



GULF & PACIFIC  
EQUITIES CORP.

Dear Shareholders,

On behalf of the Board of Directors of Gulf & Pacific Equities Corp. I am pleased to present to you the second quarter results for 2010 and the unaudited statements for Gulf & Pacific Equities Corp. (TSX-V: GUF).

The second quarter of 2010 continues to be a demanding period for Canadians and the same was true for Gulf & Pacific Equities Corp. We are pleased to report that for the second quarter our overall revenue remains almost same with a minor decrease of 0.275% when compared to the second quarter of 2009. As well, we are reporting to our shareholders Funds From Operations (FFO) of \$0.01 for the three months ended June 30, 2010 compared to \$0.01 for the same period last year. The revenue remains stable with an slight upward trend in recent quarters.

Looking forward to the next two quarters of 2010, the company feels that although the difficult economic challenges for our tenants are possibly behind us, the economic turnaround will be slow and cautious. Operationally, until the vacancies in St. Paul are leased, management cautions that further negative impact of the economy on our tenants could result in negative operating funds in the current portfolio of properties.

The continuing economic weakness provides a number of growth opportunities for the company as many properties and real estate holding companies are dramatically undervalued and represent a buying opportunity for a strong long term return on investments. The company intends exploring all opportunities in this regard for the benefit of our shareholders in both Canada and the US.

Management recognizes that paramount to our growth strategy is to secure equity financing for acquisitions or construction loans for intensification. The current economic situation remains challenging for new financing, in particular, financing will be difficult to obtain in the small markets where our properties are located. In addition, with interest rates set to increase, the cost of new borrowing will increase which could affect the Company's bottom line.

In this regard, management is continuing to work towards securing new financing when due or prior to maturing if good rates are available. The Company is actively monitoring interest rates in 2010 in anticipation of mortgages that will come due for renewal in the fall of 2011.

Management believes that at today's cost, it would take over \$60 million to replicate the current assets of the Company.

At Tri-City Mall, we continue to re-sign our current tenants with lease renewals along with some short term rental agreements. The current vacancy is less than 8.2% at June 30, 2010. At the writing of this report management is working on a potential new pad site on the property. As

well, we are in discussion with a national retailer for a major portion of the remaining vacant space. Regionally, the city of Cold Lake is continuing to grow and economic prospects are strong for 2010.

Our St. Paul Shopping Centre remains the prime focus for the Company. The Company has been having encouraging conversations with several national chains about anchoring the Centre. The Company anticipates positive news on the anchor tenants before the end of the second quarter. We are pleased that Tim Hortons opened in 2009 and is doing very good business on our site.

Our St. Paul property is well located on the main highway and as we purchased it for a cost of about \$70.00 per square foot, it remains a good value for the Company. When we are able to re-lease the two anchor tenants' space at each end of the mall, the St. Paul Shopping Centre will once again be a premier shopping destination for the Town of St. Paul and area.

I am pleased to report that our Valley Centre Mall, in Whitecourt Alberta, remains 100% leased. Economic activities are looking up in the region and the mall is ideal for our intensification strategy. We continue to receive inquiries for space from retailers interested in locating at Valley Centre Mall.

Our property at Three Hills continues to generate steady rental income from The Bargain! Shop.

The Merritt, B.C. property is currently vacant as a result of the departure of Saan Stores Limited. The company continues to look at all available options for the property.

We are focused on maintaining a strong relationship with our many quality tenants such as Tim Hortons, Guardian Drugs, Suncor, Reitmans, Rexall Drug Stores, Sobeys and The Bargain! Shop. To view a complete list of our tenants please visit our new website at [www.gpequities.com](http://www.gpequities.com).

As always, I would like to thank our loyal shareholders, our Board of Directors for their invaluable contribution and wise counsel, our consulting professionals, Mr. Kim Donais of West Horizon Properties, our property manager for our properties, my Executive Assistant Susan Barrowclough and my family for your help and support over the past twelve months.

Yours truly,

(signed) "Anthony J. Cohen"

Anthony J. Cohen

President

August 26, 2010

## MANAGEMENT DISCUSSION AND ANALYSIS

Gulf & Pacific Equities Corp. (“Gulf & Pacific” or the “Company”) was incorporated under the Business Corporations Act (Alberta) on April 8, 1998 and on June 17, 1998 filed Articles of Amendment to remove certain private corporation restrictions. The Company is listed on the TSX Venture Exchange (TSX-V: GUF). The Company commenced active operations during the 1999 fiscal year. Gulf & Pacific is focused on the acquisition, management and development of anchored shopping centres in Western Canada.

This MD&A is prepared as of August 26, 2010. It contains certain forward-looking statements that involve known and unknown risks and uncertainties that are beyond Gulf & Pacific’s control.

### Results of Operations

#### Balance Sheets

On the balance sheet, total assets stood at \$28,748,057 as of June 30, 2010, compared to \$29,443,089 as of December 31, 2009. The decrease of \$695,032 in total assets was primarily due to normal amortization of revenue producing properties, intangible assets, debenture proceeds received, offset by increases in cash, accounts receivable, prepaid expenses and accrued rent receivable.

Our cash balance increased by \$183,072 during the six months to \$221,516 at June 30, 2010, up from \$38,444 as of December 31, 2009 due to proceeds from debentures received in the first quarter. Intangible assets decreased by \$70,289 representing the lease origination costs, tenant relationships and above-market leases assumed on acquisition of Tri-City Mall, net of related accumulated amortization. Prepaid expenses increased to \$437,390 from year ended December 31, 2009 of \$318,945 representing expenses incurred for new leases and new developments at current sites during the quarter.

As well, the prepaid expenses are made up of the prepaid mortgage at St. Paul, professional fees for leasing renewals and redevelopment strategy for the properties. The prepaid mortgage at St. Paul is a \$240,000 prepayment to the mortgage lender for our St. Paul Shopping Centre. Starting September 1, 2010, representing the last year of the mortgage, \$20,000 will be deducted from the monthly principle and interest payment to the lender, as per the terms of the mortgage agreement.

Accounts receivable increased from \$41,030 at December 31, 2009 to \$81,960 as of June 30, 2010 due to outstanding rent, realty taxes and common area costs. Accrued rent receivable increased to \$349,657 at June 30, 2010 from \$325,213 as of December 31, 2009 as a result of applying the straight-line method of recognizing rental revenue whereby the total amount of rental revenue 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.

With respect to liabilities, mortgages payable decreased to \$22,274,212 as of June 30, 2010 down from \$22,549,628 as of December 31, 2009 due to regular repayment of mortgages on the Company's properties. Convertible debentures increased to \$2,219,020 from \$2,117,384 as of December 31, 2009. In accordance with generally accepted accounting principles, the convertible debentures are carried at an amount that increases as time passes (see note 5 to the unaudited quarterly financial statements) reflecting a non-cash allocation within the balance sheet.

The purchase price payable of \$658,776 represents an agreement whereby the Company is obliged to pay the amount if the Tri-City Mall becomes fully leased subsequent to the purchase. Since the Company expects to fully lease the property in 2010, this obligation has been fully provided for.

The loans payable of \$1,127,018 includes a related party loan of \$1,000,000 used in the purchase of the Tri-City Mall. The loan is due November 30, 2010. Interest payment for the loan is booked in accounts payable at the end of each quarter. As well, a second loan in the original amount of \$197,500 was incurred during 2009 and is due on August 31, 2010 and secured by a 2<sup>nd</sup> mortgage on one of the properties. A \$10,000 monthly installment commenced October 1, 2009, with a final payment of \$115,000 due on August 31, 2010.

The intangible liabilities of \$380,371 at of June 30, 2010 represent the below market tenant leases assumed on acquisition of Tri-City Mall, net of related accumulated amortization. Accounts payable and accrued liabilities decreased to \$1,007,313 as of June 30, 2010 from \$1,028,806 as of December 31, 2009 due mainly to normal payments such as property taxes, common area expenses and debenture interest.

Total liabilities decreased to \$27,666,710 from \$27,978,864 as of December 31, 2009, a decrease of \$312,154. This decrease is primarily due to payments made to accounts payable & accrued liabilities, loans payable, and mortgages payable for the quarter.

Shareholders' equity stood at \$1,081,347 as of June 30, 2010 compared to \$1,464,225 as of December 31, 2009. The decrease was due to the loss for the three months, mostly from amortization, a non-cash item, and decreased rental income from vacancies at Merritt and St. Paul.

### Statements of Operations

For the three months ended June 30, 2010 revenue decreased to \$1,015,427 from \$1,018,222 as of June 30, 2009, a decrease of 0.27%. The decrease was primarily a result of rental decrease during the quarter in St. Paul. Accordingly, rental income decreased by \$26,188 or 3.66%. Common area and realty tax recoveries increased by \$23,296 or 7.68% for the period, primarily due to timing of collection of realty taxes in the second quarter.

For the three months ended June 30, 2010, expenses increased to \$1,251,340 from \$1,203,969 as of June 30, 2009, an increase of \$47,371 or 3.93%. The primary reason for the increase in expenses is the issuance of the stock-based compensation of \$29,723, the increase in administration expenses of \$5,879 or 3.31%, operating costs and realty taxes of \$1,306 or 0.32%

and interest of \$25,497 or 5.43%, offset by decreases in non-cash amortization expense of \$15,034 or 10.46%. Overall expenses are holding steady and management remains focused on controlling costs and operating efficiently.

Loss for the three months ended June 30, 2010 was \$235,913 compared to \$185,747 for the same period last year. As a result, loss per share of \$0.03 in the three months ended June 30, 2010 compared to a loss per share of \$0.02 for the same period in 2009.

### Statements of Cash Flows

On the statements of cash flows, cash provided in operations totaled \$48,592 for the three months ended June 30, 2010 compared to \$106,180 for the same period last year. This represents a Funds From Operations (FFO) of \$0.01 per share for the period.

Financing activities for the three months recorded a decrease in funds of \$184,550 compared to funds used of \$146,085 for the same period a year ago. This is due to normal repayment of mortgages payable and loans payable.

As at June 30, 2010, the Company had \$221,516 in cash compared to \$68,119 at the same period last year.

### **Liquidity**

The Company had cash of \$221,516 as of June 30, 2010. Management feels that the Company has adequate liquidity with which to carry on its operations for fiscal 2010.

### **Off-Balance Sheet Arrangements**

The Company had no off-balance sheet transactions for the six months ended June 30, 2010 or the year ended December 31, 2009.

### **Changes In Accounting Policies**

There have been no changes in accounting policies. New accounting policies adopted during the year are described in note 2 to the unaudited financial statements.

### **International Financial Reporting Standards**

In 2008, the Accounting Standards Board announced that Canadian publicly accountable companies would be required to converge Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant difference in recognition, measurement and disclosures.

In accordance with the impending changes, the Company is performing an ongoing review of the accounting changes in order to ensure successful implementation within the required time frame.

The most significant line item on the financial statements is the revenue-producing properties, as the value of the properties will be adjusted upon the adoption of IFRS. The Company is currently evaluating the impact of this line item which is expected to be significant considering the Company's key assets are the properties.

The full impact of the transition to IFRS on the Company's financial statements is not yet determinable. As well, the Company is reviewing existing information systems and business processes as changes might be required upon the implementation of IFRS. Key information will be disclosed as it becomes available during the transition period.

The Company anticipates the completion of the review process in Q3 with implementation of the required changes in Q4.

For the 2010 transition year, the Company will report under the Canadian GAAP for all public disclosures. As well, to prepare for the 2011 financial statements, the Company will prepare internal 2010 financial statements under IFRS for comparative purposes.

As of January 1, 2011 the Company will be reporting under the IFRS.

## **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 sum of the contractual interest rate applied to the principal plus amortization of the debt discount. The accretion of the original debt discount is charged to interest expense over the term of the debt.

The Company finances operations and capital acquisitions through the issuance of common shares, convertible debentures and warrants. The debt component of the convertible debentures is reflected as a financial liability and the equity component of the convertible debenture is included in shareholders' equity.

## **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares without par value. As at June 30, 2010, the Company had issued and outstanding 8,861,678 common shares with a recorded value of \$2,816,462.

The Company is also authorized to issue an unlimited number of preference shares without par value, of which none have been issued.

## **Related Party Transactions**

During the six months ended June 30, 2010, the Company charged related parties rent totaling approximately \$18,057. The companies are related by virtue of the fact that they have the same President. As at June 30, 2010, included in accounts receivable is an amount of \$51,371 due from these related parties.

During the same period, the Company was charged consulting fees of \$43,550 by an officer. As at June 30, 2010, included in accounts receivable is an amount of \$6,800 due to the related party.

During the six months ended June 30, 2010, the Company incurred accounting fees of \$72,297 with an accounting firm in which one of the Company's officers is a partner. As at June 30, 2010, accounts payable and accrued liabilities included \$38,000 payable to this accounting firm.

During the same period, the Company incurred interest expense on a loan amounting to \$30,000. The company is related by the fact that they have the same President. At June 30, 2010, interest of \$90,000 is unpaid and is included in accounts payable and accrued liabilities.

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

The Company's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting for the issuer. They are assisted in this responsibility by the Management Team. The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures and the design of internal controls over financial reporting at December 31, 2009, have concluded that the Company's disclosure controls and procedures and design of internal control over financial reporting are adequate and effective to ensure that material information relating to the Company would have been known to them.

## **Risk and Uncertainties**

The Company depends on several national retail chains for a significant part of its income. If any of these chains were adversely affected by economic or business conditions, it would have a negative impact on the Company. The Company would also be adversely affected by a long standing large increase in interest rates or a severe economic slow down.

## **OUTLOOK**

The Company anticipates that the economic turn around will continue to be slow and cautious. Specifically, the market volatility and the tightening of the capital markets will remain in the foreseeable future, thus making refinancing of debt instruments challenging and financing for redevelopment difficult.

Operationally, our business model has enabled the Company to weather the economic downturn better than most sectors, as our grocery anchor tenants and smaller local retailers have weathered the economic downturn and are cautiously positive for the remainder of 2010. Many tenants are restocking their inventories with new merchandise which is positive for all our properties.

For the Company, the challenge in the past quarter remains filling the vacancies at our Merritt property with the departure of Saan due to bankruptcy proceedings and our St. Paul property with the departure of Sobeys to a stand alone location and Saan. As well, management is focused on working closely with our existing small tenants to ensure the ongoing viability of all our properties.

We are pleased to report that, with the exception of Merritt and St. Paul, we have been able to renew all our long term leases when due, as well as adding some new tenants as of June 30, 2010.

In addition to protecting our revenue stream, management is taking steps to reduce costs on the expense side of the ledger for all our properties.

In anticipation of an increase in interest rates, the Company is actively monitoring lending rates in 2010 in anticipation of mortgages that will come due for renewal in the fall of 2011.

Management believes that at today's cost, it would take over \$60 million to replicate the current assets of the Company.

#### Tri-City Mall, Cold Lake, Alberta

Tri-City Mall remains the flagship mall in the Company's portfolio and represents a major portion of the revenue generated for the Company. During the past year we renewed a number of leases and added some new tenants. Management is pleased to report that Sobeys has extended their lease for an additional 5 years, expiring in 2018. As well, we are currently exploring lease extensions with other key tenants and negotiating with a national tenant for the remaining vacant space.

Activity is picking up in the Alberta oil patch and this is good for Cold Lake. The Company is currently looking at developing a strip retail pad on our excess acreage in Cold Lake. We hope to have a positive announcement soon.

#### St. Paul Shopping Centre, St. Paul, Alberta

Since the departure of Sobeys and Saan, the Company has been working to fill the anchor vacancies in this property. After 2 years of work, we managed to bring the first Tim Hortons to St. Paul in 2009. This restaurant/drive through opened as planned in August 2009. This has been a most welcome addition to the St. Paul Shopping Centre and is bringing additional retail traffic to our site.

In addition, the Company has been having encouraging conversations with several national chains about anchoring the Centre, but as of this report there is no signed lease agreement. The



Company anticipates positive news on the anchor tenants before the end of the third quarter.

Our property is well located on the main highway and as we purchased it for a cost of about \$70.00 per square foot, it remains a good value for the Company. When we are able to re-lease the two anchor tenants' space at each end of the mall, the St. Paul Shopping Centre will once again be a premier shopping destination for the Town of St. Paul and area.

#### Valley Centre Mall, Whitecourt, Alberta

Valley Centre Mall continues to operate at 100% occupancy and we are pleased to report that there are no major issues to report.

#### Three Hills, Alberta

Our Three Hills property continues to operate satisfactorily, since we renovated the building and moved The Bargain! Shop in the summer of 2005.

#### Merritt, British Columbia

The property is still vacant at this time. The Company is working with brokers and agents to try and secure a potential tenant for this 12,000 square foot building, well located in the growing community of Merritt, B.C.. We will keep shareholders posted as we continue to give our best efforts to fill this building.

The Company remains confident that the vacancies will be filled up in the near future. Management is looking at every opportunity in the market. Much effort and creativity has been placed on securing new tenants. As well, we are negotiating with potential tenants by offering many different permutations and combinations. We will be successful!

In March 2010, when the Company renewed its Normal Course Issuer Bid, it has not purchased back any shares during the past 12 months, as trading has been very light. The Company still maintains the view that the current stock price does not accurately reflect the inherent value of the Company. Based on current market values of similar properties in Western Canada, the Company feels that the share price should be substantially higher and the Company continues to communicate this with investors in the market.

The current economic conditions continue to provide a number of growth opportunities for the Company as many properties and real estate holding companies are dramatically undervalued and represent a buying opportunity for a strong long term return on investment. The Company intends exploring all opportunities in this regard for the benefit of our shareholders in both Canada and the US.

Management recognizes that paramount to our growth strategy is to secure equity financing for acquisitions or construction loans for intensification. The current economic situation remains challenging for new financing, in particular, financing will be difficult to obtain in the small markets where our properties are located. In addition, with interest rates set to increase, the cost of new borrowing will increase which could affect the Company's bottom line.

The Company remains optimistic about the outlook for the balance of 2010. Our business model of investing in anchored shopping centres, with a focus on everyday needs, remains to be our competitive advantage during difficult economic conditions. With the issuance of the new 5 years, 8% unsecured debentures in the first quarter, the Company has secured a major portion of its long term financing. However, the Company is actively seeking additional capital for its growth strategy.

On behalf of the Board of Directors,

(signed) “Anthony J. Cohen”

Anthony J. Cohen

President

August 26, 2010

## Summary of Quarterly Financial Information

The quarterly financial results for fiscal year ended 2010, 2009 and 2008 are summarized as follows:

|   | <b>Three Months Ended<br/>(Audited / Unaudited)</b> |                        |                        |                        |
|---|---|------------------------|------------------------|------------------------|
|   | <b>Jun 30<br/>2010</b>                              | <b>Mar 31<br/>2010</b> | <b>Dec 31<br/>2009</b> | <b>Sep 30<br/>2009</b> |
| Revenue   | \$ 1,015,427  | \$ 931,531             | \$ 960,337             | \$ 1,040,704           |
| Net Income (Loss) for<br>the Period                     | \$ (235,913)  | \$ ( 176,688)          | \$ (426,709)           | \$ (111,062)           |
| Earnings (Loss) per common<br>share - basic and diluted | \$ (0.03)   | \$ (0.02)              | \$ (0.04)              | \$ (0.02)              |

|   | <b>Three Months Ended<br/>(Audited / Unaudited)</b> |                        |                        |                        |
|---|---|------------------------|------------------------|------------------------|
|   | <b>Jun 30<br/>2009</b>                              | <b>Mar 31<br/>2009</b> | <b>Dec 31<br/>2008</b> | <b>Sep 30<br/>2008</b> |
| Revenue   | \$ 1,018,222  | \$ 914,331             | \$ 866,131             | \$ 1,164,456           |
| Net Income (Loss) for<br>the Period                     | \$ (185,747)  | \$ ( 241,669)          | \$ ( 424,539)          | \$ (80,659)            |
| Earnings (Loss) per common<br>share - basic and diluted | \$ (0.02)   | \$ (0.03)              | \$ (0.05)              | \$ (0.01)              |

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