Gulf & Pacific Equities Corp.

Financial Statements
December 31, 2005 and 2004

RSM Richter LLP
Chartered Accountants
Toronto

Gulf & Pacific Equities Corp.

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Contents

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Auditors' Report

To the Shareholders of
Gulf & Pacific Equities Corp.

We have audited the balance sheet of Gulf & Pacific Equities Corp. as at December 31, 2005 and the statements of operations, deficit 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 December 31, 2005 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 for December 31, 2004 and for the year then ended, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 18, 2005.

(SIGNED) *“RSM Richter LLP”*
Chartered Accountants

Toronto, Ontario
March 10, 2006

Gulf & Pacific Equities Corp.

Balance Sheet
As At December 31, 2005 and 2004

		2005		2004
Assets				
Revenue-producing properties (note 2)	**$**	**12,800,887**	$	11,744,931
Cash		**625,231**		1,814,430
Deferred financing and leasing costs (note 3)		**244,247**		285,593
Cash held in trust		**-**		211,747
Prepaid expenses		**55,538**		45,502
Accounts receivable		**52,240**		16,235
Accrued rent receivable		**82,873**		6,370
Capital assets (note 4)		**2,262**		3,062
	$	**13,863,278**	$	14,127,870
Liabilities				
Mortgages payable (note 5)		**8,904,569**		9,342,935
Convertible debentures (note 6)		**2,286,978**		2,052,818
Accounts payable and accrued liabilities		**781,187**		373,311
		11,972,734		11,769,064
Commitments (note 7)				
Shareholders' Equity				
Capital Stock (note 8)		**2,265,871**		2,265,871
Paid-in Capital		**420,000**		420,000
Equity Component of Convertible Debentures		**1,122,460**		1,122,460
Contributed Surplus		**100,040**		61,000
Warrants (note 9)		**202,400**		202,400
Deficit		**(2,220,227)**		(1,712,925)
		1,890,544		2,358,806
	$	**13,863,278**	$	14,127,870

See accompanying notes

On behalf of the Board:

(SIGNED) *"Anthony Cohen"*
Director

(SIGNED) *"David A. Wright"*
Director

Gulf & Pacific Equities Corp.

Statement of Deficit
For the Year Ended December 31, 2005 and 2004

	2005	2004
Balance - Beginning of Year	**$ (1,712,925)**	$ (1,455,149)
Net loss	**(507,302)**	(138,833)
	(2,220,227)	(1,593,982)
Issue costs	**-**	118,943
Balance - End of Year	**$ (2,220,227)**	$ (1,712,925)

See accompanying notes

Gulf & Pacific Equities Corp.

Statement of Operations
For the Year Ended December 31, 2005 and 2004

		2005		2004
Revenue				
Rental	**$**	**1,411,696**	$	1,512,859
Common area and realty tax recoveries		**378,260**		400,105
Interest and other		**46,743**		21,563
		1,836,699		1,934,527
Expenses				
Interest		**1,127,630**		891,291
Operating costs and realty taxes		**489,391**		492,070
Administration		**438,595**		359,987
Amortization		**249,345**		257,098
Stock-based compensation		**39,040**		-
		2,344,001		2,000,446
Loss Before Undernoted Item		**(507,302)**		(65,919)
Loss on settlement of convertible debentures		**-**		(72,914)
Net Loss	**$**	**(507,302)**	$	(138,833)
Loss per Common Share-basic and Diluted (note 11)	**$**	**(0.07)**	$	(0.02)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted		**7,506,371**		7,506,371

See accompanying notes

Gulf & Pacific Equities Corp.

Statement of Cash Flows
For the Year Ended December 31, 2005 and 2004

	2005	2004
Funds Provided (Used) -		
Operating Activities		
Net loss	$ (507,302)	$ (138,833)
Step rental revenue	(76,503)	(6,370)
Accretion of discount on convertible debentures	234,160	127,632
Amortization of deferred financing and leasing costs	66,473	19,961
Amortization of revenue-producing properties	248,545	255,997
Amortization of capital assets	800	1,101
Loss on settlement of convertible debentures	-	72,914
Stock-based compensation	39,040	-
	5,213	332,402
Changes in non-cash balances related to operations:		
Prepaid expenses	(10,036)	(9,584)
Accounts receivable	(36,005)	(11,392)
Deferred financing and leasing costs	(25,127)	-
Accounts payable and accrued liabilities	407,876	19,340
	341,921	330,766
Financing Activities		
Cash held in trust	211,747	(211,747)
Increase in mortgages payable	-	200,000
Repayment of mortgages payable	(438,366)	(221,412)
Repayment of note payable	-	(300,000)
Proceeds from private placement	-	2,300,000
Private placement costs	-	(341,904)
	(226,619)	1,424,937
Investing Activity		
Additions to revenue-producing properties	(1,304,501)	-
Increase (Decrease) in Cash	(1,189,199)	1,755,703
Cash		
Beginning of Year	1,814,430	58,727
End of Year	$ 625,231	$ 1,814,430
Supplemental Cash Flows Information:		
Interest paid	$ 829,316	$ 697,958

See accompanying notes

The Corporation was incorporated as Gulf & Pacific Equities Corp. 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 Corporation is listed on the TSX Venture Exchange. The Corporation commenced active operations during the 1999 fiscal year. The Corporation owns and operates commercial properties in Alberta and British Columbia.

1. Summary of significant accounting policies:

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

(a) Revenue-producing properties:

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%

(b) Deferred financing and leasing costs:

Deferred financing costs represent the unamortized cost of the issue of the convertible debentures. Amortization is provided on a straight-line basis, over the term of the related debt and is included in interest expense for the year.

Leasing costs are deferred and amortized on a straight-line basis over the term of the related lease. Amortization is included in administration expense for the year.

(c) Capital assets:

Capital assets are stated at cost. Amortization is provided for over the estimated useful lives of the assets using the declining balance method and the following annual rates:

Asset	Rate
Furniture and fixtures	20%
Office equipment	30%

1. **Summary of Significant Accounting Policies**, cont'd

(d) **Long-lived assets**

Long-lived assets, including revenue-producing properties and capital assets, are amortized over the useful lives. The Corporation 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.

(e) **Financial instruments:**

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. 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.

(f) **Stock-based compensation:**

The Corporation has a stock-based compensation plan which is described in note 9. The Corporation 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 Corporation 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.

(g) **Issue costs:**

The Corporation accounts for costs related to issuing equity as a charge against retained earnings (deficit) in the period incurred.

1. Summary of significant accounting policies, cont'd:

(h) Revenue recognition:

The Corporation 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.

The Corporation 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.

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.

(i) Income taxes:

The Corporation 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 are measured using the substantively 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 Corporation's provision for current income taxes and the difference between the beginning and ending balances of the future income tax assets and liabilities.

(j) Statement of cash flows:

The Corporation 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 noncash items and net changes in non-cash balances related to operations.

(k) 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.

2. Revenue-producing properties:

2005		Cost		Accumulated amortization		**Net book value**
Land	$	1,416,501	$	-	**$**	**1,416,501**
Building		10,509,378		820,674		**9,688,704**
Paving		766,254		141,217		**625,037**
Construction-in-progress		1,070,645		-		**1,070,645**
	$	13,762,778	$	961,891	**$**	**12,800,887**

2004		Cost		Accumulated amortization		**Net book value**
Land	$	1,416,501	$	-	**$**	**1,416,501**
Building		10,275,523		626,479		**9,649,044**
Paving		766,254		86,868		**679,386**
	$	12,458,278	$	713,347	**$**	**11,744,931**

Construction in progress is not amortized as it is not available for use.

3. Deferred financing and leasing costs:

		2005		2004
Cost	**$**	**347,127**	$	322,000
Accumulated amortization		**(102,880)**		(36,407)
	$	**244,247**	$	285,593

4. Capital assets:

2005		Cost		Accumulated amortization		**Net book value**
Furniture and fixtures	$	3,455	$	2,503	**$**	**952**
Office equipment		6,505		5,195		**1,310**
	$	9,960	$	7,698	**$**	**2,262**

2004		Cost		Accumulated amortization		**Net book value**
Furniture and fixtures	$	3,455	$	2,265	**$**	**1,190**
Office equipment		6,505		4,633		**1,872**
	$	9,960	$	6,898	**$**	**3,062**

5. Mortgages payable:

		2005		2004
Vendor take back mortgage, due September 2004	**$**	**-**	$	203,251
Vendor take back mortgage, bearing interest at 7.50%, monthly payments of interest only, due November 2006		**2,000,000**		2,000,000
Mortgage payable, bearing interest at 6.84%, repayable monthly in blended principal and interest payments of $4,305, due March 2007		**262,855**		295,577
Mortgage payable, bearing interest at 7.25%, repayable monthly in blended principal and interest payments of $23,517, due December 2007		**2,773,505**		2,854,479
Mortgage payable, bearing interest at 6.414%, repayable monthly in blended principal and interest payments of $29,620, due January 2008		**3,673,835**		3,789,628
Mortgage payable, bearing interest at 7.05%, repayable in monthly principal payments of $1,164 due January 2010		**194,374**		200,000
	$	**8,904,569**	$	9,342,935

5. **Mortgages payable**, cont'd:

The vendor take back mortgage due September 2004 bears interest at a rate of interest tied to the three-year mortgage rate of interest charged by Great West Life Assurance Company with monthly principal and interest payments on the basis of a 15-year amortization period. The vendor take back mortgage was extended to allow the Corporation time to arrange alternative financing. On December 31, 2004, the Corporation received mortgage proceeds in the amount of $200,000. In January 2005, the mortgage proceeds were used to settle the vendor take back mortgage.

The mortgages are secured by a 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 mortgages payable.

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

2006	$	**2,262,391**
2007		**3,063,185**
2008		**3,426,523**
2009		**13,968**
2010		**138,502**
	$	**8,904,569**

During the year, the company arranged for a mortgage to finance the construction in progress. The mortgage is for an amount of $2,000,000 bearing interest at prime rate plus 1%. As at December 31, 2005, no amounts have been drawn on this facility.

6. Convertible debentures:

	December 31, 2005		December 31, 2004	
	Face value	**Carrying amount**	Face value	Carrying amount
8% debentures	**$ 3,260,000**	**$ 2,286,978**	$ 3,260,000	$ 2,052,818

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

(i) $60,000 of the convertible debentures are callable by the Corporation after January 1, 2004, mature January 1, 2007 and can be converted by the holder into common shares of the Corporation at one common share for each $0.38 principal amount of debentures.

(ii) $900,000 of the convertible debentures bear interest at 8%, mature September 1, 2007 and can be converted by the holder into common shares of the Corporation at one common share for each $0.40 principal amount of debentures.

Initially, the $900,000 was in the form of a 14% convertible debenture with a five year term and was unsecured. During the second quarter of 2004, the Corporation obtained the consent of the holders of 14% convertible debentures to change the terms of the debentures. Effective April 15, 2004, the debentures bear interest at 8% and the term of the debentures was extended to September 1, 2007.

The face value of the re-issued convertible debentures was allocated as follows:

Debenture	**$ 372,000**
Conversion feature	**528,000**
	$ 900,000

(iii) $2,300,000 of convertible debentures bear interest at 8%, mature November 18, 2009 and are unsecured. The debentures can be converted by the holder into common shares of the Corporation at the following rates: one common share for each $0.315 principal amount of debentures converted during the first two years from the closing date; one common share for each $0.350 principal amount of debentures converted during the third year from the closing date; $0.385 principal amount of debentures converted during the fourth year from the closing date; and $0.425 principal amount of debentures converted during the fifth year from the closing date. The Corporation 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 Corporation has the right to force early conversion of the debentures in the event that the common shares of Corporation trade for a period of five consecutive days (a "Trading Period") at a price equal to or above the following prices and the cumulative trading volume of the common shares of the Corporation during this Trading Period represents not less than 5% of Corporation's issued and outstanding common shares: $0.60 per common share at any time during the two year period from the closing date; and $1.00 per common share at any time during the third, fourth and fifth years from closing date.

6. Convertible debentures, cont'd:

These convertible debentures were issued on November 18, 2004 in connection with a private placement. The Corporation 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.

In 2004, the Corporation used the following assumptions to measure the fair value of the debenture and common share purchase warrants: discount rate of 18%; dividend yield of 0%; and a volatility factor of the expected market price of the Corporation's shares of 40%. The cash proceeds received per unit less the fair value of the debenture and common share purchase warrants was allocated the conversion feature. The unit price was allocated as follows:

	Per unit	Allocation of proceeds
Debenture	$ 679	$ 1,561,930
Conversion feature	245	564,420
Warrants	76	173,650
	$ 1,000	$ 2,300,000

Aggregate proceeds from the private placement were $2,300,000 before deducting agent's cash commission of $184,000 and the offering expenses of $157,904. The Corporation also granted 575,000 common share purchase warrants to the agent.

Private placement costs of $370,654 include $341,904 cash settled amounts and $28,750 fair value of common share purchase warrants granted. The private placement costs were allocated as follows: $251,711 deferred financing costs and $118,943 issue costs.

7. Commitments:

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

2006	$ 24,000
2007	25,000
2008	4,000
	$ 53,000

On September 1, 2005, the Company signed a construction contract with respect to certain work relating to the shopping centre known as Valley Centre Mall in Whitecourt, Alberta. The contract is for a value of $2,671,050 plus a service fee of $198,000. As at December 31, 2005, construction completed relating to this contract amounted to $1,070,645 which has been shown in note 2 as construction-in-progress.

To fund this construction, the company has arranged for a mortgage as disclosed in note 5.

8. Financial instruments:

The fair values of cash, cash held in trust, accounts receivable, accrued rent receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their relatively short-terms to maturity.

Mortgages payable, vendor take back mortgage and convertible debentures are impacted by changes in market yields which can result in differences between the carrying amount and the fair value of such instruments. The fair values of the mortgages payable and convertible debentures payable approximate their carrying amounts as interest rates have not changed significantly from the rates in effect at the date the loans were entered into

9. Capital stock:

(a) Authorized and issued:

	December 31, 2005	December 31, 2004
Authorized without limit as to number -		
preference shares		
common shares		
Issued and fully paid:		
7,506,371 common shares (2004 – 7,506,371)	**$ 2,265,871**	$ 2,265,871

The Corporation granted options for 320,000 common shares to the directors and officers of the Corporation during the second quarter. The options are exercisable at $0.305 per share, are non-transferable and expire June 1, 2010. Options granted vest to the directors and officers of the corporation immediately upon issue.

Compensation expense of $39,040 was recorded in 2005 in connection with these options and has been recorded as contributed surplus. The fair value of the options granted to the directors and officers by the Corporation was determined using the Black-Scholes option pricing model. The Corporation used the following weighted average assumptions in the period: risk-free interest rate of 3.331%; dividend yield of 0%; a volatility factor of the expected market price of the Corporation's shares of 40%; and an expected option life of 5 years. The estimated fair value of options issued to the directors and officers was $0.122 per option.

9. **Capital stock**, cont'd:

(b) Stock based compensation:

A summary of the status of the Corporation's Plan as at December 31, 2005 and 2004 and the changes during the year are presented below:

	2005			2004		
	Options		**Weighted Average exercise price per option**	Options		Weighted Average exercise price per option
Outstanding, beginning of year	**658,637**	**$**	**0.21**	740,936	$	0.23
Granted	**320,000**		**0.31**	-		-
Exercised	**-**		**-**	-		-
Expired	**(276,987)**		**0.26**	(82,000)		0.40
Outstanding, end of year	**701,650**	**$**	**0.24**	658,637	$	0.21
Exercisable, end of year	**701,650**	**$**	**0.24**	658,637	$	0.21

At December 31, 2005, 701,650 options which had been granted to certain directors, officers, employees and consultants to purchase common shares of the Corporation subject to various requirements were outstanding as follows:

Outstanding	Exercisable	Year of grant		Exercise price per option	Expiry date
381,650	381,650	2003	$	0.180	August 26, 2008
320,000	320,000	2005	$	0.305	June 1, 2010
701,650	701,650				

10. Warrants

The Corporation issued 4,025,000 warrants in 2004 in connection with a private placement. Each warrant entitles the holder to acquire a common share of the Corporation for $0.40 until November 18, 2006. The Corporation has the right to accelerate the exercise period of the warrants to 30 days from the end of the Trading Period if the common shares of the Corporation trade at a price of $0.60 or more per common share for a Trading Period and the cumulative trading volume of the common shares of the Corporation during this Trading Period represents not less than 5% of Corporation's issued and outstanding common shares.

11. Related party transactions:

During the year, the Corporation charged related parties rent totaling approximately $34,430 (2004 - $47,000). The companies are related by virtue of the fact that they have the same President and Chief Financial Officer.

During the year, the Corporation was charged management fees of $24,000 (2004 - $24,000) by a shareholder. In addition, an amount of approximately $70,000 was paid to this shareholder during the year relating to the service fee referred to in note 7. This amount has been capitalized to the construction-in-progress.

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

12. Loss per common share:

Loss per common share is calculated using the weighted average number of common shares outstanding computed on a daily basis.

The effect of the conversion of debentures, warrants and stock options would not have had a dilutive effect.

13. 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 34% (2004 - 34%) to the pretax loss as a result of the following:

	2005	2004
Loss for the year	**$ (507,302)**	$ (138,833)
Income tax recovery computed at statutory rates	**(172,000)**	(47,000)
Reduction (increase) in income tax recovery resulting from:		
Difference between amortization for accounting and tax, share issue costs and deferred income	**(91,000)**	(94,000)
Non-deductible expenses	**93,000**	68,000
Valuation allowance against current year's losses	**170,000**	73,000
	$ -	$ -

13. Income taxes, cont'd:

(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, 2005 and 2004 are presented below:

	2005	2004
Future tax assets:		
Capital assets	**$ -**	$ 1,000
Issue costs	**33,000**	44,000
Non-capital loss carryforwards	**761,000**	604,000
	794,000	649,000
Less: valuation allowance	**446,000**	381,000
	348,000	268,000
Future tax liabilities:		
Accrued rent receivable	**28,000**	2,000
Revenue-producing properties	**320,000**	266,000
	348,000	268,000
Net future tax assets	**$ -**	$ -

The valuation allowance for future tax assets as at December 31, 2005 and December 31, 2004 was $446,000 and $381,000 respectively. The net change in the total valuation allowance for the year ended December 31, 2005 was an increase of $65,000. 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 Corporation will not realize the benefits of these deductible differences and has accordingly provided a valuation allowance.

(c) At December 31, 2005, the Corporation had net capital loss carry forwards for federal income tax purposes in Canada of approximately $26,000. The net capital loss carryforwards have no expiry dates.

At December 31, 2005, the Corporation had non-capital loss carryforwards of approximately $2,239,000 which are available to reduce taxable income of future years and expire as follows:

2006	**$ 139,000**
2007	**271,000**
2008	**323,000**
2009	**433,000**
2010	**357,000**
2014	**213,000**
2015	**503,000**
	$ 2,239,000