

GP MIC Fund Ltd.
Financial Statements
August 31, 2010

Auditors' Report

Financial Statements

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Auditors' Report

To the Shareholders of GP MIC Fund Ltd. (the "Fund"):

We have audited the balance sheet of GP MIC Fund Ltd. (the "Fund") as at August 31, 2010 and the statements of earnings and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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 Fund as at August 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at August 31, 2009 and for the year ended were audited by another firm of Chartered Accountants, who expressed an opinion without reservation on these statements in their report dated October 27, 2009.

Nanaimo, British Columbia

October 5, 2010

Meyers Norris Penny LLP

Chartered Accountants

GP MIC Fund Ltd.
Balance Sheet
As at August 31, 2010

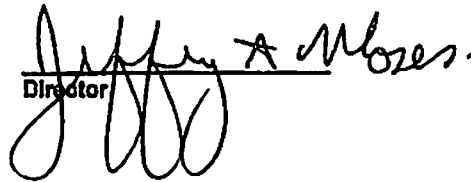
	2010	2009
Assets		
Current		
Cash	301,922	420,794
Interest receivable	79,062	30,610
Mortgages receivable (Note 3)	1,357,639	1,081,018
	1,738,623	1,532,422
Liabilities		
Current		
Accounts payable and accruals	8,502	8,501
Refundable performance bonus	4,500	8,000
Interest received in advance	29,719	11,581
	42,721	28,082
Subsequent events (Note 8)		
Shareholders' Equity		
Share capital (Note 4)	1,713,885	1,804,773
Deficit	(18,083)	(100,433)
	1,695,802	1,504,340
	1,738,623	1,532,422

Approved on behalf of the Board

Director



Director



The accompanying notes are an integral part of these financial statements

GP MIC Fund Ltd.
Statement of Earnings and Deficit
For the year ended August 31, 2010

	2010	2009
Revenue		
Interest - mortgages	227,361	185,492
Lender fees	40,985	50,308
NSF fee charged	200	300
Performance bonus claimed	7,000	2,000
	275,546	238,100
Expenses		
Audit	7,875	9,168
Bad debts (recovery)	(6,000)	6,563
Financial services fees (Note 5)	42,314	36,558
Insurance	236	184
Interest and bank charges	488	93
Legal	4,950	280
Office	353	275
License fees	1,000	-
Unrealized fair value adjustment for mortgages receivable (Note 3)	6,891	129,897
Realized fair value adjustment for mortgages receivable (Note 3)	(6,891)	-
	51,216	183,018
Net earnings	224,330	55,082
Retained earnings (deficit), beginning of year	(100,433)	-
	123,897	55,082
Dividends - Class A	(141,980)	(155,515)
	(18,083)	(100,433)
Deficit, end of year	(18,083)	(100,433)

GP MIC Fund Ltd.
Statement of Cash Flows
For the year ended August 31, 2010

	2010	2009
Cash provided by (used for) the following activities		
Operating activities		
Net earnings	224,330	55,082
Items not requiring an outlay of cash: bad debt	-	6,563
Items not requiring an outlay of cash: unrealized fair value adjustment for mortgages receivable	6,891	129,897
Items not requiring an outlay of cash: realized fair value adjustment for mortgages receivable	(6,891)	-
	224,330	191,542
Changes in working capital accounts		
Interest receivable	(48,452)	(8,440)
Accounts payable and accruals	-	2,606
Refundable performance bonus	(3,500)	(1,500)
Interest received in advance	18,138	7,031
	190,516	191,239
Financing activities		
Proceeds from issuance of Class A common shares	123,859	506,682
Redemption of Class A common shares	(80,052)	(177,974)
Dividends paid	(76,675)	(66,240)
	(32,868)	262,468
Investing activities		
Funding of mortgages	(763,271)	(653,450)
Discharges of mortgages	486,751	586,085
	(276,520)	(67,365)
Increase (decrease) in cash resources	(118,872)	386,342
Cash resources, beginning of year	420,794	34,452
Cash resources, end of year	301,922	420,794
Supplementary cash flow information		
Dividends paid by issuance of shares	65,305	89,275

1. Incorporation and operations

GP MIC Fund Ltd. (the "Fund") was incorporated under the laws of the *Business Corporations Act* of British Columbia on October 18, 2005 and was formed specifically for the purpose of investing in unique mortgage opportunities. The Fund's principal business activity is mortgage lending for residential properties. The Fund is a mortgage investment corporation and is deemed to be a public corporation under the Income Tax Act.

The Fund must continue to comply with the rules under the Income Tax Act to qualify as a mortgage investment corporation. In general terms, the assets of the Fund must be invested in Canadian mortgages of which at least 50 percent must be in residential mortgages as defined under the Residential Mortgage Financing Act. As a mortgage investment corporation, the Fund does not pay income taxes so long as the annual earnings are paid to the shareholders as a dividend within 90 days of year end.

The investment objective of the Fund is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage loan investments, which generate income allowing the Fund to pay quarterly distributions to shareholders.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") using the following significant accounting policies:

Basis of presentation

The Fund is an investment company as defined in Canadian GAAP Accounting Guideline 18, Investment Companies. As a result, mortgage investments are recorded at fair value, with any changes in the fair value recorded in the statement of operations.

Mortgages - allowance for loan impairment

Allowance for loan impairment represents specific and general provisions established as a result of reviews of individual loans and groups of loans. Specific allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan.

Loans are classified as impaired, and a provision for loss is established, when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is past due, loans are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt.

In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the rate inherent in the loan when impairment was recognized. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its estimated realizable value.

Accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to Allowance for Loan Impairment.

Foreclosed assets

Foreclosed assets held for sale are recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Fund obtains title to the assets plus subsequent disbursements related to the assets, less any revenues or lease payments received.

Revenue recognition

Interest income is accrued as earned. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases.

Fee income is recorded when all contractual obligations have been satisfied and collectability is reasonably assured. Canadian generally accepted accounting principles require that lender fees received to be amortized to income over the contractual terms of the mortgages. This has not resulted in a significant difference.

Mortgage Investment Corporation ("MIC") eligibility criteria

2. **Significant accounting policies** *(Continued from previous page)*

To qualify as a MIC for Canadian income tax purposes the Fund must comply with the following:

- ii) At least 50% of the Fund's assets must consist of residentially orientated mortgages and/or cash;
- iii) The fund's only business activity is investing funds of the corporation and not managing or developing any real property;
- iii) The Fund must not hold any investments secured by real property situated outside Canada; and
- iv) No shareholder may own more than 25% of the issued shares of any class and must have at least 20 shareholders.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and expenses during the reporting period.

Accrued interest receivable and mortgages receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Foreclosed assets are stated at their estimated market value less selling costs.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on the provision recognized.

Financial Instruments

Held for trading:

The Fund has classified cash and mortgages receivable as held for trading. These instruments are initially recognized at their fair value which is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties under no compulsion to act. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income.

Any unrealized changes in the fair value of a mortgage receivable are recorded in the statement of operations as an unrealized fair value adjustment. A realized change in the fair value of a mortgage as a result of a disposition or repayment is recorded as a realized fair value adjustment. Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transactions costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value are recognized immediately in income.

Loans and receivables:

The Fund has classified the following financial asset as loans and receivables: interest receivable. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

2. **Significant accounting policies** *(Continued from previous page)*

Other financial liabilities:

The Fund has classified the following financial liabilities as other financial liabilities: accounts payables and accruals, interest received in advance and refundable performance bonus. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in income.

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which a financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. In September 2010, the Accounting Standards Board (AcSB) approved an amendment to the CICA Handbook that allows investment companies that are required to adopt IFRS and who are currently applying Accounting Guideline 18 ('AG-18') *Investment Companies* under Canadian GAAP to defer adoption of IFRS by one year. For the Fund, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2012 will be prepared in accordance with IFRS, with restatement of the 2011 comparative information.

Management is required to provide progress updates on the entity's IFRS changeover plan at each interim and annual reporting period up until the changeover date.

The Fund is evaluating the potential impact of adopting IFRS on its financial statements and is developing a changeover plan to adopt the standards. The key elements of the plan will include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures; and
- Business activities as well as matters that may be influenced by GAAP measures (such as capital requirements and compensation arrangements)

The changeover plan is still in the early stages of development and, as a result, the impact of adopting IFRS on the Fund's financial reporting is not reasonably determinable.

GP MIC Fund Ltd.
Notes to the Financial Statements
For the year ended August 31, 2010

3. Mortgages receivable

Mortgages receivable consist of the following:

	2010	2009
Mortgages receivable	1,373,430	1,249,018
Less: allowance for mortgages receivable	(15,891)	(168,000)
	1,357,539	1,081,018

Mortgages receivable bear interest between 12 and 19 percent (2009 - 12 to 18 per cent) and are secured by charges against land and building. All mortgages are due within the next twelve months. Principal and/or interest only payments are due monthly and early payment of principal is permitted.

Of the total mortgages outstanding, one mortgage with a carrying value of \$152,109 (2009 - \$415,994), before an impairment provision, has been determined to be impaired and no further collection procedures will be pursued. This loan was previously allowed for in the amount of \$142,000 and management believes that the net realizable value of this mortgage is not adequate to cover the loan balances and, accordingly the full amount of the loan (\$152,109) has been written-off. The charge to income during the year related to this write-down is \$10,109 and is included in earnings as a realized fair value adjustment for mortgages receivable. During and subsequent to year end, two loans previously allowed for totaling \$17,000 have been collected in full and the recoveries have also been included in earnings as a realized fair value adjustment for mortgages receivable resulting in a net change of \$6,891. An additional allowance of \$6,891 has been provided for related to specific loans and included in earnings as an unrealized fair value adjustment for mortgages receivable.

4. Share capital

	2010	2009
Authorized		
Common shares		
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 vote per share		
Issued		
Common shares		
1,689,885 Class "A" shares	1,689,885	1,580,773
240,000 Class "B" shares	24,000	24,000
	1,713,885	1,604,773

The registered holders of the common shares are entitled to have voting rights for the election of directors or for any other purpose. Each class A share carries one vote. Each class B share carries 1,000 votes.

There are no conversion or exercise prices.

There are no redemption or retraction rights as specified in the Articles. Shares are redeemed on a best efforts basis as determined by the board of directors. The holders of all Class A shares are entitled to receive *Pari passu* all of the regular dividends declared by the directors, usually quarterly.

Dividends are payable in cash or in shares, or partly in cash and partly in shares, at the option of the shareholder. The directors may declare a dividend on one class of shares to the exclusion of another class of shares.

GP MIC Fund Ltd.
Notes to the Financial Statements
For the year ended August 31, 2010

4. **Share capital** (Continued from previous page)

	2010		2009	
	Number	Amount	Number	Amount
Common shares				
Opening balance at September 1, 2009	1,604,773	1,604,773	1,186,790	1,186,790
Class A stock dividends	65,305	65,305	89,275	89,275
Class A shares issued for cash	123,859	123,859	506,682	506,682
Class A shares redeemed for cash	(80,052)	(80,052)	(177,974)	(177,974)
Closing balance at August 31, 2010	1,713,885	1,713,885	1,604,773	1,604,773

5. **Related party transactions**

Included in expenses for the current year are financial services fees of \$42,314 (2009 - \$36,558) paid to Great Pacific Mortgage Investments Ltd. (GPMI) who is related by virtue of common officers and directors. GPMI is responsible for the day-to-day operations and providing all general management and administration services to the Fund. Under a financial services agreement, GPMI is entitled to a fee equal to 2.5% per annum of the outstanding balance of the portfolio calculated monthly and payable monthly. These transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

6. **Financial instruments**

The Fund as part of its operations carries a number of financial instruments. It is management's opinion that the Fund is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Credit risk

Credit risk is the possibility that a borrower may be unable to honour its mortgage commitments that could result in a loss to the Fund. The Fund mitigates this risk by adhering to investment restrictions and operating policies, ensuring a comprehensive due diligence process is conducted on each investment prior to funding, and actively monitoring the mortgage portfolio and initiating recovery procedures where required.

The maximum exposure to credit risk at August 31, 2010 is the fair value of its interest receivable and mortgages, which total \$1,436,601 (2009 - \$1,111,628). The Fund has recourse under these mortgages in the event of default by the borrower, in which case the Fund would have claim against the underlying property.

As at August 31, 2010, four mortgage investments accounted for 62% of the mortgages receivable (2009 - four borrowers and 53%). The Fund believes that there is no unusual exposure associated with the collection of these receivables other than noted in Note 3.

As at August 31, 2010, four mortgage receivables representing approximately \$595,000 have accrued interest that is past due and for which the Fund has undertaken enforcement remedies totaling \$66,948.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. This risk is mitigated by ensuring the mortgages receivable are all short term and the interest rate charged is at a fixed rate.

A 1% change in interest rates, with all other variables held constant, will increase/decrease interest income by approximately \$15,000.

Risk management policy

The Fund, due to its size and limited operations, does not have formal risk management policies in place.

6. **Financial Instruments** *(Continued from previous page)*

Fair value of financial instruments

The carrying amount of cash, interest receivable, accounts payable and accruals, interest received in advance and refundable performance bonus approximates their fair value due to the short-term maturities of these items.

Canadian generally accepted accounting principles require the disclosure of fair value information for all financial instruments, except in the cases where time and cost constraints make such information too difficult to reliably determine. As relevant and reliable fair value information was not obtainable, the Fund has not disclosed the fair value information for its share capital. These shares do not trade in an organized/active market and no quoted market prices or prices from recent market transactions are available.

As there is no quoted prices in an active market for mortgage receivables, the Fund Manager makes its determination of fair value based on its assessment of the current mortgage market investments of same or similar terms. Typically, the mortgage investments approximate their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

Fair value estimates are made at a specific point in time, based on available relevant market information and details of the financial instrument. However, in cases where they may not be fully supported by observable market prices or rates, assumptions may be subjective, and fair value cannot be estimated with precision.

Liquidity risk

Liquidity risk is the risk that the Fund 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.

The Fund manages liquidity risk by investing in mortgages receivable with short-term maturities and declaring dividends based on cash availability.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Fund enters into transactions to advance funds on mortgages where an interest rate based upon current mortgage interest rates is charged on the advance date. Should market mortgage interest rates fluctuate in the short-term, the fair value of the mortgages receivable will fluctuate.

The Fund manages its other price risk by investing in mortgages receivable with short-term maturities to minimize fluctuations in fair value as a result of market mortgage interest rate changes.

GP MIC Fund Ltd.
Notes to the Financial Statements
For the year ended August 31, 2010

7. Capital management

The Fund's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and provide an adequate return to shareholders by charging interest rates on mortgages commensurate with the level of risk.

The Fund 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.

The Fund manages the following as capital:

	<i>2010</i>	<i>2009</i>
Share capital	1,713,885	1,604,773
Retained earnings (deficit)	(18,083)	(100,433)
	<hr/> 1,695,802	<hr/> 1,504,340

The Fund monitors capital on the basis of a return on investment calculation and endeavours to provide shareholders with a high yield of return each year. During the year, the Fund's strategy, which was unchanged from the prior year, was to advance an adequate amount of mortgages at an acceptable risk level to provide the maximum return to shareholders.

As at August 31, 2010 the Fund has no externally imposed capital requirements.

8. Subsequent event

Subsequent to the date of the financial statements, the Fund redeemed 194,285 of the Class A shares for consideration of \$194,285.

9. Comparative figures

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