

GP MIC FUND LTD.
FINANCIAL STATEMENTS
AUGUST 31, 2009

LEE and SHARPE
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Directors of GP MIC Fund Ltd.

We have audited the balance sheet of GP MIC Fund Ltd. as at August 31, 2009 and the statements of income and retained earnings and cash flows for the year 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 audit.

We conducted our audit 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 August 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Mortgage Brokers Act, we report that no trust funds were handled or received and no funds were received that should have been held in trust during the year.

Victoria, B.C.
October 27, 2009

Lee and Sharpe
Chartered Accountants

GP MIC FUND LTD.

STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED AUGUST 31, 2009

	2009	2008
REVENUE	<u>\$ 238,100</u>	<u>\$ 231,920</u>
EXPENSES		
Provision for mortgage losses (Note 5)	129,897	19,024
Financial services fees (Note 11)	36,557	-
Professional fees	9,448	5,500
Bad debt	6,563	45,211
Office and sundry	275	175
Insurance	184	167
Bank charges	93	240
License fees	<u>-</u>	<u>1,000</u>
	<u>183,017</u>	<u>71,317</u>
NET INCOME FOR THE YEAR	55,083	160,603
RETAINED EARNINGS, beginning of year	-	-
Class A dividends paid	<u>(155,515)</u>	<u>(160,603)</u>
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ (100,432)</u>	<u>\$ -</u>

(See accompanying notes)

GP MIC FUND LTD.
(Incorporated under the laws of British Columbia)

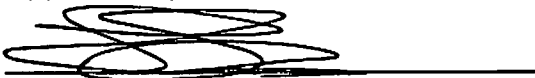
BALANCE SHEET - AUGUST 31, 2009

	2009	2008
ASSETS		
Current		
Cash	\$ 420,794	\$ 34,452
Interest receivable	30,610	22,170
Mortgages receivable (including \$168,000 provision for mortgage losses - Note 5)	<u>1,081,018</u>	<u>1,150,111</u>
	<u>\$ 1,532,422</u>	<u>\$ 1,206,733</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 8,500	\$ 5,893
Interest received in advance (Note 6)	11,581	4,550
Refundable performance bonus (Note 7)	<u>8,000</u>	<u>9,500</u>
	<u>28,081</u>	<u>19,943</u>
Shareholders' equity		
Share capital (Note 9)	1,604,773	1,186,790
Retained earnings (deficit)	<u>(100,432)</u>	<u>-</u>
	<u>1,504,341</u>	<u>1,186,790</u>
	<u>\$ 1,532,422</u>	<u>\$ 1,206,733</u>

Approved by the Directors



Jeffrey A. Moses

Jeffrey A. Moses

GP MIC FUND LTD.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2009

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 55,083	\$ 160,603
Items not affecting cash:		
Bad debt	6,563	45,211
Mortgage loss provision	<u>129,897</u>	<u>19,024</u>
	<u>191,543</u>	<u>224,838</u>
Cash provided by (used for) non-cash working capital items:		
Interest receivable	(8,440)	(15,692)
Accounts payable and accrued liabilities	2,607	894
Interest received in advance	7,031	1,018
Refundable performance bonus	<u>(1,500)</u>	<u>2,500</u>
	<u>191,241</u>	<u>213,558</u>
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		
Decrease in mortgages receivable	<u>(67,367)</u>	<u>(380,101)</u>
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
Cash dividends paid	(66,240)	(37,505)
Shares issued for cash	506,682	361,434
Shares redeemed for cash	<u>(177,974)</u>	<u>(490,924)</u>
	<u>262,468</u>	<u>(166,995)</u>
INCREASE (DECREASE) DURING THE YEAR	386,342	(333,538)
CASH, beginning of year	<u>34,452</u>	<u>367,990</u>
CASH, end of year	<u>\$ 420,794</u>	<u>\$ 34,452</u>

(See accompanying notes)

GP MIC FUND LTD.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 1 - Nature of Business

The Company was incorporated on October 18, 2005 under the Business Corporations Act of British Columbia for the purpose of operating as a Mortgage Investment Corporation (MIC) as defined in the Income Tax Act.

Note 2 - Significant Accounting Policies

New accounting policy

The CICA has issued *Section 1535 "Capital Disclosures"* effective for fiscal periods beginning on or after October 1, 2007. The Company adopted this Section effective September 1, 2008.

Mortgages Receivable

Mortgages are recorded at amortized cost, less any provision for losses on mortgages that are identified as impaired or in default.

Provision for mortgage losses

A provision for mortgage losses is recorded against mortgages identified as impaired to reduce them to their estimated realizable amounts. Impairment is assessed on a mortgage by mortgage basis taking into account experience, credit quality, payment in arrears and specific problem situations. Estimated realizable amounts are determined by reference to mortgage collection experience and the estimated value of security underlying the mortgages after deducting costs for realization.

Revenue Recognition

Interest is accrued on mortgage investments in the period in which the interest becomes payable under the terms of the mortgage. Interest is not accrued on mortgages that are identified as impaired. Other fees, including mortgage fees, are recognized as income as services are provided.

Income taxes

The Company is a Mortgage Investment Corporation as defined in the Income Tax Act. As such, the Company is not taxable on income which flows through to shareholders in the form of dividends paid on or before 90 days after the Company's fiscal year-end. It is the Company's policy to always flow income earned out to shareholders in the form of dividends.

GP MIC FUND LTD.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 2 - Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Significant estimates, which are subject to measurement uncertainty, include the determination of mortgage impairments, the provision for mortgage losses, and the determination of mortgage fair market value.

Future accounting pronouncements

The Accounting Standards Board ("AcSB") of the CICA confirmed that Canadian GAAP for publicly accountably enterprises will converge with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011. IFRS will replace current Canadian GAAP for these enterprises. The conversion to IFRS will be required for the Company for interim and annual financial statements beginning on January 1, 2011. Enterprises will also be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adoption on its financial statements.

Note 3 - Capital Risk Management

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable cash dividend to shareholders. The Company defines its capital structure to include Class A and Class B shares.

The Company reviews its capital structure on an ongoing basis and adjusts this structure in response to mortgage investment opportunities, the availability of capital, and anticipated changes in general economic conditions.

As at August 31, 2009, the Company has no externally imposed capital requirements.

GP MIC FUND LTD.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 4 - Financial Instruments

Fair value of financial instruments

The Company's financial instruments consist of cash, interest receivable, mortgages receivable, accounts payable and accrued liabilities, interest received in advance and refundable performance bonus. The carrying amount of these financial assets and liabilities approximate their fair value, unless otherwise noted.

Interest rate risk

Interest rate risk arises from the possibility that at the end of a mortgage's term it will be re-priced to a prevailing interest rate lower than the original one. This risk is mitigated by the fact that the Company is generally not subject to market pressure in respect of interest rates because there is no specific market for mortgages of similar type, term and credit risk.

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfil their mortgage commitments. The Company mitigates this risk by having lending policies in place that ensure mortgages are secured and by limiting its exposure to any one mortgagor.

There are no significant concentrations of credit risk as the average individual mortgage receivable balance in the Company's portfolio as at August 31, 2009 was \$113,547 (2008 - \$104,556) and the largest individual mortgage balance receivable was \$250,000 (2008 - \$253,000).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment fundings and repayments and redemptions of shares. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

GP MIC FUND LTD.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 5 - Mortgages Receivable

Interest Rates	Number of mortgages	Amortized Cost	Current Value
12-13%	2	\$ 344,081	\$ 344,081
14-15%	2	154,574	154,574
16-17%	2	150,905	150,905
18-19%	5	599,458	599,458
Provision	-	(168,000)	(168,000)
	<u>11</u>	<u>\$ 1,081,018</u>	<u>\$ 1,081,018</u>

100% of mortgages are on residential (2008 - 88%) and 0% on commercial (2008 - 12%) property, with terms to maturity ranging from 3 to 12 months (2008 - 2 to 12 months).

Upon review of the mortgage portfolio, management has set up a cumulative provision for mortgage losses in the amount of \$168,000 to recognize mortgages where the probability of full recoverability is uncertain.

Note 6 - Interest Received In Advance

Interest is received in advance on certain mortgages. This interest is taken into revenue monthly based on the terms of the specific mortgage.

Note 7 - Refundable Performance Bonus

The refundable performance bonus is a contracted amount received by the Company as compensation when a mortgage is issued. The bonus is repaid to the borrower when the mortgage is repaid. In the event the mortgage defaults, the amount is taken into revenue at that time. Amounts held as refundable performance bonus are non-interest bearing.

Note 8 - Commitments

As at August 31, 2009, the Company was committed to funding \$410,000 of a mortgage approved before year-end, but not paid until after year-end.

GP MIC FUND LTD.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 9 - Share Capital

Authorized

500,000,000 Class A redeemable, voting shares without par value, one vote per share

500,000,000 Class B voting shares without par value, 1,000 votes per share

	2009	2008
Issued		
1,580,773 Class A shares (Note 10)	\$ 1,580,773	\$ 1,162,790
240,000 Class B shares	<u>24,000</u>	<u>24,000</u>
	<u>\$ 1,604,773</u>	<u>\$ 1,186,790</u>

Note 10 - Changes In Share Capital

Details of changes in the issued Class A shares are as follows:

	Number	2009 Amount	2008 Amount
Balance, beginning of year	1,162,790	\$ 1,162,790	\$ 1,169,182
Stock dividends	89,275	89,275	123,098
Shares issued for cash	506,682	506,682	361,434
Shares redeemed for cash	<u>(177,974)</u>	<u>(177,974)</u>	<u>(490,924)</u>
Balance, end of year	<u>1,580,773</u>	<u>\$ 1,580,773</u>	<u>\$ 1,162,790</u>

Note 11 - Related Party Transactions

The Company and Great Pacific Mortgage Investments Ltd. (GPMI) share common officers and directors. Under a financial services agreement, GPMI is entitled to a fee equal to 2.5% per annum of the outstanding balance of the portfolio.