Gulf & Pacific Equities Corp.

Financial Statements
December 31, 2006 and 2005

RSM Richter LLP
Chartered Accountants
Toronto

Gulf & Pacific Equities Corp.

Financial Statements
December 31, 2006 and 2005

Contents

RSM Richter

RSM Richter LLP
Chartered Accountants

200 King St. W., Suite 1100, P.O. Box 48
Toronto, ON M5H 3T4
Tel: (416) 932-8000 Fax: (416) 932-6200
www.rsmrichter.com

Auditors' Report

To the Shareholders of
Gulf & Pacific Equities Corp.

We have audited the balance sheets of Gulf & Pacific Equities Corp. as at December 31, 2006 and 2005 and the statements of operations, deficit and cash flows for the years 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 audits.

We conducted our audits 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

RSM Richter LLP

Chartered Accountants
Licenced Public Accountants

Toronto, Ontario
April 26, 2007

Gulf & Pacific Equities Corp.

Balance Sheet
As at December 31, 2006 and 2005

	2006	2005
Assets		
Revenue-producing properties (note 2)	$ 29,156,469	$ 12,800,887
Cash	121,740	625,231
Deferred financing and leasing costs (note 3)	507,931	244,247
Intangible assets (note 4)	833,804	-
Prepaid expenses	52,411	55,538
Accounts receivable	137,581	52,240
Accrued rent receivable	94,356	82,873
Capital assets (note 5)	1,679	2,262
	$ 30,905,971	$ 13,863,278
Liabilities		
Mortgages payable (note 6)	23,878,873	8,904,569
Convertible debentures (note 7)	2,529,310	2,286,978
Purchase price payable (note 2)	658,776	-
Loans payable (note 8)	1,000,000	-
Intangible liabilities (note 9)	939,966	-
Accounts payable and accrued liabilities	539,071	781,187
	29,545,996	11,972,734
Commitments (note 10)		
Shareholders' Equity		
Capital Stock (note 12)	2,497,645	2,265,871
Paid-in Capital	420,000	420,000
Equity Component of Convertible Debentures (note 12)	1,096,693	1,122,460
Contributed Surplus (note 13)	341,405	100,040
Warrants (note 14)	-	202,400
Deficit	(2,995,768)	(2,220,227)
	1,359,975	1,890,544
	$ 30,905,971	$ 13,863,278

See accompanying notes

On behalf of the board:

(Signed) *"Anthony Cohen"*
Director

(Signed) *"Greg K. W. Wong"*
Director

Gulf & Pacific Equities Corp.

Statement of Deficit
For the Years Ended December 31, 2006 and 2005

		2006		2005
Balance - Beginning of Year	**$**	**(2,220,227)**	$	(1,712,925)
Net loss		**(764,238)**		(507,302)
Debt settlement costs (note 12)		**(11,303)**		-
Balance - End of Year	**$**	**(2,995,768)**	$	(2,220,227)

See accompanying notes

Gulf & Pacific Equities Corp.

Statement of Operations
For the Years Ended December 31, 2006 and 2005

	2006	2005
Revenue		
Rental	$ 1,659,451	$ 1,411,696
Common area and realty tax recoveries	382,764	378,260
Interest and other	44,108	46,743
	2,086,323	1,836,699
Expenses		
Interest	1,383,895	1,127,630
Operating costs and realty taxes	434,790	489,391
Administration	557,185	438,595
Amortization	391,326	249,345
Stock-based compensation (note 12)	83,365	39,040
	2,850,561	2,344,001
Net Loss	$ (764,238)	$ (507,302)
Loss per Common Share-basic and Diluted (note 16)	$ (0.10)	$ (0.07)
Weighted Average Number of Common Shares Outstanding Basic and Diluted	7,814,795	7,506,371

See accompanying notes

Gulf & Pacific Equities Corp.

Statement of Cash Flows
For the Years Ended December 31, 2006 and 2005

		2006		2005
Funds Provided (Used) -				
Operating Activities				
Net loss	$	**(764,238)**	$	(507,302)
Step rental revenue		**(11,483)**		(76,503)
Accretion of discount on convertible debentures		**311,014**		234,160
Amortization of deferred financing and leasing costs		**101,356**		66,473
Amortization of revenue-producing properties		**393,853**		248,545
Amortization of capital assets		**583**		800
Amortization of intangible assets		**14,362**		-
Amortization of intangible liabilities		**(17,473)**		-
Loss on settlement of convertible debentures		**13,121**		-
Stock-based compensation (note 12)		**83,365**		39,040
		124,460		5,213
Changes in non-cash balances related to operations:				
Prepaid expenses		**3,127**		(10,036)
Accounts receivable		**(85,341)**		(36,005)
Accounts payable and accrued liabilities		**(240,413)**		407,876
		(198,167)		367,048
Financing Activities				
Cash held in trust		**-**		211,747
Increase in mortgages payable		**22,000,000**		-
Repayment of mortgages payable		**(8,525,695)**		(438,366)
Deferred financing and leasing costs		**(365,040)**		(25,127)
Proceeds from loans		**1,000,000**		-
Issuance of share capital upon exercise of options (note 12)		**66,797**		-
		14,176,062		(251,746)
Investing Activity				
Additions to revenue-producing properties		**(14,481,386)**		(1,304,501)
Increase (Decrease) in Cash		**(503,491)**		(1,189,199)
Cash				
Beginning of Year		**625,231**		1,814,430
End of Year		**121,740**		625,231
Supplemental Cash Flows Information				
Interest paid	$	**1,059,513**	$	829,316

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%

Upon acquisition of revenue producing properties, the Company allocates the purchase price to the components of the revenue producing properties acquired: the amounts allocated to land and building are based on their estimated fair values; above- and below-market in-place operating leases are determined based on the present value of the difference between the rents payable under the contractual terms of the leases and estimated market rents; lease origination costs for in-place operating leases and estimated market rents; lease origination costs for in-place operating leases are determined based on the estimated costs that would be incurred to put the existing leases in place under the same terms and conditions; tenant relationships are measured based on the present value of the estimated avoided costs if a tenant were to renew its lease at expiry, discounted by the probability of such renewal. Above- and below-market in-place operating leases and lease origination costs are amortized on a straight-line basis over the remaining terms of the leases. The value associated with acquired tenant relationships is amortized on a straight-line basis over the expected term of the relationships.

(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.

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

(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%

(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 12. 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.

Gulf & Pacific Equities Corp.

Notes to Financial Statements
December 31, 2006 and 2005

2. Revenue-producing properties:

2006	Cost	Accumulated amortization	**Net book value**
Land	$ 4,116,501	$ -	**$ 4,116,501**
Building	25,629,459	1,164,524	**24,464,935**
Paving	766,254	191,221	**575,033**
	$ 30,512,214	$ 1,355,745	**$ 29,156,469**

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**

In 2005, construction in progress was not amortized as it was not available for use. In 2006, construction was completed.

In December 2006, the Corporation acquired the Tri-City Mall in Cold Lake, Alberta for $13,300,000 plus acquisition costs of $71,408. In addition, the Corporation agreed to pay an additional $658,776 if the property becomes fully leased. Since the Corporation expects to fully lease the property in 2007, this obligation has been fully provided for and added to the cost of the acquisition.

The acquisition was accounted for in accordance with the Corporation's accounting policies.

The purchase price was allocated as follows:

Land	**$ 2,700,000**
Building	**11,439,457**
Above-market leases	**769,578**
Lease origination costs	**54,173**
Tenant relationships	**24,415**
Below-market leases	**(957,439)**
	14,030,184
Less:	
Mortgage financing arranged	**(10,000,000)**
Loans payable financing arranged	**(1,000,000)**
Purchase price payable	**(658,776)**
Vendor take back mortgage	**(1,500,000)**
Total consideration paid in cash	**871,408**

Gulf & Pacific Equities Corp.
Notes to Financial Statements
December 31, 2006 and 2005

3. Deferred financing and leasing costs:

	2006	2005
Cost	$ 712,166	$ 347,127
Accumulated amortization	(204,235)	(102,880)
	$ 507,931	$ 244,247

4. Intangible assets:

Intangible assets are lease origination costs, tenant relationships and above-market leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible assets is as follows:

	2006	2005
Intangible assets		
Lease origination costs	$ 54,173	$ -
Tenant relationships	24,415	-
Above-market leases	769,578	-
	848,166	
Less accumulated amortization		
Lease origination costs	(1,402)	-
Tenant relationships	(788)	-
Above-market leases	(12,172)	-
Total net	$ 833,804	$ -

5. Capital assets:

2006	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 3,455	$ 2,693	$ 762
Office equipment	6,505	5,588	917
	$ 9,960	$ 8,281	$ 1,679

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

6. Mortgages payable:

	2006	2005
Mortgage payable, bearing interest at 6.84%, repayable monthly in blended principal and interest payments of $4,305, due March 2007	**$ 227,856**	$ 262,855
Mortgage payable, bearing interest at 7.05%, repayable monthly in blended principal and interest payments of $1,544, due January 2010	**189,192**	194,374
Vendor take back mortgage bearing interest at 8.5%, monthly payments of interest only, due January 2009	**1,500,000**	-
Mortgage payable, bearing interest at 5.32%, repayable monthly in blended principal and interest payments of $53,996, due January 2012	**9,000,000**	-
Mortgage payable, bearing interest at 15.00%, monthly payments of interest only due December 2007	**1,000,000**	-
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of $24,300, due October 2011	**3,987,299**	-
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of $48,506, due October 2013	**7,974,526**	-
Mortgage payable, bearing interest at 6.414%, repayable monthly in blended principal and interest payments of $29,620, due January 2008	-	3,673,835
Mortgage payable, bearing interest at 7.25%, repayable monthly in blended principal and interest payments of $23,517, due December 2007	-	2,773,505
Vendor take back mortgage, bearing interest at 7.5%, monthly payments of interest only, due November 2006	-	2,000,000
	$ 23,878,873	$ 8,904,569

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 and $1,000,000 mortgage at 15.00% are subordinated to the other mortgages payable.

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

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

2007	$ 1,632,861
2008	442,165
2009	1,966,103
2010	659,016
2011	4,060,526
2012	8,230,134
2013	6,888,068
	$ 23,878,873

During the 2005 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 had been drawn on this facility.

During the 2006 year, the company:

(a) refinanced the existing mortgage and bank loans on its Valley Centre Mall in Whitecourt, Alberta with a new mortgage of $8.0 million. The new mortgage bears interest of 5.43% per annum, repayable monthly in blended principal and interest payments of $48,506, and is due October 1, 2013. The mortgage is secured by the Valley Centre Mall property and an assignment of rents and/or leases from this property.

(b) refinanced the existing mortgage and vendor take back mortgage on its St. Paul Shopping Centre in St. Paul, Alberta with a new mortgage of $4.0 million. The new mortgage bears interest of 5.45% per annum, repayable monthly in blended principal and interest payments of $24,300 and is due on October 1, 2011. The mortgage is secured by the St. Paul Shopping Centre property and an assignment of rents and/or leases from this property.

7. Convertible debentures:

	December 31, 2006		December 31, 2005	
	Face Value	**Carrying amount**	Face value	Carrying amount
8% debentures	**$ 3,170,000**	**$ 2,529,310**	$ 3,260,000	$ 2,286,978

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.

7. Convertible debentures, cont'd:

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.

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

7. Convertible debentures, cont'd:

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.

During 2006, $90,000 of the debentures were converted to 285,714 common shares (see note 12).

8. Loans payable:

During the year, the Corporation entered into an unsecured loan agreement for $500,000 with a related corporation, bearing interest at 6.0% with monthly payments of interest only, due November 2007. The companies are related since they have the same President. Interest on the loan to the end of the year of $2,500 has been accrued and has been included in interest expense.

During the year the Corporation entered into an unsecured loan agreement for $500,000 with another related corporation, bearing interest at 6.0% with monthly payments of interest only, due November 2007. The companies are related since they have directors in common. Interest on the loan to the end of the year of $2,500 has been accrued and has been included in interest expense.

9. Intangible liabilities:

Included in intangible liabilities are below-market tenant leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible liabilities is as follows:

		2006		2005
Intangible liabilities				
Below-market leases	$	**957,439**	$	-
Less accumulated amortization				
Below-market leases		**(17,473)**		-
Total net	$	**939,966**	$	-

10. Commitments:

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

2007	$	**25,000**
2008		**4,000**
	$	**29,000**

10. Commitments, cont'd:

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 was 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 6.

During 2006, the construction was completed.

11. Financial instruments:

The fair values of cash, 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, convertible debentures, purchase price payable and loans payable liability 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, vendor take back mortgage, convertible debentures and loans 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.

12. Capital stock:

(a) Authorized and issued:

Authorized without limit as to number -

Preference shares
Common shares

Issued and fully paid:

	Number	Amount
Balance - December 31, 2005	7,506,371	$ 2,265,871
Issued for: conversion of debentures (i)	285,714	120,577
exercise of options (ii)	301,650	111,197
Balance - December 31, 2006	8,093,735	$ 2,497,645

During the 2006 year, the Corporation:

i) Issued 285,714 common shares pursuant to the conversion of $90,000 debentures. The carrying value of the liability component and equity component of the debentures of $68,682 and $25,767 respectively, plus accrued interest of $1,703 forfeited, and the fair value of the incremental number of shares issued due to the early conversion of $24,425 has been allocated to the common shares.

12. Capital stock, cont'd:

Debt settlement costs of the equity component of $11,303 have been charged to retained earnings.

ii) Issued 301,650 common shares to directors and officers pursuant to the exercise of an equivalent number of stock options for cash proceeds of $66,797. The Corporation has allocated the $44,400 recorded value of these options to the common shares (see note 13).

(b) Stock-based compensation:

The Stock Option Plan reserves a maximum of 10% of the issued and outstanding shares of the Corporation (determined at the time of the stock option grant) for issuance upon the exercise of stock options granted pursuant to the Stock Option Plan. Stock options granted have a term that does not exceed 5 years and the exercise prices and vesting provisions are determined by the board of directors.

The Corporation granted options for 320,000 common shares to the directors and officers of the Corporation during 2005. 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.

During the 2006 year, the Corporation:

a) Granted 50,000 fully vested stock options to a director. Each option entitles the holder to purchase one share of the Corporation's common stock at a price of $0.305 per share until April 26, 2011. The estimated fair value of $14,665 has been recorded as stock-based compensation.

b) Granted 300,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Corporation's common stock at a price of $0.305 per share until June 9, 2011. The estimated fair value of $68,700 has been recorded as stock-based compensation.

The weighted average grant-date fair value of options granted in 2006 was $0.238.

The fair value of stock options to directors, officers and employees was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	4.29%
Expected life	5.0 years
Expected volatility	88%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Corporation's stock options.

12. Capital stock, cont'd:

A summary of the status of the Corporation's Plan as at December 31, 2006 and 2005 and the changes during the years are presented below:

	2006			2005		
	Options		**Weighted Average exercise price per option**	Options		Weighted Average exercise price per option
Outstanding, beginning of year	**701,650**	**$**	**0.240**	658,637	$	0.210
Granted	**350,000**		**0.305**	320,000		0.310
Exercised	**(301,650)**		**0.221**	-		-
Expired	**-**		**-**	(276,987)		0.260
Outstanding, end of year	**750,000**	**$**	**0.275**	701,650	$	0.240
Exercisable, end of year	**750,000**	**$**	**0.275**	701,650	$	0.240

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				

At December 31, 2006, 750,000 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
180,000	180,000	2003	$	0.180	August 26, 2008
220,000	220,000	2005	$	0.305	June 1, 2010
50,000	50,000	2006	$	0.305	April 26, 2011
300,000	300,000	2006	$	0.305	June 9, 2011
750,000	750,000				

13. Contributed Surplus

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants. The changes during 2006 and 2005 are as follows:

		2006		2005
Balance - beginning of year	$	**100,040**	$	61,000
Options granted (note 12)		**83,365**		39,040
Options exercised (note 12)		**(44,400)**		-
Warrants expired (note 14)		**202,400**		-
Balance - end of year	$	**341,405**	$	100,040

14. 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.

During the 2006 year, these warrants expired (see note 13).

15. Related party transactions:

During the year, the Corporation charged related parties rent totaling approximately $34,911 (2005 - $34,430). The companies are related by virtue of the fact that they have the same President and Chief Financial Officer. As at December 31, 2006, included in accounts receivable is an amount of $9,180 due from these related parties.

During the year, the Corporation was charged management fees of $24,000 (2005 - $24,000) by a shareholder. In addition, an amount of approximately $84,000 (2005 - $70,000) was paid to this shareholder during the year relating to the service fee referred to in note 10. This amount has been capitalized.

During the year, the Corporation was charged consulting fees of $36,000 (2005 - $24,000) by an officer.

During the year, the Corporation incurred accounting fees of $85,500 with an accounting firm in which one of the Corporation's officers is a partner. As at December 31, 2006, accounts payable and accrued liabilities included $85,500 payable to this accounting firm.

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.

Gulf & Pacific Equities Corp.

Notes to Financial Statements
December 31, 2006 and 2005

16. 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.

17. 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% (2005 - 34%) to the pretax loss as a result of the following:

	2006	2005
Loss for the year	**$ (764,238)**	$ (507,302)
Income tax recovery computed at statutory rates	**(260,000)**	(172,000)
Reduction (increase) in income tax recovery resulting from:		
Difference between amortization for accounting and tax, share issue costs and deferred income	**158,000**	(91,000)
Non-deductible expense	**134,000**	93,000
Non-capital losses carried forward	**(32,000)**	-
Valuation allowance against current year's losses	**-**	170,000
	$ -	$ -

(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, 2006 and 2005 are presented below:

	2006	2005
Future tax assets:		
Issue costs	**$ 22,000**	$ 33,000
Non-capital loss carryforwards	**183,000**	761,000
	205,000	794,000
Less: valuation allowance	**65,000**	446,000
	140,000	348,000
Future tax liabilities:		
Accrued rent receivable	**32,000**	28,000
Revenue-producing properties	**108,000**	320,000
	140,000	348,000
Net future tax assets	**$ -**	$ -

17. Income taxes, cont'd:

The valuation allowance for future tax assets as at December 31, 2006 and December 31, 2005 was $65,000 and $446,000, respectively. The net change in the total valuation allowance for the year ended December 31, 2006 was a decrease of $381,000. 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, 2006 and 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, 2006, the Corporation had non-capital loss carryforwards of approximately $538,000 which are available to reduce taxable income of future years and expire as follows:

2008	$	**50,000**
2009		**323,000**
2010		**71,000**
2013		**94,000**
	$	**538,000**