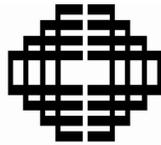

Financial Statements

Gulf & Pacific Equities Corp.

For the Years Ended December 31, 2010 and 2009

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GULF & PACIFIC EQUITIES CORP.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements were prepared by the management of Gulf & Pacific Equities Corp., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

(Signed) "Anthony J. Cohen"

President and CEO

(Signed) "Greg K.W. Wong"

CFO

Toronto, Ontario
April 20, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Gulf & Pacific Equities Corp.

We have audited the accompanying financial statements of Gulf & Pacific Equities Corp. which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principals, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gulf & Pacific Equities Corp. as at December 31, 2010 and December 31, 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principals.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

April 20, 2011
Toronto, Ontario

Gulf & Pacific Equities Corp.

Balance Sheets
As at December 31

	2010	2009
Assets		
Revenue-producing properties (note 3)	\$ 27,256,886	\$ 27,611,030
Cash	64,382	38,444
Intangible assets (note 4)	248,128	388,427
Prepaid expenses (note 17)	407,753	318,945
Debenture proceeds receivable (note 6(iii))	-	720,000
Accounts receivable	91,925	41,030
Accrued rent receivable	370,617	325,213
	<u>\$ 28,439,691</u>	<u>\$ 29,443,089</u>
Liabilities		
Mortgages payable (note 5)	\$ 21,989,956	\$ 22,549,628
Convertible debentures (note 6)	2,343,706	2,117,384
Purchase price payable (note 7)	658,776	658,776
Loans payable (note 8)	1,380,000	1,173,268
Intangible liabilities (note 9)	312,186	451,002
Accounts payable and accrued liabilities	1,039,302	1,028,806
	<u>27,723,926</u>	<u>27,978,864</u>
Commitments (note 10)		
Shareholders' Equity		
Share Capital (note 11)	2,816,462	2,816,462
Equity Component of Convertible Debentures (note 6)	1,273,995	1,273,995
Contributed Surplus (note 12)	2,380,299	2,350,576
Deficit	<u>(5,754,991)</u>	<u>(4,976,808)</u>
	<u>715,765</u>	<u>1,464,225</u>
	<u>\$ 28,439,691</u>	<u>\$ 29,443,089</u>

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board

(Signed) "Anthony J. Cohen", Director

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

Gulf & Pacific Equities Corp.

Statements of Operations, Comprehensive Loss and Deficit
For the Years Ended December 31

	2010	2009
Revenue		
Rental	\$ 2,785,478	\$ 2,796,404
Common area and realty tax recoveries	1,041,813	1,135,647
Interest and other	1,830	1,543
	<u>3,829,121</u>	<u>3,933,594</u>
Expenses		
Interest	1,947,650	1,893,179
Operating costs and realty taxes	1,432,836	1,627,367
Administration	652,343	781,648
Amortization	544,752	558,163
Stock-based compensation (note 11)	29,723	38,424
	<u>4,607,304</u>	<u>4,898,781</u>
Net Loss and Comprehensive Loss	(778,183)	(965,187)
Deficit - Beginning of Year	<u>(4,976,808)</u>	<u>(4,011,621)</u>
Deficit - End of Year	<u>\$ (5,754,991)</u>	<u>\$ (4,976,808)</u>
Loss per Share - Basic and Diluted (note 1(k))	<u>\$ (0.09)</u>	<u>\$ (0.11)</u>
Weighted Average Number of Common Shares Outstanding - Basic and Diluted (note 1(k))	<u>8,861,678</u>	<u>8,861,678</u>

The accompanying notes form an integral part of these financial statements.

Gulf & Pacific Equities Corp.

Cash Flow Statements

For the Years Ended December 31

	2010	2009
Cash Provided By (Used In):		
Operating Activities		
Net loss	\$ (778,183)	\$ (965,187)
Add (deduct) items not affecting cash:		
Accretion of discount on convertible debentures	239,729	223,468
Amortization of deferred financing costs	107,189	113,868
Amortization of revenue-producing properties	543,269	560,407
Amortization of capital assets	-	574
Amortization of intangible assets	140,299	140,889
Amortization of intangible liabilities	(138,816)	(143,706)
Stock-based compensation (note 11)	29,723	38,424
	<u>143,210</u>	<u>(31,263)</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	(88,808)	68,870
Accounts receivable	(50,895)	1,447
Accounts payable and accrued liabilities	125,495	235,638
Accrued rent receivable	(45,404)	(45,658)
	<u>83,598</u>	<u>229,034</u>
Financing Activities		
Repayment of mortgages payable	(622,747)	(1,761,998)
Mortgages payable	-	1,536,250
Loans payable	265,000	195,000
Repayment of loans payable	(173,268)	-
Financing costs paid	(37,521)	(159,530)
Convertible debentures issued	720,000	-
Convertible debentures redeemed	(20,000)	-
	<u>131,464</u>	<u>(190,278)</u>
Investing Activities		
Additions to revenue-producing properties	(189,124)	(10,000)
Additions to capital assets	-	(574)
	<u>(189,124)</u>	<u>(10,574)</u>
Increase (Decrease) in Cash	25,938	28,182
Cash - beginning of year	<u>38,444</u>	<u>10,262</u>
Cash - end of year	<u>\$ 64,382</u>	<u>\$ 38,444</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 1,561,380</u>	<u>\$ 1,599,957</u>

The accompanying notes form an integral part of these financial statements.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

The Years Ended December 31, 2010 and 2009

Gulf & Pacific Equities Corp. (“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 as “TSX-V: GUF”. The Company commenced active operations during the 1999 fiscal year. The Company owns and operates commercial rental properties in Western Canada.

1. Summary of Significant Accounting Policies

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

a) Revenue-producing properties and intangible assets/liabilities

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:

<u>Asset</u>	<u>Rate</u>
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 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

Financing fees incurred in connection with long-term debt financing are included with the related debt and are amortized using the effective interest rate basis. Leasing costs, included in prepaid expenses, 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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

1. Summary of Significant Accounting Policies (continued)

c) Impairment of long lived assets

Long-lived assets include revenue-producing properties and intangible assets. The Company 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.

d) Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in the statement of operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses, included in the statement of comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

Cash	Held for trading
Accounts receivable	Loans and receivables
Accrued rent receivable	Loans and receivables
Mortgages payable	Other liabilities
Convertible debentures	Other liabilities
Purchase price payable	Other liabilities
Loans payable	Other liabilities
Accounts payable and accrued liabilities	Other liabilities

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, using the residual method. The liability element is valued and the difference between the face value and the liability element is recorded as the equity element. 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 using the effective interest rate method.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

1. Summary of Significant Accounting Policies (continued)

e) Stock-based compensation

The Company has a stock-based compensation plan. The Company 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 Company 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.

f) Issue costs

The Company accounts for costs related to issuing equity as a charge against share capital in the period incurred.

g) Revenue recognition

The Company 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.

The Company 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.

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.

h) Income taxes

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

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

1. Summary of Significant Accounting Policies (continued)

i) Statement of cash flows

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

j) 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. The significant areas of estimation include impairment of assets, useful lives of assets to calculate amortization, measurement of stock-based compensation, bifurcation of convertible debentures and fair values of financial instruments.

k) Loss per share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated on the weighted average number of common shares outstanding increased to include potentially issuable common shares from the assumed exercise of common share purchase options, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options. As the Company had a loss in each of the two years presented, basic and diluted loss per share are the same, as the exercise of all options would be anti-dilutive.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

2. Future Accounting Changes

International Financial Reporting Standards ("IFRS")

The CICA plans to converge Canadian Generally Accepted Accounting Principles (GAAP) with IFRS over a period expected to end in 2011. The Company's transition date of January 1, 2011 will require restatement of the amounts reported by the Company for the year ended December 31, 2010 for comparative purposes. In conjunction with the transition to IFRS, the Company will need to prepare an opening balance sheet as at January 1, 2010 in accordance with IFRS, which will be included in the first interim financial statements as at March 31, 2011.

Significant differences between IFRS and current Canadian GAAP exist in certain matters of recognition, measurement and disclosure. Adopting the new framework will have a material impact on the Company's balance sheets and statements of operation and deficit, however it is not expected to have a material impact on the cash flow statements.

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

On January 5, 2009, the AcSB released Handbook Section 1582 Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602 Non-Controlling Interest which supersedes Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. The released sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Sections are consistent with IFRS standards.

3. Revenue Producing Properties

a) 2010

	Cost	Accumulated Amortization	Net book Value
Land	\$ 4,116,501	\$ -	\$ 4,116,501
Building	24,919,102	2,995,674	21,923,428
Paving	1,758,946	633,802	1,125,144
Construction in Progress	91,813	-	91,813
	<u>\$ 30,886,362</u>	<u>\$ 3,629,476</u>	<u>\$ 27,256,886</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

3. Revenue Producing Properties (continued)

b) 2009

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net book Value</u>
Land	\$ 4,116,501	\$ -	\$ 4,116,501
Building	24,821,790	2,550,243	22,271,547
Paving	1,758,946	535,964	1,222,982
	<u>\$ 30,697,237</u>	<u>\$ 3,086,207</u>	<u>\$ 27,611,030</u>

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:

	<u>2010</u>	<u>2009</u>
Intangible assets		
Lease origination costs	\$ 54,173	\$ 54,173
Tenant relationships	24,415	24,415
Above-market rate leases	769,578	769,578
	<u>848,166</u>	<u>848,166</u>
Less: accumulated amortization		
Lease origination costs	(39,265)	(31,848)
Tenant relationships	(18,397)	(15,305)
Above market leases	(542,376)	(412,586)
	<u>\$ 248,128</u>	<u>\$ 388,427</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

5. Mortgages Payable

	<u>2010</u>	<u>2009</u>
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of \$4,310, due March 2012	\$ 61,812	\$ 107,628
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of \$4,650, due December 1, 2013	511,298	523,581
Vendor take back mortgage, bearing interest at 10%, (2009 - 8.5%) monthly payments of interest only, due January 2012	1,500,000	1,500,000
Mortgage payable, bearing interest at 5.32%, repayable monthly in blended principal and interest payments of \$53,996, due January 2012	8,243,397	8,451,602
Mortgage payable, bearing interest at 6.3%, repayable monthly in blended principal and interest payments of \$11,212 due January 1, 2012	853,018	931,837
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of \$24,300, due October 2011	3,645,688	3,738,097
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of \$48,506, due October 2013	7,289,644	7,474,860
	<u>22,104,857</u>	<u>22,727,605</u>
Unamortized mortgage financing costs	(114,901)	(177,977)
	<u>\$ 21,989,956</u>	<u>\$ 22,549,628</u>

During the year, the Vendor take back mortgage was renewed until January 1, 2012 at 10% per annum from December 1, 2010.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

5. Mortgages Payable (continued)

The mortgages are secured by a general security agreement (except for the mortgage of \$853,018 which is secured by a second ranking 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 other mortgages payable.

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization (see note 1(b)).

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

2011	\$ 5,705,001
2012	9,026,436
2013	<u>7,373,420</u>
	<u>\$22,104,857</u>

6. Convertible Debentures

	December 31, 2010		December 31, 2009	
	Face value	Carrying amount	Face value	Carrying amount
8% - September 1, 2013 (i)	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
8% - November 18, 2014 (ii)	-	-	20,000	20,000
8% - December 31, 2014 (i, ii, iii)	3,606,250	2,353,838	3,606,250	2,114,109
	3,656,250	2,403,838	3,676,250	2,184,109
Unamortized deferred financing costs	-	(60,132)	-	(66,725)
	<u>\$ 3,656,250</u>	<u>\$ 2,343,706</u>	<u>\$ 3,676,250</u>	<u>\$ 2,117,384</u>

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

- (i) The first series of the convertible debentures, with a face value of \$900,000, bear interest at 8%, mature September 1, 2013 and are unsecured. These debentures could be converted by the holder into common shares of the Company at one common share for each \$0.40 principal amount of debentures.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

6. Convertible Debentures (continued)

On December 31, 2009, the holders of \$846,250 of these convertible debentures exchanged their holdings for the new 8% convertible debentures due December 31, 2014. The new debentures can be converted by the holder into common shares of the Company at a conversion price of \$0.25 per share if converted prior to December 31, 2011, and \$0.30 per share if converted prior to December 31, 2014. The fair value of the debt component of the new debentures was determined to be \$559,175 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be \$287,075. Management determined that this exchange of debentures resulted in substance in a renegotiation of debt in accordance with EIC 88. As a result, the difference between the fair value of the new convertible debentures of \$846,250 and the carrying value of the old convertible debentures of \$628,103, was applied as a reduction to the debt component of the new convertible debentures.

As the conversion feature of the original debt expired unexercised, the equity component of \$444,660 was transferred to contributed surplus.

As at December 31, 2009 and 2010, \$50,000 of the original debentures were outstanding without any conversion feature.

- (ii) The second series of the convertible debentures bore interest at 8%, matured November 18, 2009 and are unsecured. The debentures could be converted by the holder into common shares of the Company at one common share for each \$0.425 principal amount of debentures. The Company had 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 Company had the right to force early conversion of the debentures in the event that the common shares of the Company trade for a period of five consecutive days (a "Trading Period") at a price equal to or above the following price and the cumulative trading volume of the common shares of the Company during this Trading Period represents not less than 5% of the Company's issued and outstanding common shares: \$0.60 per common share at any time during the two year period from the closing date. These convertible debentures were issued on November 18, 2004 in connection with a private placement. The Company 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.

On October 30, 2009, the holders of the debentures agreed to a 5 year extension of the debentures with the new due date being November 18, 2014. As the conversion feature had expired, the equity component of \$529,683 was transferred to contributed surplus.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

6. Convertible Debentures (continued)

On December 31, 2009, the holders of \$2,040,000 of these convertible debentures exchanged their holdings for the new 8% convertible debentures due December 31, 2014. The new debentures can be converted by the holder into common shares of the Company at a conversion price of \$0.25 per share if converted prior to December 31, 2011, and \$0.30 per share if converted prior to December 31, 2014. The fair value of the debt component of the new debentures was determined to be \$1,310,537 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be \$729,463. Management determined that this exchange of debentures resulted in substance in the extinguishment and refinancing of debt in accordance with EIC 88. There was no gain or loss on this transaction.

As at December 31, 2009, \$20,000 of the original debentures were outstanding and the conversion feature had expired. During 2010, the Company redeemed the remaining \$20,000 of these original debentures. At December 31, 2010, there are no debentures of this series outstanding

- (iii) The third series of convertible debentures bear interest at 8%, mature December 31, 2014 and are unsecured. The debentures can be converted by the holder into common shares of the Company at a conversion price of \$0.25 per share if converted prior to December 31, 2011, and \$0.30 per share if converted prior to December 31, 2014.

On December 31, 2009, subscribers agreed to pay \$720,000 for the new 8% convertible debentures due December 31, 2014. The fair value of the debt component of the new debentures was determined to be \$462,543 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be \$257,457.

As at December 31, 2009, the new debenture had not been received and were shown as debenture proceeds receivable on the balance sheet. This amount was collected in 2010.

As at December 31, 2010, the total debentures of this series outstanding amounted to \$3,606,250.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

7. Purchase Price Payable

In December 2006, the Company acquired the Tri-City Mall in Cold Lake, Alberta and agreed to pay an additional \$658,776 if and when the property became fully leased at any time up to December 31, 2021. Since the Company expects to fully lease the property by this time, the obligation has been fully provided for and was added to the cost of the acquisition. As at December 31, 2010, the property was not fully leased.

8. Loans Payable

- (i) During 2006, the Company 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, which were subsequently extended to November 2010. The companies are related since they have the same President.

During 2006 the Company 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, which were subsequently extended to November 2010. The companies are related since they have directors in common.

On October 31, 2010 the unsecured loans were exchanged for 8% unsecured convertible debentures, maturing October 31, 2015, for face value plus accrued interest of \$115,000. The conversion feature is subject to disinterested shareholder approval, which is expected in June 2011. As a result, until disinterested shareholder approval is obtained, this is recorded as a loan payable. At December 31, 2010, \$1,115,000 was outstanding.

The Debentures have a 5 year term, maturing October 31, 2015 and bear interest from the date of issue at 8% per annum, payable semi-annually.

- (ii) During 2009, the Company entered into a loan agreement for \$197,500 with a third party, bearing an effective interest of 17.56%. The Company made monthly payments of \$10,000 on the first day of each month starting October 1, 2009 for a period of eleven months with a final payment of \$115,000 on August 31, 2010. As at December 31, 2010 this loan was repaid in full.
- (iii) During 2010, the Company entered into a loan agreement for \$300,000 with a third party. The actual loan amount received was \$265,000 which was net of total interest. This gives the loan an effective interest rate of 15.84% per annum. The Company is making monthly payments of \$10,000 on the twenty-second day of each month starting January 22, 2011 for a period of eleven months with a final payment of \$190,000 on December 21, 2011.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

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:

	<u>2010</u>	<u>2009</u>
Intangible liabilities		
Below-market leases	\$ 957,439	\$ 957,439
Less: accumulated amortization		
Below-market leases	<u>(645,253)</u>	<u>(506,437)</u>
	<u>\$ 312,186</u>	<u>\$ 451,002</u>

10. Commitments

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

2011	34,293
2012	36,636
2013	<u>6,177</u>
	<u>\$ 77,106</u>

11. Share Capital

a) Authorized and issued

Authorized without limit as to number -

Preference shares
Common shares

Issued and fully paid:

Common shares	<u>Number</u>	<u>Amount</u>
Balance - December 31, 2008, 2009 and 2010	<u>8,861,678</u>	<u>\$ 2,816,462</u>

On March 11, 2008, the Company announced its intention to make a normal course issuer bid (the "Bid") for up to 546,051 of its common shares, representing 10% of the Company's public float. The Bid commenced on March 10, 2008 and continued until March 9, 2009, at which time it was renewed until March 9, 2010.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

11. Share Capital (continued)

On March 9, 2010 the Bid was renewed until March 9, 2011. The Bid will continue until the earlier of March 9, 2011 and the date by which the Company has acquired the maximum 546,051 shares which may be purchased under the Bid. The Bid will be made through the facilities of the TSX Venture Exchange and the purchase and payment for the securities will be made in accordance with the Exchange requirements at the market price of the shares at the time of acquisition. All units purchased by the Company under the Bid will be cancelled. On April 5, 2011, the Bid was renewed until April 5, 2012.

As at December 31, 2010, no shares have been purchased under the normal course issuer bid.

b) Stock-based compensation

The Stock Option Plan reserves a maximum of 10% of the issued and outstanding shares of the Company (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 10 years and the exercise prices and vesting provisions are determined by the board of directors.

A summary of the status of the Company's Plan as at December 31, 2010 and 2009 and the changes during the years are presented below:

	2010		2009	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of year	884,000	\$ 0.288	644,000	\$ 0.302
Granted	150,000	0.200	240,000	0.250
Exercised	-	-	-	-
Expired	(150,000)	0.305	-	-
Outstanding, end of year	884,000	\$ 0.270	884,000	\$ 0.288
Exercisable, end of year	884,000	\$ 0.270	884,000	\$ 0.288

At December 31, 2010, 884,000 options which had been granted to certain directors, officers, employees and consultants to purchase common shares of the Company subject to various requirements were outstanding as follows:

Outstanding	Exercisable	Year of grant	Exercise price per option	Expiry date
130,000	130,000	2006	\$ 0.305	June 9, 2011
364,000	364,000	2007	\$ 0.300	April 26, 2012
240,000	240,000	2009	\$ 0.250	February 20, 2014
150,000	150,000	2010	\$ 0.200	June 21, 2020
884,000	884,000			

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

11. Share Capital (continued)

b) Stock-based compensation (continued)

On June 1, 2010, 150,000 stock options expired.

On June 21, 2010, the Company granted 150,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Company's common stock at a price of \$0.20 per share until June 21, 2020. The estimated fair value of \$29,723 has been recorded as stock-based compensation. The following assumptions were used in the Black-Scholes pricing model:

Expected dividend paid	Nil
Risk-free interest rate	3.32%
Expected life	10.0 years
Expected volatility	161%

The weighted average grant date fair value of options granted in 2010 was \$0.198.

On February 20, 2009, the Company granted 240,000 fully vested stock options to directors and officers. Each option entitles the holder to purchase one share of the Company's common stock at a price of \$0.25 per share until February 20, 2014. The estimated fair value of \$38,424 has been recorded as stock-based compensation. The following assumptions were used in the Black-Scholes pricing model:

Expected dividend paid	Nil
Risk-free interest rate	2.11%
Expected life	5.0 years
Expected volatility	79%

The weighted average grant date fair value of options granted in 2009 was \$0.16.

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 Company's stock options.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

12. Contributed Surplus

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants as well as transfers from the equity component of convertible debentures. The changes during 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	\$ 2,350,576	\$ 1,337,809
Transfer from equity component of convertible debentures	-	974,343
Options granted (note 11)	29,723	38,424
	<u>2,380,299</u>	<u>2,350,576</u>
Balance - end of year	\$ 2,380,299	\$ 2,350,576

13. Financial Instruments and Risk Management

Fair Value

The Company's accounts receivable, accrued rent receivable, debenture proceeds receivable and other financial liabilities, which includes mortgages payable, convertible debentures, purchase price payable, loans payable and accounts payable and accrued liabilities, are substantially carried at amortized cost, which approximates fair value, except for the mortgages which have a fair value of approximately \$22,208,000. Such fair value estimates are not necessarily indicative of the amounts that the Company might pay or receive in actual market transactions.

The fair value hierarchy of financial instruments measured at fair value on the balance sheet includes cash as Level 1. The Company has no other financial instruments at Level 2 or Level 3.

The three levels of the fair value hierarchy are described as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets of liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The Company had no embedded derivatives requiring separate recognition for the years ended December 31, 2010 and 2009.

The company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair values of financial instruments); credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

13. Financial Instruments and Risk Management (continued)

Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates such as changes in equity prices, commodity prices or credit spreads.

The company manages market risk from the impact of changes in interest rates by funding assets with financial liabilities with similar interest rate characteristics.

Interest rate cash flow risk is minimized through the Company's current strategy of having the mortgages payable in fixed rate arrangements, however is subject to price risk.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. The Company believes that the credit risk of accounts receivable is minimal as the balance receivable is limited to only \$91,925 in 2010 and \$41,030 in 2009. These amounts are net of provisions of \$121,031 in 2010 and \$84,030 in 2009.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 14. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. The Company is subject to the risk associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt with maturities over an extended period of time.

As at December 31, 2010, the Company's financial liabilities include accounts payable and accrued liabilities, with contractual maturities of less than one year, convertible debentures (note 6), loans payable (note 8), purchase price payable (note 7) and mortgages payable (note 5).

14. Capital Management

The Company's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and
- b) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

14. Capital Management (continued)

The Company sets the amount of capital in proportion to risk. The Company includes equity in its definition of capital. Equity is comprised of capital stock, equity component of convertible debentures, contributed surplus and deficit. The Company manages capital structure and makes adjustments in light of changes in economic conditions and the risk characteristic of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

15. Related Party Transactions

During the year ended December 31, 2010, the Company:

- a) Charged related parties rent totalling approximately \$35,685 (2009 - \$36,114). The companies are related by virtue of the fact that they have the same President. As at December 31, 2010, included in accounts receivable is an amount of \$66,400 (2009 - \$33,314) due from these related parties
- b) Was charged consulting fees of \$87,100 (2009 - \$87,100) by an officer. As at December 31, 2010, included in accounts payable is an amount of \$15,250 (2009 - \$16,550) due to the officer.
- c) Incurred accounting fees of \$109,187 (2009 - \$88,080) with an accounting firm in which one of the Company's officers is a partner. As at December 31, 2010, accounts payable and accrued liabilities included \$54,690 (2009 - \$89,245) payable to this accounting firm.
- d) Other related party transactions are disclosed in note 8.

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.

16. 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 29% (2009 - 31.50%) to the pretax loss as a result of the following:

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

The Years Ended December 31, 2010 and 2009

16. Income Taxes (continued)

	<u>2010</u>	<u>2009</u>
Loss for the year	\$ (778,183)	\$ (965,187)
Income tax recovery computed as statutory rates	(226,000)	(304,000)
Reduction in income tax recovery resulting from:		
Non-deductible expense	78,000	282,000
Change in tax rates	51,000	83,000
Change in valuation allowance and other	97,000	(61,000)
	<u>\$ -</u>	<u>\$ -</u>

- 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, 2010 and 2009 are presented below:

	<u>2010</u>	<u>2009</u>
Future tax assets:		
Intangibles	\$ 16,000	\$ 16,000
Revenue-producing properties	783,000	645,000
Non-capital loss carryforwards	60,000	75,000
	<u>859,000</u>	<u>736,000</u>
Less: valuation allowance	747,000	650,000
	<u>112,000</u>	<u>86,000</u>
Future tax liabilities		
Accrued rent receivable	95,000	83,000
Issue costs	17,000	3,000
	<u>112,000</u>	<u>86,000</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
The Years Ended December 31, 2010 and 2009

16. Income Taxes (continued)

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 Company will not realize the benefits of these deductible differences and has accordingly provided a valuation allowance.

- c) At December 31, 2010, the Company had net capital loss carry forwards for federal income tax purposes in Canada of approximately \$26,000. The net capital loss carry forwards have no expiry dates.

At December 31, 2010, the Company had non-capital loss carry forwards of approximately \$230,000 which are available to reduce taxable income of future years and expire as follows:

2027	\$ 27,000
2030	203,000
	<u>\$ 230,000</u>

17. Terms of Financing

Under the terms of a mortgage on one of the Company's properties, a payment amounting to \$240,000 has been made as of December 31, 2010. This payment was made at the rate of \$20,000 per month commencing one year prior to the lease renewal date of an anchor tenant, and is payable to a maximum of 12 months. This amount is repayable to the Company when the space is leased to a new anchor tenant, subject to the terms of the agreement. Accordingly, this payment has been included in prepaid expenses.