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 2006 annual results for Gulf & Pacific Equities Corp. (TSX-V: GUF).

2006 was a year of exciting developments for Gulf & Pacific Equities Corp., as we added a fifth property to our holdings with the purchase of Tri-City Mall in Cold Lake, Alberta for $14.0 million. The result is that Gulf & Pacific Equities Corp. grew in terms of rentable space of 176,811 sq. ft. to 338,114 sq. ft., an increase of 161,303 sq. ft.. This effectively doubled the portfolio for the company.

Correspondingly, our anticipated net rental income for 2007 will increase from $1.66 million to $3.1 million annually for a full fiscal year. As well, with the booming economy in Northern Alberta, we are currently in discussion with several new tenants to negotiate new long term leases for the remaining vacant space in Tri-City Mall. Furthermore, we are in ongoing discussions with existing tenants in all five properties for lease renewals due this year and next year. When fully leased, we anticipate additional growth in net rental income to $3.4 million plus.

I am pleased to report that our renovation at Valley Centre Mall, Whitecourt Alberta, was completed in June of 2006. The Sobeys' expansion is completed, and we have a new 20 year lease with this fine grocery chain, solidly anchoring the 80,000 square foot Valley Centre Mall.

In addition, in 2006 the company refinanced both the Valley Centre Mall and the St. Paul Shopping Centre by replacing all existing financing on both properties with a new $8 million first mortgage at 5.43% for 7 years at Valley Centre Mall, and a $4 million first mortgage at 5.45% for 5 years at St. Paul Shopping Centre, both with First National Financial LP.

Our properties at Three Hills and Merritt continue to generate steady rental income with our tenants The Bargain! Shop and Saan Stores Limited.

We are focused on maintaining a strong relationship with our many quality tenants such as Guardian Drugs, Petro Canada, Reitmans, Rexall Drug Mart, and as noted above Saan Stores Limited, Sobeys and The Bargain! Shop. To view a complete list of our tenants please visit our new website at www.gpequities.com.

On January 1, 2007 we welcomed West Horizon Properties Inc. as the property manager for our five properties. For our tenants, this will represent no change, as Mr. Kim Donais has moved from Rick Holdings Ltd. and formed his new company West

Horizon Properties Inc.. I would like to take this opportunity to thank Rick Holdings Ltd. for their many years of service to Gulf & Pacific Equities Corp.

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

Yours truly,

<u>(signed) “Anthony J. Cohen”</u>

Anthony J. Cohen
President
April 26, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Gulf & Pacific Equities Corp. (“Gulf & Pacific” or the “Corporation”) 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 Corporation is listed on the TSX Venture Exchange. The Corporation commenced active operations during the 1999 fiscal year. Gulf & Pacific is focused on the acquisition, management and development of grocery store anchored shopping centres.

This MD&A is prepared as of April 26, 2007. 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 $30,905,971 as of December 31, 2006, compared to $13,863,278 as of December 31, 2005. The increase of more than $17 million in total assets was primarily due to an increase in the book value of revenue producing properties, which resulted from the purchase of the Tri-City Mall in Cold Lake, Alberta and the capital investment in the expansion of the Sobeys store anchoring our Valley Centre Mall in Whitecourt, Alberta. The purchase of Tri-City Mall was completed in December 2006 and the expansion of Sobeys in Valley Centre Mall was substantially completed in June 2006. The new rent for Tri-City Mall for the partial month of December 2006 was adjusted in the purchase closing with the new rent starting January 1, 2007. The new rent for Sobeys was accrued starting June 2006.

Our cash balance decreased by $503,491 during the twelve months to $121,740 at December 31, 2006, down from $625,231 as of December 31, 2005. This decrease was largely due to the use of funds for the purchase of Tri-City Mall, the investment in the Sobeys expansion and the rental arrangements made with Sobeys and Saan Stores during the construction period. The capital investment program was funded from corporate resources, new first mortgages from First National Financial LP and a VTB second mortgage, and short term loans (see note 8 in the audited financial statement). Deferred financing costs increased by $263,684 as a result of the new mortgages and refinancings. Intangible assets increased to $833,804 representing the lease origination costs, tenant relationships and above-market leases assumed on acquisition of Tri-City Mall, net of related accumulated amortization. Accounts receivable increased from $52,240 as of December 31, 2005 to $137,581 as of December 31, 2006 due to outstanding realty taxes and common area costs for Valley Centre Mall and St. Paul. The rest of the asset side of the balance sheet was little changed.

With respect to liabilities, mortgages payable increased to $23,878,873 as of December 31, 2006 up from $8,904,569 as of December 31, 2005 due to the purchase of the property in Cold Lake and the refinancing of the properties in St. Paul and Whitecourt, offset by regular repayment of mortgages on the Corporation’s properties. Convertible debentures increased to $2,529,310 as of December 31, 2006 from $2,286,978 as of

December 31, 2005. In accordance with generally accepted accounting principles, the convertible debentures are carried at an amount that increases as time passes (see note 7 to the audited financial statements) reflecting a non cash allocation within the balance sheet. The purchase price payable of $658,776 represents an agreement whereby the Corporation is obliged to pay the amount if the Tri-City Mall becomes fully leased subsequent to the purchase. 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 loans payable of $1,000,000 represent two related party loans of $500,000 each used in the purchase of the Tri-City Mall. The intangible liabilities of $939,966 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 $539,071 as of December 31, 2006 from $781,187 as of December 31, 2005 due mainly to the substantial completion of the Valley Centre Mall renovation and payment of realty taxes.

Total liabilities increased to $29,545,996 as of December 31, 2006 from $11,972,734 as of December 31, 2005, an increase of $17,573,262. This increase is primarily due to the financing associated with the purchase of Tri-City Mall including a new $9 million mortgage at 5.32% with First National Financial LP, a $1.5 million VTB at 8.5%, and $1.0 million at 15% (see note 6 of audited financial statements), plus $1 million in related party loans as noted above. In addition, the Company discharged all outstanding debts on the St. Paul and Whitecourt properties and refinanced with new first mortgages with First National Financial LP. The new mortgages are at 5.45% and 5.43% respectively which average approximately 2% lower than rates on the combined retired outstanding debts, resulting in a nominal increase in mortgage payments to service the higher mortgage balances.

Shareholders' equity stood at $1,359,975 as of December 31, 2006 compared to $1,890,544 as of December 31, 2005. The decline was due to the Corporation's deficit increasing to $2,995,768 from $2,220,227 as a result of the net loss as explained below.

<u>Statements of Operations</u>

For the year ended December 31, 2006 revenue increased to $2,086,323 from $1,836,699 as of December 31, 2005. The increase was a result of the new rental arrangements made with Sobeys and Saan Stores starting June 1 and May 1 respectively, new rent with The Bargain! Shop in Three Hills and the partial December rent for Tri-City Mall. Revenue will increase significantly in 2007 as a result of new rental terms with Saan Stores Limited and Sobeys which are reflected in the quarter, the full year addition of Tri-City Mall, as well as new leases with existing and new tenants.

In order to accommodate Sobeys expansion into over 12,000 square feet of their space, Saan Stores paid no rent or other expenses until May 1, 2006, so during the first quarter the Corporation received no rental or other income from Saan as per our construction agreement.

For the period ended December 31, 2006, expenses rose to $2,850,561 from $2,344,001 as of December 31, 2005, an increase of $506,560 or 21.6 %. The reasons for the increase in expenses were a $256,265 increase in interest expense related mostly to the financing for the Valley Centre Mall renovation and to a non-cash interest expense of $76,854 relating to accretion, an increase in administration expenses of $118,590 due primarily to professional fees, a non-cash amortization expenses increase of $141,981 and an increase in stock-based compensation of $44,325, offset by small decrease in operating costs and property taxes. Management remains focused on controlling costs and operating efficiently.

Loss for the year ended December 31, 2006 was $764,238 compared to $507,302 as of December 31, 2005.

Statements of Cash Flows

On the statements of cash flows, cash used in operations totaled $198,167 as of December 31, 2006 compared to cash provided by operations of $367,048 as of December 31, 2005. Cash flow from operations before changes in non-cash items improved from $5,213 to $124,460, as a result of the new rental arrangements made with Sobeys and Saan Stores after the construction period offset by the interest expense associated with the mortgage relating to construction on Valley Centre Mall. Overall cash flow from operations declined due to the reduction in accounts payable and accrued liabilities. Financing activities provided $14,176,062 in funds as of December 31, 2006 compared to the use of $251,746 in funds as of December 31, 2005. The main change was the increase in mortgages payable of $22,000,000 as a result of the purchase of Tri-City Mall as noted above and the refinancing of Valley Centre Mall and St. Paul Shopping Centre, the debt refinancing used to discharge the construction loan for the Valley Centre Mall renovation, and the VTB mortgage on St. Paul, partially offset by $8,525,695 in mortgage repayments compared to repayment of $438,366 in mortgages payable last year. For the year ended December 31, 2006, $14,481,386 was invested in revenue producing properties compared to $1,304,501 being invested for the year ended December 31, 2005. As at December 31, 2006 the Corporation had $121,740 in cash compared to $625,231 as of December 31, 2005, mainly as a result of the use of funds for the completion of the purchase of Tri-City Mall in December 2006, with the significant increase in rental income not starting until January 1, 2007.

Liquidity

The Corporation had cash of $121,740 as of December 31, 2006. Management feels that it has adequate liquidity with which to carry on its operations for fiscal 2007.

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet transactions for the year ended December 31, 2006 or the year ended December 31, 2005.

Changes In Accounting Policies

There have been no changes in accounting policies.

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 Corporation 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 (see note 7 to the audited financial statements) and the equity component of the convertible debenture is included in shareholders' equity.

Outstanding Share Data

The Corporation is authorized to issue an unlimited number of common shares without par value. As at December 31, 2006, the Corporation had issued and outstanding 8,093,735 common shares with a recorded value of $2,497,645.

The Corporation 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 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.

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.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Corporation's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining the Corporation'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 Corporation's disclosure controls and procedures and the design of internal controls over financial reporting at December 31, 2006, have concluded the Corporation'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 Corporation would have been known to them.

Risk and Uncertainties

The Corporation 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 Corporation. The Corporation would also be adversely affected by a long standing large increase in interest rates or a severe economic slow down.

OUTLOOK

Management is optimistic about the outlook for the balance of 2007. The economies of Alberta and British Columbia should be the strongest in the country. We are well positioned to benefit from that growth.

In 2005, Gulf & Pacific Equities Corp. was named the 22nd fastest growing company in Canada by “Profit” magazine, a Rogers publication. In 2006, we made the list again as the 162nd fastest growing company in Canada.

On behalf of the Board of Directors,

(signed) “Anthony J. Cohen”

Anthony J. Cohen
President
April 26, 2007

Summary of Quarterly Financial Information

The quarterly financial results for fiscal year ended 2006 and 2005 are summarized as follows:

	Three Months Ended (Audited / Unaudited)			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Revenue	$ 581,551	$ 543,844	$ 496,226	$ 464,702
Net (Loss) for the Period	(176,308)	(166,530)	(277,342)	(144,058)
Earnings (Loss) per common share - basic and diluted	(0.02)	(0.02)	(0.04)	(0.02)

	Three Months Ended (Audited / Unaudited)			
	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Revenue	$ 468,387	$ 447,595	$ 444,863	$ 475,854
Net Income (Loss) for the Period	(42,595)	(150,645)	(223,035)	(91,027)
Earnings (Loss) per common share - basic and diluted	(0.01)	(0.02)	(0.03)	(0.01)