,776	658,776
Loans payable (note 9)	1,173,268	1,000,000
Intangible liabilities (note 10)	451,002	594,708
Accounts payable and accrued liabilities	1,028,806	793,169
	27,978,864	28,293,869
Commitments (note 11)		
Shareholders' Equity		
Share Capital (note 12)	2,816,462	2,816,462
Equity Component of Convertible Debentures (note 7)	1,273,995	974,343
Contributed Surplus (note 13)	2,350,576	1,337,809
Deficit	(4,976,808)	(4,011,621)
	1,464,225	1,116,993
	$ 29,443,089	$ 29,410,862

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

Approved on behalf of the Board

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

Gulf & Pacific Equities Corp.

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

	2009	2008
Revenue		
Rental	$ 2,796,404	$ 3,094,059
Common area and realty tax recoveries	1,135,647	1,290,286
Interest and other	1,543	4,216
	3,933,594	4,388,561
Expenses		
Interest	1,893,179	1,966,499
Operating costs and realty taxes	1,627,367	1,573,204
Administration	781,648	745,212
Amortization	558,163	563,293
Loss on extinguishment of convertible debentures (note 7)	-	155,865
Stock-based compensation (note 12)	38,424	-
	4,898,781	5,004,073
Net Loss and Comprehensive Loss	(965,187)	(615,512)
Deficit - Beginning of Year	(4,011,621)	(3,396,109)
Deficit - End of Year	$ (4,976,808)	$ (4,011,621)
Loss per Share - Basic and Diluted (note 1(k))	$ (0.11)	$ (0.07)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted (note 1(k))	8,861,678	8,749,342

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

Gulf & Pacific Equities Corp.

Cash Flow Statements
For the Years Ended December 31

	2009	2008
Cash Provided By (Used In):		
Operating Activities		
Net loss	$ (965,187)	$ (615,512)
Add (deduct) items not affecting cash:		
Accretion of discount on convertible debentures	223,468	217,316
Amortization of deferred financing costs	113,868	119,781
Amortization of revenue-producing properties	560,407	575,770
Amortization of capital assets	574	-
Amortization of intangible assets	140,889	146,122
Amortization of intangible liabilities	(143,706)	(158,599)
(Gain) Loss on extinguishment of convertible debentures	-	155,865
Stock-based compensation (note 12)	38,424	-
	(31,263)	440,743
Changes in non-cash balances related to operations:		
Prepaid expenses	68,870	(72,452)
Accounts receivable	1,447	334,315
Accounts payable and accrued liabilities	235,638	26,575
Accrued rent receivable	(45,658)	(53,285)
	229,034	675,896
Financing Activities		
Repayment of mortgages payable	(1,761,998)	(722,802)
Mortgages payable	1,536,250	-
Loans payable	195,000	-
Financing costs paid	(159,530)	-
Shares issued on exercise of options	-	32,400
	(190,278)	(690,402)
Investing Activities		
Additions to revenue-producing properties	(10,000)	(166,776)
Additions to capital assets	(574)	-
	(10,574)	(166,776)
Increase (Decrease) in Cash	28,182	(181,282)
Cash - beginning of year	10,262	191,544
Cash - end of year	$ 38,444	$ 10,262
Supplemental Cash Flow Information		
Interest paid	$ 1,599,957	$ 1,683,371

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

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

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) Revenue-producing properties and intangible assets/liabilities

Revenue-producing properties are stated at cost. Amortization is provided over the estimated useful lives of the assets using the declining balance method at the following annual rates:

Asset	Rate
Building	2%
Paving	8%

Upon acquisition of revenue producing properties, the Company allocates the purchase price to the components of the revenue producing properties acquired: the amounts allocated to land and building are based on their estimated fair values; above- and below-market in-place operating leases are determined based on the present value of the difference between the rents payable under the contractual terms of the leases and estimated market rents; lease origination costs for in-place operating leases are determined based on the estimated costs that would be incurred to put the existing leases in place under the same terms and conditions; tenant relationships are measured based on the present value of the estimated avoided costs if a tenant were to renew its lease at expiry, discounted by the probability of such renewal. Above- and below-market in-place operating leases and lease origination costs are amortized on a straight-line basis over the remaining terms of the leases. The value associated with acquired tenant relationships is amortized on a straight-line basis over the expected term of the relationships.

b) Deferred financing and leasing costs

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.

1. Summary of Significant Accounting Policies (continued)

c) Impairment of long lived assets

Long-lived assets include revenue-producing properties and intangible assets. 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:

Cash	Held for trading
Accounts receivable	Loans and receivables
Accrued rent receivable	Loans and receivables
Mortgages payable	Other liabilities
Convertible debentures	Other liabilities
Purchase price payable	Other liabilities
Loans payable	Other liabilities
Accounts payable and accrued liabilities	Other liabilities

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 residual 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.

1. Summary of Significant Accounting Policies (continued)

e) Stock-based compensation

The Company has a stock-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 stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Any consideration paid by the directors and officers on exercise of stock options and a proportionate share of contributed surplus is credited to capital stock.

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, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and 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. 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 future income tax assets and liabilities.

1. 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) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. The significant areas of estimation include impairment of assets, useful lives of assets to calculate amortization, measurement of stock-based compensation, bifurcation of convertible debentures and fair values of financial instruments.

k) Loss per share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted 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 each of the two years presented, basic and diluted loss per share are the same, as the exercise of all options would be anti-dilutive.

2. New Accounting Policies

a) Goodwill and Intangible Assets

The CICA issued a new accounting standard, Handbook Section 3064 - Goodwill and Intangible Assets, and made amendments to Handbook Section 1000 - Financial Statement Concepts. Section 3064 replaced Handbook Section 3062 - Goodwill and Other Intangible Assets and Handbook Section 3450 - Research and Development Costs. The objectives of these amendments and new section are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

Costs that do not meet the definition and recognition criteria for assets must be expensed as incurred. Certain costs that meet the definition of an asset will be capitalized. This new standard and corresponding amendments is effective for the Company as of January 1, 2009 and has been applied retroactively with restatement of the comparative period. The Company believes there is no material impact of the adoption of this standard and amendments on its financial statements.

3. Future Accounting Changes

International Financial Reporting Standards ("IFRS")

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed that the transition date to IFRS from Canadian GAAP would be January 1, 2011 for all publicly accountable enterprises. The Company will adopt IFRS as the basis for preparing its consolidated financial statements and will provide comparative financial information for the previous fiscal year using IFRS.

The impact of the adoption of IFRS on the financial statements of the Company is expected to be significant. The Company continues to evaluate the potential impact of IFRS on its financial statements. This is an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

On January 5, 2009, the AcSB released Handbook Section 1582 Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602 Non-Controlling Interest which supersedes Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. The released sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Sections are consistent with IFRS standards. Early application and adoption are permitted.

4. Revenue Producing Properties

a) 2009

	Cost	Accumulated Amortization	Net book Value
Land	$ 4,116,501	$ -	$ 4,116,501
Building	24,821,790	2,550,243	22,271,547
Paving	1,758,946	535,964	1,222,982
	$ 30,697,237	$ 3,086,207	$ 27,611,030

4. Revenue Producing Properties (continued)

b) 2008

	Cost	Accumulated Amortization	Net book Value
Land	$ 4,116,501	$ -	$ 4,116,501
Building	24,821,790	2,095,313	22,726,477
Paving	1,748,946	430,487	1,318,459
	$ 30,687,237	$ 2,525,800	$ 28,161,437

5. Intangible Assets

Intangible assets are lease origination costs, tenant relationships and above-market leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible assets is as follows:

	2009	2008
Intangible assets		
Lease origination costs	$ 54,173	$ 54,173
Tenant relationships	24,415	24,415
Above-market rate leases	769,578	769,578
	848,166	848,166
Less: accumulated amortization		
Lease origination costs	(31,848)	(23,933)
Tenant relationships	(15,305)	(12,121)
Above market leases	(412,586)	(282,796)
	$ 388,427	$ 529,316

6. Mortgages Payable

	2009	2008
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of $4,310, due March 2012	$ 107,628	$ 150,443
Mortgage payable, bearing interest at 7.05%, repayable monthly in blended principal and interest payments of $1,544, due January 2010	-	177,670
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of $4,650, due December 1, 2013	523,581	-
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	8,451,602	8,649,156
Mortgage payable, bearing interest at 15.00%, monthly payments of interest only due December 2008	-	1,000,000
Mortgage payable, bearing interest at 6.3%, repayable monthly in blended principal and interest payments of $11,212 due January 1, 2012	931,837	-
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of $24,300, due October 2011	3,738,097	3,825,669
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of $48,506, due October 2013	7,474,860	7,650,414
	22,727,605	22,953,352
Unamortized mortgage financing costs	(177,977)	(176,657)
	$ 22,549,628	$ 22,776,695

During the year, the Vendor take back mortgage was renewed for one year.

6. Mortgages Payable (continued)

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 1(b)).

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

2010	$ 2,121,122
2011	4,206,627
2012	9,026,436
2013	7,373,420
	$22,727,605

7. Convertible Debentures

	December 31, 2009		December 31, 2008	
	Face value	Carrying amount	Face value	Carrying amount
8% - September 1, 2013	$ 50,000	$ 50,000	$ 896,250	$ 607,455
8% - November 18, 2014	20,000	20,000	2,060,000	1,907,180
8% - December 31, 2014	3,606,250	2,114,109	-	-
	3,676,250	2,184,109	2,956,250	2,514,635
Unamortized deferred financing costs	-	(66,725)	-	(44,114)
	$ 3,676,250	$ 2,117,384	$ 2,956,250	$ 2,470,521

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

(i) The first series of the convertible debentures bear interest at 8%, mature September 1, 2013 and are unsecured. On August 29, 2008, the holders of the convertible debentures which were due on September 1, 2008, agreed to a five year extension of the debentures with the new due date being September 1, 2013. These debentures can be converted by the holder into common shares of the Company at one common share for each $0.40 principal amount of debentures. Management determined that the extension of the existing convertible debentures resulted in substance in the extinguishment and refinancing of debt in accordance with the Emerging Issues Committee Abstract - EIC 88 "Debtor's Accounting for a Modification or Exchange of Debt Instruments".

7. Convertible Debentures (continued)

As a result, the fair value of the debt component of the new debentures was determined to be $611,205 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be $444,660. The difference of $155,865, between the fair value of the convertible debentures of $1,055,865 and the carrying value of the original convertible debentures of $900,000, was expensed as a non-recurring loss on extinguishment of debt.

Consequently, in 2008 the original allocation of $528,000 to the equity component was transferred to contributed surplus.

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 in accordance with EIC 88. 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, $50,000 of the original debentures were outstanding without any conversion feature.

(ii) The second series of the convertible debentures bear interest at 8%, matured November 18, 2009 and are unsecured. The debentures can 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 has the option to redeem the debentures at any time prior to maturity for the aggregate of the face value of the debentures plus earned interest. The Company has 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.

7. Convertible Debentures (continued)

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. Subsequent to the year end, the Company redeemed the remaining $20,000 of these original debentures.

(iii) On December 31, 2009, subscribers agreed to pay $720,000 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 $462,543 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be $257,457.

As at December 31, 2009, the new debenture proceeds had not yet been received and are shown as debenture proceeds receivable on the balance sheet. Subsequent to the year end, this amount together with interest of $3,524 was received for these debentures.

8. 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 obligation has been fully provided for and was added to the cost of the acquisition. As at December 31, 2009, the property was not fully leased.

9. Loans Payable

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 2009. 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 2009. The companies are related since they have directors in common.

9. Loans Payable (continued)

During 2009, the maturity dates of the loans were extended to November 2010. Interest expense on the loans during the year amounted to $60,000. At December 31, 2009, interest of $65,000 (2008 - $5,000) is unpaid and is included in accounts payable and accrued liabilities.

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 is making 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.

10. Intangible Liabilities

Included in intangible liabilities are below-market tenant leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible liabilities is as follows:

	2009	2008
Intangible assets		
Below-market leases	$ 957,439	$ 957,439
Less: accumulated amortization		
Below-market leases	(506,437)	(362,731)
	$ 451,002	$ 594,708

11. Commitments

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

2010	$ 33,228
2011	34,293
2012	36,636
2013	6,177
	$ 110,334

12. Share Capital

a) Authorized and issued

Authorized without limit as to number -

Preference shares
Common shares

Issued and fully paid:

Common shares	**Number**	**Amount**
Balance - December 31, 2007	8,672,303	$ 2,749,312
Issued for: conversion of debentures	9,375	5,950
Exercise of options	180,000	61,200
Balance - December 31, 2008 and 2009	8,861,678	$ 2,816,462

During the year ended December 31, 2008, the Company issued 9,375 common shares pursuant to the conversion of $3,750 debentures. The carrying value of the liability component and equity component of the debentures of $3,750 and $2,200 respectively has been allocated to the common shares.

During the year ended December 31, 2008, the Company issued 180,000 common shares at a price of $0.18 per share, for gross proceeds of $32,400 upon exercise of options by directors and officers of the Company under its stock option plan. An amount of $28,800 has been moved from contributed surplus representing the non-cash cost transfer.

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. The Bid will continue until the earlier of March 9, 2010 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.

As at December 31, 2009, no shares have been purchased under the normal course issuer bid.

In March 2010, the Bid was renewed until March 9, 2011.

12. Share Capital (continued)

b) Stock-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, 2009 and 2008 and the changes during the years are presented below:

	2009		**2008**	
	Options	**Weighted Average exercise price per option**	**Options**	**Weighted Average exercise price per option**
Outstanding, beginning of year	644,000	$ 0.302	824,000	$ 0.276
Granted	240,000	0.250	-	-
Exercised	-	-	(180,000)	0.180
Outstanding, end of year	884,000	$ 0.288	644,000	$ 0.302
Exercisable, end of year	884,000	$ 0.288	644,000	$ 0.302

At December 31, 2009, 884,000 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**
150,000	150,000	2005	$ 0.305	June 1, 2010
130,000	130,000	2006	$ 0.305	June 9, 2011
364,000	364,000	2007	$ 0.300	April 26, 2012
240,000	240,000	2009	$ 0.250	February 20, 2014
884,000	884,000			

12. Share Capital (continued)

b) Stock-based compensation (continued)

On February 20, 2009, the Company granted 240,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Company's common stock at a price of $0.25 per share until February 20, 2014. The estimated fair value of $38,424 has been recorded as stock-based compensation. The following assumptions were used in the Black-Scholes pricing model:

Expected dividend paid	Nil
Risk-free interest rate	2.11%
Expected life	5.0 years
Expected volatility	79%

The weighted average grant date fair value of options granted in 2009 was $0.16.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

During the year ended December 31, 2008, the Company did not issue any options.

13. 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. The changes during 2009 and 2008 are as follows:

	2009	2008
Balance - beginning of year	$ 1,337,809	$ 838,609
Transfer from equity component of convertible debentures	974,343	528,000
Options granted (note 12)	38,424	-
Options exercised (note 12)	-	(28,800)
Balance - end of year	$ 2,350,576	$ 1,337,809

14. 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 fair value hierarchy of financial instruments measured at fair value on the balance sheet includes cash as Level 1. The Company has no other financial instruments at Level 2 or Level 3.

The three levels of the fair value hierarchy are described as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets of liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The Company had no embedded derivatives requiring separate recognition for the years ended December 31, 2009 and 2008.

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.

14. Financial Instruments and Risk Management (continued)

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 $41,030 in 2009 and $42,477 in 2008. These amounts are net of provisions of $84,030 in 2009 and $60,000 in 2008.

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 15. 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, 2009, the Company's financial liabilities include accounts payable and accrued liabilities, with contractual maturities of less than one year, convertible debentures (note 7), loans payable (note 8), purchase price payable (note 9) and mortgages payable (note 6).

15. 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 deficit. 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.

16. Related Party Transactions

During the year ended December 31, 2009, the Company:

a) Charged related parties rent totalling approximately $36,114 (2008 - $39,086). The companies are related by virtue of the fact that they have the same President. As at December 31, 2009, included in accounts receivable is an amount of $33,314 (2008 - $22,260) due from these related parties

b) Was charged consulting fees of $87,100 (2008 - $112,100) by an officer. As at December 31, 2009, included in accounts payable is an amount of $16,550 (2008 - $26,250) due to the officer.

c) Incurred accounting fees of $88,080 (2008 - $104,026) with an accounting firm in which one of the Company's officers is a partner. As at December 31, 2009, accounts payable and accrued liabilities included $89,245 (2008 - $89,392) payable to this accounting firm.

d) Was charged fees of $nil (2008 - $28,328) by an architectural firm, which has a director in common.

e) Other related party transactions are disclosed in note 9.

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

17. Income Taxes

a) Income tax recovery attributable to the loss differs from the amounts computed by applying the combined federal and provincial income tax rates of 31.50% (2008 - 33.12%) to the pretax loss as a result of the following:

	2009	2008
Loss for the year	$ (965,187)	$ (615,512)
Income tax recovery computed as statutory rates	(304,000)	(204,000)
Reduction in income tax recovery resulting from:		
Non-deductible expense	282,000	124,000
Change in tax rates	83,000	-
Change in valuation allowance and other	(61,000)	80,000
	$ -	$ -

17. Income Taxes (continued)

b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities as at December 31, 2009 and 2008 are presented below:

	2009	2008
Future tax assets:		
Intangibles	$ 16,000	$ 19,000
Revenue-producing properties	645,000	623,000
Non-capital loss carryforwards	75,000	23,000
	736,000	665,000
Less: valuation allowance	650,000	584,000
	86,000	81,000
Future tax liabilities		
Accrued rent receivable	83,000	81,000
Issue costs	3,000	-
	86,000	81,000
Net future tax assets	$ -	$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences and loss carry forwards become deductible. Based on the absence of historical taxable income and the difficulty of making reliable projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the Company will not realize the benefits of these deductible differences and has accordingly provided a valuation allowance.

c) At December 31, 2009, the Company had net capital loss carry forwards for federal income tax purposes in Canada of approximately $26,000. The net capital loss carry forwards have no expiry dates.

At December 31, 2009, the Company had non-capital loss carry forwards of approximately $293,000 which are available to reduce taxable income of future years and expire as follows:

2016	$ 59,000
2027	31,000
2030	203,000
	$ 293,000

18. 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 December 31, 2009. 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 accordance with the terms, starting September 1, 2010, $20,000 per month will be deducted from the monthly principal and interest payment.

19. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.