
Financial Statements

Gulf & Pacific Equities Corp.

For the Six Months Ended June 30, 2010

Unaudited

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NOTICE TO READER

The accompanying unaudited interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Gulf & Pacific Equities Corp.

Balance Sheets

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Revenue-producing properties	\$ 27,339,396	\$ 27,611,030
Cash	221,516	38,444
Intangible assets	318,138	388,427
Prepaid expenses (note 11)	437,390	318,945
Debenture proceeds receivable (note 5(iii))	-	720,000
Accounts receivable	81,960	41,030
Accrued rent receivable	349,657	325,213
	<u>\$ 28,748,057</u>	<u>\$ 29,443,089</u>
Liabilities		
Mortgages payable (note 4)	\$ 22,274,212	\$ 22,549,628
Convertible debentures (note 5)	2,219,020	2,117,384
Purchase price payable	658,776	658,776
Loans payable (note 6)	1,127,018	1,173,268
Intangible liabilities	380,371	451,002
Accounts payable and accrued liabilities	1,007,313	1,028,806
	<u>27,666,710</u>	<u>27,978,864</u>
Shareholders' Equity		
Share Capital (note 7)	2,816,462	2,816,462
Equity Component of Convertible Debentures (note 5)	1,273,995	1,273,995
Contributed Surplus	2,380,299	2,350,576
Deficit	(5,389,409)	(4,976,808)
	<u>1,081,347</u>	<u>1,464,225</u>
	<u>\$ 28,748,057</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 and Deficit

For the Six Months Ended June 30

Unaudited - See Notice to Reader

	Six Months Ended		Three Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue				
Rental	\$ 1,381,902	\$ 1,394,391	\$ 688,724	\$ 714,912
Common area and realty tax recoveries	564,761	537,996	326,528	303,232
Interest and other	295	166	175	78
	<u>1,946,958</u>	<u>1,932,553</u>	<u>1,015,427</u>	<u>1,018,222</u>
Expenses				
Interest	980,538	947,045	494,972	469,475
Operating costs and realty taxes	741,676	747,826	414,256	412,950
Administration	336,329	341,710	183,691	177,812
Amortization	271,293	284,964	128,698	143,732
Stock-based compensation (note 7)	29,723	38,424	29,723	-
	<u>2,359,559</u>	<u>2,359,969</u>	<u>1,251,340</u>	<u>1,203,969</u>
Net Loss and Comprehensive Loss	(412,601)	(427,416)	(235,913)	(185,747)
Deficit - Beginning of Period	(4,976,808)	(4,011,621)	(5,153,496)	(4,253,290)
Deficit - End of Period	<u>\$ (5,389,409)</u>	<u>\$ (4,439,037)</u>	<u>\$ (5,389,409)</u>	<u>\$ (4,439,037)</u>
Loss per Share - Basic and Diluted (note 1(k))	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
Weighted Average Number of Common Outstanding - Basic and Diluted (note 1(k))	<u>8,861,678</u>	<u>8,861,678</u>	<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 Six Months Ended June 30

Unaudited - See Notice to Reader

	Six Months Ended		Three Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Cash Provided By (Used In):				
Operating Activities				
Net loss	\$ (412,601)	\$ (427,416)	\$ (235,913)	\$ (185,747)
Add (deduct) items not affecting cash:				
Accretion on convertible debentures	117,440	135,022	59,514	67,511
Amortization of deferred financing costs	49,483	30,439	19,422	15,220
Amortization of revenue-producing properties	271,634	285,798	128,335	143,861
Amortization of capital assets	-	574	-	574
Amortization of intangibles	(342)	(1,408)	363	(704)
Stock-based compensation (note 7)	29,723	38,424	29,723	-
	55,337	61,433	1,444	40,715
Changes in non-cash working capital				
Prepaid expenses	(118,445)	802	(46,480)	(16,866)
Accounts receivable	(40,930)	(46,537)	(18,244)	(54,012)
Accounts payable and accrued liabilities	(21,493)	55,100	123,570	147,069
Accrued rent receivable	(24,444)	(20,912)	(11,698)	(10,726)
	(149,975)	49,886	48,592	106,180
Financing Activities				
Repayment of mortgages payable	(306,953)	(287,016)	(154,550)	(146,085)
Mortgages payable	-	358,774	-	-
Loans payable	(60,000)	-	(30,000)	-
Financing costs paid	-	(63,213)	-	-
Redemptions paid	(20,000)	-	-	-
Subscriptions received	720,000	-	-	-
	333,047	8,545	(184,550)	(146,085)
Investing Activities				
Additions to capital assets	-	(574)	-	(574)
Increase (Decrease) in Cash	183,072	57,857	(135,958)	(40,479)
Cash - beginning of period	38,444	10,262	357,474	108,598
Cash - end of period	\$ 221,516	\$ 68,119	\$ 221,516	\$ 68,119

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

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Six Months Ended June 30, 2010

Unaudited - See Notice to Reader

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

For the Six Months Ended June 30, 2010

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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 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

For the Six Months Ended June 30, 2010

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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

For the Six Months Ended June 30, 2010

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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.

2. New Accounting Policies

Goodwill and Intangible Assets

The CICA issued a new accounting standard, Handbook Section 3064 - Goodwill and Intangible Assets, and made amendments to Handbook Section 1000 - Financial Statement Concepts. Section 3064 replaced Handbook Section 3062 - Goodwill and Other Intangible Assets and Handbook Section 3450 - Research and Development Costs. The objectives of these amendments and new section are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition.

Costs that do not meet the definition and recognition criteria for assets must be expensed as incurred. Certain costs that meet the definition of an asset will be capitalized. This new standard and corresponding amendments is effective for the Company as of January 1, 2009 and has been applied retroactively with restatement of the comparative period. The Company believes there is no material impact of the adoption of this standard and amendments on its financial statements.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Six Months Ended June 30, 2010

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3. Future Accounting Changes

International Financial Reporting Standards ("IFRS")

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed that the transition date to IFRS from Canadian GAAP would be January 1, 2011 for all publicly accountable enterprises. The Company will adopt IFRS as the basis for preparing its consolidated financial statements and will provide comparative financial information for the previous fiscal year using IFRS.

The impact of the adoption of IFRS on the financial statements of the Company is expected to be significant. The Company continues to evaluate the potential impact of IFRS on its financial statements. This is an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

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. Early application and adoption are permitted.

Gulf & Pacific Equities Corp.

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4. Mortgages Payable

The mortgages are secured by a general security agreement (except for the mortgage of \$893,039 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)).

	June 30, 2010	December 31, 2009
Mortgage payable, bearing interest at 6.89%, repayable monthly in blended principal and interest payments of \$4,310, due March 2012	\$ 85,108	\$ 107,628
Mortgage payable, bearing interest at 8.40%, repayable monthly in blended principal and interest payments of \$4,650, due December 1, 2013	517,633	523,581
Vendor take back mortgage, bearing interest at 8.5%, monthly payments of interest only, due January 2011	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	8,348,866	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	893,039	931,837
Mortgage payable, bearing interest at 5.45%, repayable monthly in blended principal and interest payments of \$24,300, due October 2011	3,692,514	3,738,097
Mortgage payable, bearing interest at 5.43%, repayable monthly in blended principal and interest payments of \$48,506, due October 2013	7,383,491	7,474,860
	22,420,651	22,727,605
Unamortized mortgage financing costs	(146,439)	(177,977)
	<u>\$ 22,274,212</u>	<u>\$ 22,549,628</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

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5. Convertible Debentures

	June 30, 2010		December 31, 2009	
	Face value	Carrying amount	Face value	Carrying amount
8% - September 1, 2013	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
8% - November 18, 2014	-	-	20,000	20,000
8% - December 31, 2014	3,606,250	2,231,549	3,606,250	2,114,109
	3,656,250	2,281,549	3,676,250	2,184,109
Unamortized deferred financing costs	-	(62,529)	-	(66,725)
	<u>\$ 3,656,250</u>	<u>\$ 2,219,020</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 bear interest at 8%, mature September 1, 2013 and are unsecured. On August 29, 2008, the holders of the convertible debentures which were due on September 1, 2008, agreed to a five year extension of the debentures with the new due date being September 1, 2013. These debentures can be converted by the holder into common shares of the Company at one common share for each \$0.40 principal amount of debentures. Management determined that the extension of the existing convertible debentures resulted in substance in the extinguishment and refinancing of debt in accordance with the Emerging Issues Committee Abstract - EIC 88 "Debtor's Accounting for a Modification or Exchange of Debt Instruments".

As a result, the fair value of the debt component of the new debentures was determined to be \$611,205 based on an effective interest rate of 18%, and the fair value of the equity component was determined to be \$444,660. The difference of \$155,865, between the fair value of the convertible debentures of \$1,055,865 and the carrying value of the original convertible debentures of \$900,000, was expensed as a non-recurring loss on extinguishment of debt.

Consequently, in 2008 the original allocation of \$528,000 to the equity component was transferred to contributed surplus.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Six Months Ended June 30, 2010

Unaudited - See Notice to Reader

5. 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 June 30, 2010, \$50,000 of the original debentures were outstanding without any conversion feature.

- (ii) The second series of the convertible debentures bear interest at 8%, matured November 18, 2009 and are unsecured. The debentures can 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 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 Company has 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

For the Six Months Ended June 30, 2010

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5. 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 June 30, 2010, there were 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 June 30, 2010, the total debentures of this series outstanding, including the debentures exchanged from the first and second series, amounted to \$3,606,250.

6. 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 2009. 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 2009. The companies are related since they have directors in common.

During 2009, the maturity dates of the loans were extended to November 2010. Interest expense on the loans during the year amounted to \$60,000. At June 30, 2010, interest of \$90,000 (2009 - \$30,000) is unpaid and is included in accounts payable and accrued liabilities.

As at June 30, 2010, these two loans were consolidated into one loan totalling \$1,000,000 with a related corporation, and the terms remain unchanged. The companies are related since they have the same President.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Six Months Ended June 30, 2010

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6. Loans Payable (continued)

- (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 is making 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.

7. Share Capital

- a) Authorized and issued

Authorized without limit as to number -

Preference shares
Common shares

Issued and fully paid:

Common shares	Number	Amount
Balance - December 31, 2009	8,861,678	\$ 2,816,462
Issued for: conversion of debentures	-	-
Exercise of options	-	-
Balance - June 30, 2010	<u>8,861,678</u>	<u>\$ 2,816,462</u>

In March 2010, the Normal Course Issuer Bid was renewed until March 9, 2011.

- 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.

Gulf & Pacific Equities Corp.

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7. Share Capital (continued)

b) Stock-based compensation (continued)

At June 30, 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
<u>884,000</u>	<u>884,000</u>			

8. 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 \$22,275,000. 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 six months ended June 30, 2010.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Six Months Ended June 30, 2010

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8. Financial Instruments and Risk Management (continued)

Fair Value (continued)

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:

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 \$41,030 in 2009 and \$42,477 in 2008. These amounts are net of provisions of \$84,030 in 2009 and \$60,000 in 2008.

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 9. 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 June 30, 2010, the Company's financial liabilities include accounts payable and accrued liabilities, with contractual maturities of less than one year, convertible debentures (note 5), loans payable (note 6) and mortgages payable (note 4).

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Six Months Ended June 30, 2010

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9. 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.

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.

10. Related Party Transactions

During the six months ended June 30, 2010, the Company:

- a) Charged related parties rent totalling approximately \$18,057. The companies are related by virtue of the fact that they have the same President. As at June 30, 2010, included in accounts receivable is an amount of \$51,371 due from these related parties.
- b) Was charged consulting fees of \$43,550 by an officer. As at June 30, 2010, included in accounts payable is an amount of \$6,800 due to the officer.
- c) Incurred accounting fees of \$72,297 with an accounting firm in which one of the Company's officers is a partner. As at June 30, 2010, accounts payable and accrued liabilities included \$38,000 payable to this accounting firm.
- d) Other related party transactions are disclosed in note 6.

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.

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Notes to the Financial Statements

For the Six Months Ended June 30, 2010

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11. 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 June 30, 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. In accordance with the terms, starting September 1, 2010, \$20,000 per month will be deducted from the monthly principal and interest payment.

12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.