



**Acana Capital Corp.**  
**Consolidated Financial Statements**  
**Year Ended September 30, 2013**  
**Expressed in Canadian Dollars**



**DALE MATHESON CARR-HILTON LABONTE LLP**  
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

WWW.DMCL.CA

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Acana Capital Corp.

We have audited the accompanying consolidated financial statements of Acana Capital Corp., which comprise the consolidated statements of financial position as at September 30, 2013 and September 30, 2012 and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Acana Capital Corp. as at September 30, 2013 and September 30, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Acana Capital Corp.'s ability to continue as a going concern.

A handwritten signature in black ink that reads "DMCL".

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED ACCOUNTANTS

Vancouver, Canada  
January 28, 2014

**Acana Capital Corp.**  
**Consolidated statements of financial position**  
(Expressed in Canadian Dollars)

	Note	September 30, 2013	September 30, 2012
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash		1,363,153	154,012
Marketable securities	6	698,539	812,943
Other receivables	9	548,790	71,479
Prepaid		1,250	5,066
		2,611,732	1,043,500
<b>Non-current</b>			
Property held for sale	7	2,127,556	-
Properties	8	8,707,832	1,328,624
<b>Total assets</b>		<b>13,447,120</b>	<b>2,372,124</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12	467,358	14,589
Due to related parties	13	20,984	-
		488,342	14,589
<b>Non-current liabilities</b>			
Retractable preferred shares	4,13	8,500,000	-
Note payable	10	169,950	-
<b>Total liabilities</b>		<b>9,158,292</b>	<b>14,589</b>
<b>Shareholders' equity</b>			
Share capital	5	2,808,250	1,653,250
Reserves		3,763,990	918,000
Deficit		(3,979,521)	(213,715)
<b>Equity attributed to shareholders</b>		<b>2,592,719</b>	<b>2,357,535</b>
<b>Non-controlling interests</b>	3	1,696,109	-
<b>Total Equity</b>		<b>4,288,828</b>	<b>2,357,535</b>
<b>Total liabilities and shareholders' equity</b>		<b>13,447,120</b>	<b>2,372,124</b>

*Nature of operations and going concern (Note 1)*

*Subsequent events (Note 18)*

*See accompanying notes to the consolidated financial statements*

Approved and authorized for issuance by the Board of Directors on January 28, 2014

"Eugene Beukman"  
Director

"Lucky Janda"  
Director

**Acana Capital Corp.**  
**Consolidated statements of comprehensive loss**  
(Expressed in Canadian Dollars)

		<b>Year ended September 30,</b>	
	<b>Note</b>	<b>2013</b>	<b>2012</b>
		\$	\$
Rental income	8,13	70,051	–
Rental expenses		18,541	–
<b>Net Rental income</b>		<b>51,510</b>	<b>–</b>
<b>Expenses</b>			
Advertisement and promotion		1,210	25,500
Consulting	13	26,481	3,270
Office and administration	13	100,411	26,718
Professional fees		23,548	19,971
Trust and filing fees		16,011	31,325
<b>Total operating expenses</b>		<b>167,661</b>	<b>106,784</b>
Loss before other items		(116,151)	(106,784)
<b>Other items</b>			
Accretion	11	(2,664,963)	–
Dividends on retractable preferred shares	4	(132,192)	–
Loss on marketable securities	6	(814,918)	(118,082)
Foreign exchange gain (loss) and finance charges		(5,654)	11,151
Insurance income	7	396,023	–
Impairment loss	7	(428,310)	–
<b>Net loss</b>		<b>(3,766,165)</b>	<b>(213,715)</b>
<b>Other comprehensive loss:</b>			
Translation gain		205,373	–
<b>Comprehensive loss</b>		<b>(3,560,792)</b>	<b>(213,715)</b>
<b>Net loss attributable to:</b>			
Equity holders of the Company		(3,765,806)	(213,715)
Non-controlling interests		(359)	–
		<b>(3,766,165)</b>	<b>(213,715)</b>
<b>Other comprehensive income attributed to:</b>			
Equity holders of the Company		181,027	(213,715)
Non-controlling interests		24,346	–
		<b>205,373</b>	<b>(213,715)</b>
<b>Comprehensive loss attributed to:</b>			
Equity holders of the Company		(3,584,779)	(213,715)
Non-controlling interests		23,987	–
		<b>(3,560,792)</b>	<b>(213,715)</b>
<b>Loss per share attributable to the equity holders of the Company</b>			
Loss per share, basic and diluted		(0.16)	(0.04)
Weighted average number of outstanding shares, basic and diluted		23,643,108	5,542,012

*See accompanying notes to the consolidated financial statements*

**Acana Capital Corp.**

**Consolidated statements of changes in equity**

(Expressed in Canadian Dollars)

	Note	Common shares		Preferred Shares		Reserves			Deficit	Equity attributed to the equity holders of the Company	Non-controlling interests	Total equity
		Number	Amount	Number	Amount	Warrants	Loan	Translation gain				
			\$		\$	\$		\$	\$	\$	\$	\$
Balance, September 30, 2011		–	–	–	–	–	–	–	–	–	–	–
Corporate restructuring	1	2,446,670	276,250	–	–	–	–	–	–	276,250	–	276,250
Private placement	5	5,100,000	1,377,000	–	–	918,000	–	–	–	2,295,000	–	2,295,000
Net loss		–	–	–	–	–	–	–	(213,715)	(213,715)	–	(213,715)
Balance, September 30, 2012		7,546,670	1,653,250	–	–	918,000	–	–	(213,715)	2,357,535	–	2,357,535
Private placements	5	15,000,000	750,000	–	–	–	–	–	–	750,000	–	750,000
Issuance of Class B preferred shares	4,11	–	–	8,000,000	–	–	–	–	–	–	–	–
Issuance of Class B Series A preferred shares	4	–	–	2,250,000	–	–	–	–	–	–	–	–
Warrants exercised	5	7,500,000	375,000	–	–	–	–	–	–	375,000	–	375,000
Acquisition of property	5,8	600,000	30,000	–	–	–	–	–	–	30,000	–	30,000
Discount on convertible debentures	11	–	–	–	–	–	2,664,963	–	–	2,664,963	–	2,664,963
Translation gain		–	–	–	–	–	–	181,027	–	181,027	24,346	205,373
Contribution from minority interests		–	–	–	–	–	–	–	–	–	1,672,122	1,672,122
Net loss		–	–	–	–	–	–	–	(3,765,806)	(3,765,806)	(359)	(3,766,165)
Balance, September 30, 2013		30,646,670	2,808,250	10,250,000	–	918,000	2,664,963	181,027	(3,979,521)	2,592,719	1,696,109	4,288,828

*See accompanying notes to the consolidated financial statements*

**Acana Capital Corp.**  
**Consolidated statements of cash flows**  
(Expressed in Canadian Dollars)

	<b>Year ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash (used in) provided by:</b>	\$	\$
<b>Operating activities</b>		
Net loss	(3,766,165)	(213,715)
Items not involving cash		
Accretion	2,664,963	-
Loss on marketable securities	814,918	118,082
Share of loss of non-controlling shareholders	359	-
Insurance income	(396,023)	-
Impairment loss	428,310	-
Changes in non-cash operating working capital		
Other receivables and prepaid	(1,350)	(76,545)
Accounts payable and accrued liabilities	452,769	14,589
Due to related party	20,984	-
<b>Cash provided by (used in) operating activities</b>	<b>218,765</b>	<b>(157,589)</b>
<b>Financing activities</b>		
Common shares issued for cash	1,125,000	2,295,000
Preferred shares issued for cash	4,500,000	-
Issuance of convertible debentures	5,300,000	-
Repayment of convertible debentures	(1,300,000)	-
Issuance of promissory notes	169,950	-
<b>Cash provided by financing activities</b>	<b>9,794,950</b>	<b>2,295,000</b>
<b>Investing activities</b>		
Acquisition of marketable securities	(735,504)	(931,025)
Disposition of marketable securities	34,990	-
Acquisition of property for sale	(2,556,891)	-
Acquisition of properties	(5,175,755)	(1,052,374)
Additions to properties	(378,649)	-
<b>Cash used in investing activities</b>	<b>(8,811,809)</b>	<b>(1,983,399)</b>
Effect of foreign exchange	7,235	-
<b>Increase in cash</b>	<b>1,209,141</b>	<b>154,012</b>
<b>Cash, beginning</b>	<b>154,012</b>	<b>-</b>
<b>Cash, ending</b>	<b>1,363,153</b>	<b>154,012</b>
<b>Supplementary information:</b>		
Cash paid for interest	3,228	-
Cash paid for income taxes	-	-
<b>Non- cash transactions:</b>		
600,000 shares issued for the acquisition of Pershing-Churhill Property	30,000	-
Issued 2,446,670 shares for Shangri La Unit	-	276,250

*See accompanying notes to the consolidated financial statements*

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Acana Capital Corp. (the “Company”) was incorporated on June 18, 2007 in British Columbia, Canada. The Company’s principal activity is the acquisition and development of real estate properties. The Company’s head office is located at Suite 200 – 8338 120th Street, Surrey, BC, V3W 3N4. The Company’s shares are traded on the Canadian Securities Exchange (“CSE”) under the symbol “APB”.

On April 18, 2011, the Company, which was the former subsidiary of Grand Peak Capital Corp. (“Grand Peak”), entered into an agreement with Grand Peak to proceed with a corporate restructuring whereby Grand Peak would transfer a cash deposit of \$276,250 for the purchase of Shangri La Unit (Note 8) and loan \$200,000 to the Company. In return, the Company would issue 24,466,702 common shares to Grand Peak. The transaction constituted a spin-out under the regulations of the CSE. The agreement completed and the Company’s shares started trading on the CSE on December 2, 2011. On December 21, 2011, Grand Peak’s deposit on the Shangri La Unit was transferred and the \$200,000 loan was issued to the Company and the Company’s shares were delivered to Grand Peak. The Company repaid the \$200,000 loan to Grand Peak in January 2012.

### **Going concern**

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at September 30, 2013, the Company is not able to finance its day to day activities through operations. The Company’s continuation as a going concern is dependent upon the successful sale or lease of its properties and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and through the issuance of its common and preferred shares. The Company’s ability to continue as a going concern requires the continued support of the Chief Executive Officer (“CEO”) who is also, along with companies he controls and other related parties, a key shareholder. The CEO and related parties also hold 100% of the redeemable preferred shares (Note 4) and the redemption of the preferred shares at a future date may result in a dissolution or windup of the Company. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

## **2. STATEMENT OF COMPLIANCE**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized by the Board of Directors on January 28, 2014.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for financial instruments measured at their fair value, and are presented in Canadian dollars, unless otherwise noted.

These consolidated financial statements incorporate the accounts of the Company and its controlled subsidiaries:

Name	Country of incorporation/formation	Ownership percentage as at September 30, 2013
JG Wealth Management Corp.	Canada	100%
* JDLP LLP	USA	50%
Acana Capital USA Inc.	USA	100%
Acana Capital LLC.	USA	100%
Corning 106 LLC	USA	100%
Crocker Acana LLC	USA	100%
Pershing-Churchill LLC	USA	100%

*\* The Company has control over the partnership; therefore, it is consolidated and its non-interest is reflected in non-controlling interests in the consolidated statements of financial position.*

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

#### Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets and the fair value of the properties and property held for sale.

#### Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification of financial instruments; and
- the determination of the functional currency of the parent company and its subsidiaries.

#### Loss per share

Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.



### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Fair value through profit or loss (“FVTPL”) - Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. They are subsequently measured at fair value with changes in fair value recognized in profit or loss. The Company designates its cash and marketable securities as fair value through profit or loss financial assets.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company has designated its Sale taxes receivable, other receivable as loan and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Company intends to hold to maturity. These assets are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company does not hold any held-to-maturity financial assets.

Available-for-sale – These consist of non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company does not hold any available-for-sale financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Functional currency and foreign currency translation**

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of all of the Company's US subsidiaries is the US dollar.

#### Transactions and balances:

Foreign currency transactions will be translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

#### Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency will be translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recorded to the Company's other comprehensive income.

#### **Properties**

##### Recognition and measurement

The Company's properties are comprised of real estate projects which are developed, to be developed, or are in development. The Company capitalizes the acquisition and development costs of its real estate projects. No amortization is taken before the real estate project is ready for use and leased.

Gains and losses on disposal of the properties are recognized on a net basis within other income in the consolidated statements of comprehensive loss.

##### Depreciation

No depreciation is taken on the properties as they were not in use as at September 30, 2013 with the exception of the Shangri-la Unit which is not depreciated since its replacement cost is estimated to be equal to or higher than its carrying value.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Impairment of assets**

The carrying amount of the Company's assets (which include the properties) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

#### **Revenue Recognition**

Rental income is recognized when:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the lease will flow to the Company;
- the stage of completion of the lease at the end of the reporting period can be measured reliably; and
- the costs incurred for and to complete the lease can be measured reliably.

#### **Warrants**

Proceeds from issuances of security units by the Company consisting of shares and warrants are allocated based on the residual method. The fair value of the warrants is determined to be the difference between gross proceeds over the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a fair value of \$Nil is assigned to the warrants.

#### **Income taxes**

##### Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Income taxes (Continued)**

##### Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### **Accounting standards issued but not yet applied**

At the date of authorization of these financial statements, the following standards, amendments and interpretations have not been early adopted and are not expected to have a material effect on the Company's future results and financial position:

- IFRS 9 "Financial Instruments";
- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements";
- IFRS 12 "Disclosure of Interests in Other Entities";
- IFRS 13 "Fair value measurement"; and
- Amendments to IAS 27 "Separate Financial Statements", IAS 28 "Investments in Associates and Joint Ventures" and IAS 32 "Financial Instruments: Presentation".

### **4. RETRACTABLE PREFERRED SHARES**

#### **Class B preferred shares - Issued and outstanding**

On May 13, 2013, the Company issued 8,000,000 Class B preferred shares for the conversion of \$4,000,000 in convertible debentures (Notes 11 and 13). On July 2, 2013, the Company issued 2,250,000 Class B Series A preferred shares at \$2.00 per share for gross proceeds of \$4,500,000 (Note 13).

The Class B non-voting preferred shares have the following features:

#### **Conversion**

Each Class B preferred share is convertible into one common share of the Company at the discretion of the holder. The conversion price will be the average closing price of the Company's common shares during ten trading days before conversion. This conversion right will expire on the second anniversary of the issuance.

#### **Dividends**

Cumulative dividends of 5% per annum. Holders are entitled to receive dividends over the holders of the common shares.

#### **4. RETRACTABLE PREFERRED SHARES (Continued)**

##### **Class B preferred shares - Issued and outstanding (Continued)**

###### **Redemption**

Class B preferred shares are redeemable for cash at \$0.50 per share after the second anniversary of the issuance of the shares at the option of the holder. Class B Series A preferred shares are redeemable for cash at \$2 per share after the second anniversary of the issuance of the shares at the option of the holder.

###### **Rights on Liquidation**

Holders of the Class B shares shall receive priority over the holders of the common shares on any distribution of the assets of the Company on the voluntary or involuntary liquidation, dissolution or winding-up of the Company.

Per International Accounting Standard (“IAS”) 32, “Financial Instruments: Presentation”, the substance of a financial instrument, rather than its legal form, governs its classification in an entity’s statement of financial position. As the shares include a contractual obligation to deliver cash, the preferred shares have been classified as a financial liability.

As at September 30, 2013, \$132,192 (Note 12) in dividends payable have been accrued for and have been included in the Company’s accounts payable and accrued liabilities.

#### **5. SHARE CAPITAL**

##### **Authorized**

Unlimited number of Class A common shares without par value.

Unlimited number of non-voting Class B preferred shares without par value.

##### **Common shares - Issued and outstanding**

On December 1, 2011, the Company issued 2,446,670 common shares to Grand Peak for the deposit on the Shangri-la Unit (Notes 1, 8 and 13).

On January 19, 2012, the Company completed a private placement of 5,100,000 units at \$0.50 per unit for gross proceeds of \$2,550,000. Each unit consisted of one common share and one warrant of the Company. Each warrant is exercisable to a common share of the Company at \$0.50 per share for a period of 1 year. Finder fees of \$255,000 were paid. A fair value of \$918,000 was allocated to the warrants.

On November 23, 2012, the Company closed a private placement for the issuance of 7,500,000 units at \$0.05 per unit for the gross proceeds of \$375,000. Each unit consisted of one common share and one share purchase warrant which is exercisable to a common share of the Company at \$0.05 per share for a period of 6 months. No value was assigned to the warrants.

On January 18, 2013, the Company closed a private placement for the issuance of 7,500,000 common shares at \$0.05 per share for gross proceeds of \$375,000.

On March 1, 2013, 7,500,000 warrants were exercised into common shares at \$0.05 per share for gross proceeds of \$375,000.

On February 25, 2013, the Company issued 600,000 shares with a fair value of \$30,000 to a Company controlled by the Company’s CEO to acquire the Perishing-Churchill Property (Notes 8 and 13).

## 5. SHARE CAPITAL (Continued)

### Warrants

A continuity of the Company's warrants is as follows:

	Number	Weighted average exercise price \$
Balance, September 30, 2011	-	-
Issued	5,100,000	0.50
Balance, September 30, 2012	5,100,000	0.50
Expired	(5,100,000)	0.50
Issued	7,500,000	0.05
Exercised	(7,500,000)	0.05
Balance, September 30, 2013	-	-

### Share base payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

### Foreign currency translation reserve

The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations that have a functional currency other than the Company's reporting currency.

### Loan reserve

Recorded in the loan reserve is the discount on the convertible debentures (Note 11).

## 6. MARKETABLE SECURITIES

As at September 30, 2013 and September 30, 2012, the Company's marketable securities comprise of investments in shares and share purchase warrants of Canadian public companies (Note 13). The Company designates its marketable securities at fair value through profit or loss. The fair value of warrants is determined using a Black-Scholes pricing model. Details are as follows:

September 30, 2013	Cost	Gain (loss)	Fair value
	\$	\$	\$
Common shares (Note 13)	1,533,725	(940,302)	593,423
Warrants	34,500	70,616	105,116
	1,568,225	(869,686)	698,539

  

September 30, 2012	Cost	Gain (loss)	Fair value
	\$	\$	\$
Common shares	891,325	(173,776)	717,549
Warrants	39,700	55,694	95,394
	931,025	(118,082)	812,943

## 6. MARKETABLE SECURITIES (Continued)

The fair value of the warrants was determined using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2013	September 30, 2012
Expected life of warrants	0.21 - 4.77 years	0.96 – 1.45 years
Annualized volatility	34% - 173%	31% - 173%
Risk-free interest rate	1.19% - 1.69%	1.08%
Dividend rate	0%	0%

During the year ended September 30, 2013, the Company acquired 17,354,483 common shares (2012-4,750,594) and 3,440,000 warrants (2012-2,128,594) for a cost of \$735,504 (2012-\$931,025). During the year ended September 30, 2013, the Company disposed of marketable securities with a cost of \$90,020 for proceeds of \$34,990. No dispositions were made during the year ended September 30, 2012.

## 7. PROPERTY HELD FOR SALE

On February 11, 2013, the Company acquired a warehouse building located in Tuscon, Arizona (the “Tuscon Building”) from a company controlled by a director of the Company for \$2,388,769 (Note 13).

In August 2013, the Tuscon Building was vandalized. Management estimates that the amount of the damage incurred is \$428,310 and recorded an impairment charge. Subsequent to the year ended September 30, 2013, the Company received insurance proceeds of \$401,875 (Note 9) to cover the damages and has recognized the income in the consolidated statement of comprehensive loss.

During the year ended September 30, 2013, management decided to actively list the building for sale. Management expects to sell the building in the next 12 months.

## 8. PROPERTIES

The following table summarizes the properties held by the Company as at September 30, 2012 and September 30, 2013:

	September 30, 2012 \$	Acquisition \$	Additions \$	Effect of foreign exchange \$	September 30, 2013 \$
Shangri La Unit	1,101,021	65,041	-	-	1,166,062
Crocker Drive Property	227,603	-	516	4,738	232,857
106 Glenn	-	462,554	152,737	14,146	629,437
860 Corning	-	2,530,162	152,737	61,681	2,744,580
Vineyard Plaza	-	2,532,716	49,184	59,359	2,641,259
River Road Property	-	405,298	-	9,318	414,616
Pershing-Churchill Property	-	36,602	-	842	37,444
Bradshaw Residential	-	529,434	14,975	12,516	556,925
Bader Road Lot	-	278,255	-	6,397	284,652
<b>Total</b>	<b>1,328,624</b>	<b>6,840,062</b>	<b>370,149</b>	<b>168,997</b>	<b>8,707,832</b>

## **8. PROPERTIES (Continued)**

### Shangri La Unit

During the year ended September 30, 2012, the Company issued 2,446,670 common shares to Grand Peak for a cash deposit of \$276,250 for the purchase of the Shangri La Unit (Note 1). The Shangri La Unit is located in Toronto, Canada. The Company paid an additional \$824,771 on September 5, 2012 and incurred an additional \$65,416 in acquisition costs during the year ended September 30, 2013. On October 1, 2012, the Company entered into a 1 year agreement with a company with a director in common with the Company to lease the Shangri La Unit for \$6,107 per month commencing November 1, 2012 (Note 13). Beginning December 1, 2013, the lease is on a month to month basis and may be terminated by either party with 30 days notice.

### Crocker Drive Property

On July 31, 2012, the Company acquired a parcel of land for residential purposes in El Corado Hills, California, USA for \$227,603.

### 106 Glenn

On December 7, 2012, the Company acquired 106 acres of land in Corning, California through its 50% owned limited liability partnership JDLP. The Company's wholly owned subsidiary, Corning 106 LLC, is the general partner of JDLP. Consideration of \$462,554 was paid. Costs to prepare the land for farming activity are included in additions for the year. The Company intends to begin farming operations on the property in the near future.

### 860 Corning

On December 26, 2012, the Company acquired 860 acres of land in Corning, California through its 50% owned limited liability partnership JDLP. Consideration of \$2,530,162 was paid. Costs to prepare the land for farming activity are included in additions for the year. The Company intends to begin farming operations on the property in the near future.

### Vineyard Plaza

On January 25, 2013, the Company completed the acquisition of a parcel of vacant land located in Sacramento, California, USA for \$2,532,716. Pre-construction costs toward the construction of a gas station are included in the additions during the year.

### River Road Property

On January 18, 2013, the Company acquired 74 acres of land located in Sacramento, California, USA from a company controlled by a director of the Company for \$405,298 (Note 13).

### Pershing-Churchill Property

On February 25, 2013, the Company acquired various parcels of land and related mineral rights in the Pershing County and Churchill County, Nevada, USA from a company controlled by a director of the Company. The mineral rights consist of net smelter return royalties over various mineral claims. In consideration, the Company issued 600,000 common shares with a fair value of \$30,000 (Note 5) and paid \$6,602 (Note 13).

### Bradshaw Residential

In April 2013, the Company acquired an approximately 10 acre parcel of land located in Sacramento, California, USA for \$529,434.

### Bader Road Lot

In June 2013, the Company acquired a parcel of land located in Elk Grove, California, USA for \$278,255. The acquisition was partially financed by borrowing \$169,950 from the seller in the form of a 3 year promissory note (Note 10).



## 9. OTHER RECEIVABLES

	September 30, 2013	September 30, 2012
	\$	\$
Sale taxes receivable	5,752	71,479
Receivable from JDLP's 50% partner	141,163	-
Insurance proceeds receivable (Note 7)	401,875	-
	548,790	71,479

## 10. NOTE PAYABLE

On June 18, 2013, the Company issued a note payable to the seller of the Bader Road Lot for \$169,950 (US\$165,000). The note bears interest at 4% per annum, is due on June 26, 2016 and is secured by the Bader Road Lot property (Note 8). Interest payments are due every quarter subsequent to the issuance of the note.

## 11. CONVERTIBLE DEBENTURES

During the year ended September 30, 2013, the Company issued five convertible debentures to the following related parties:

- \$2,000,000 to a director of the Company;
- \$2,000,000 to a spouse of a director of the Company; and
- \$1,300,000 to a company controlled by a director of the Company.

The convertible debentures were convertible to Class B preferred shares at \$0.50 per share, had an effective interest rate of 15% , were unsecured, and were due 5 years after issuance. The face values were discounted to \$2,635,037 upon initial recognition. The discount of \$2,664,963 has been recorded in the loan reserve.

During the year ended September 30, 2013, the Company repaid the \$1,300,000 to the company controlled by the CEO and issued 8,000,000 Class B preferred shares in settlement of the \$4,000,000 owing to the Company's CEO and his spouse (Notes 4 and 13).

## 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2013	September 30, 2012
	\$	\$
Trade payables	320,166	4,589
Accrued liabilities	15,000	10,000
Dividends payable (Note 4)	132,192	-
	467,358	14,589

### 13. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2013, the Company acquired 9,066,500 common shares (2012-2,365,954) and 3,520,000 warrants (2012-1,633,594) of Canadian public companies that have directors or officers in common with the Company. The cost of these marketable securities was \$506,484 (2012-\$341,025). The market value of all securities from related public companies as at September 30, 2013 was \$621,639 (2012 - \$374,243). During the year ended September 30, 2013, the Company recorded a loss of \$45,401 (2012-\$33,218) on these securities (Note 6).

During the year ended September 30, 2013, the Company incurred rent expense of \$30,000 (2012-\$22,500) to a company controlled by a director of the Company.

During the year ended September 30, 2013, the Company incurred consulting fees of \$5,000 (2012-\$Nil) to a director and management fees of \$5,000 (2012-\$Nil) to a company controlled by the same director.

On January 18, 2013, the Company acquired the River Road Property from a company controlled by a director of the Company for \$405,298 (Note 8).

On February 11, 2013, the Company acquired the Tuscon Building from a company controlled by a director of the Company for \$2,388,769 (Note 7).

On February 25, 2013, the Company acquired the Pershing-Churchill Property from a company controlled by a director of the Company. In consideration, the Company issued 600,000 common shares with a fair value of \$30,000 (Note 5) and paid \$6,602 (Note 8).

On October 1, 2012, the Company entered into a 1 year agreement with a company with a director in common with the Company to lease the Shangri La Unit for \$6,107 per month commencing November 1, 2012 (Note 8). Beginning December 1, 2013, the lease is on a month to month basis and may be terminated by either party with 30 days notice.

During the year ended September 30, 2013, the Company issued \$2,000,000, \$2,000,000 and \$1,300,000 in convertible debentures to a director of the Company, his spouse and a company controlled by the director, respectively. During the year ended September 30, 2013, the Company repaid the \$1,300,000 to the company controlled by the director and issued 8,000,000 Class B preferred shares in settlement of the \$4,000,000 owing to a director of the Company and his spouse (Notes 4 and 11).

On July 2, 2013, the Company issued 1,125,000 Class B Series A preferred shares to each of a director of the Company and his spouse at \$2.00 per share for gross proceeds of \$4,500,000 (Note 4).

As at September, 2013, the Company owed \$20,984 (2012-\$Nil) to the spouse a director of the Company. The amount does not bear any interest, is unsecured and is due on demand.

#### 14. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	September 30, 2013	September 30, 2012
	\$	\$
Net loss before income taxes	(3,766,165)	(213,715)
Statutory tax rate	25%	26%
Expected income tax recovery at the statutory tax rate	(941,451)	(55,566)
Non-deductible expenses and other	615,504	
Effect of changes in tax rates	46,744	16,898
Changes in valuation allowance	279,203	38,668
Actual income tax recovery	-	-

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	September 30, 2013	September 30, 2012
	\$	\$
Non-capital loss carry-forwards	58,217	23,908
Marketable securities	109,746	14,760
Properties	149,908	
Valuation allowance	(317,871)	(38,668)
Net deferred income tax assets	-	-

The Company's has \$95,633 and \$115,952 in non-capital tax losses which will expire in 2031 and 2032 respectively.

#### 15. SEGMENTS

##### Operating segments

The Company operates in a single reportable operating segment which is the acquisition and development of investment properties.

##### Geographic segments

The Company's non-current assets are located in the following countries:

	As at September 30, 2013		
	Canada \$	United States of America \$	Total \$
Property for sale	-	2,127,556	2,127,556
Properties	1,166,062	7,541,770	8,707,832
	1,166,062	9,669,326	10,835,388

  

	As at September 30, 2012		
	Canada \$	United States of America \$	Total \$
Properties	1,101,021	227,603	1,328,624

## **16. CAPITAL MANAGEMENT**

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the development of its real estate projects and to sustain future development of the business. The capital structure of the Company consists of working and share capital.

There are no restrictions on the Company's capital aside from the note payable which is secured by the Bader Lot Property (Notes 8 and 10). There were no changes in the Company's approach to capital management.

## **17. FINANCIAL INSTRUMENTS**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's primary exposure to credit risk is on its cash and marketable securities which are held in bank accounts and deposited with brokers, respectively. As most of the Company's cash is held by two banks, and all of the marketable securities are held by one brokerage firm, there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its sale taxes receivable from the Canadian government; as such, the credit risk is minimal.

### **Foreign exchange risk**

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is currently not exposed to foreign exchange risk.

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

### **Liquidity Risk**

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

## 17. FINANCIAL INSTRUMENTS (Continued)

### Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	September 30, 2013	September 30, 2012
	\$	\$
Cash	1,363,152	154,012
Financial assets held at fair value through profit and loss:		
Marketable securities	698,539	812,943
Loans and receivable		
Receivable from JDLP's 50% partner (Note 9)	141,163	-
Insurance proceeds receivable	401,875	-
	<u>2,604,729</u>	<u>966,955</u>

Financial liabilities included in the statement of financial position are as follows:

	September 30, 2013	September 30, 2012
	\$	\$
Non-derivative financial liabilities:		
Trade payables	320,166	4,589
Due to related party	20,894	-
Note payable	169,950	-
Other financial liabilities		
Retractable preferred shares	8,500,000	-
	<u>9,011,010</u>	<u>4,589</u>

### Fair value

The fair values of the Company's financial assets and liabilities approximates the carrying amounts either due to their short-term nature or because the interest rates applied to measure their carrying amount approximate current market rates.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

**17. FINANCIAL INSTRUMENTS (Continued)**

**Fair value (continued)**

The following is an analysis of the Company's financial assets measured at fair value as at September 30, 2012 and September 30, 2013:

	As at September 30, 2013		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash	1,363,152	-	-
Marketable securities	593,423	105,116	-
	1,956,575	105,116	-

  

	As at September 30, 2012		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash	154,012	-	-
Marketable securities	717,549	95,394	-
	871,561	95,394	-

**18. SUBSEQUENT EVENTS**

On November 15, 2013, the Company entered into a lease agreement to lease part of the River Road Property for US\$7,600. This lease will terminate on June 30, 2014.

On November 15, 2013, the Company's 50% owned limited liability partnership JDLP LLP entered into a lease agreement to lease part of the 860 Corning property for US\$17,500. This lease will terminate on June 30, 2014.

On November 2013, the Company acquired a parcel of land adjacent to the River Road Property for US\$10,000.