LETTER TO SHAREHOLDERS

Dear Shareholder of Gulf & Pacific Equities Corp.,

I am pleased to report to you on the year ended December 31, 2005. It was a year of exciting developments for Gulf & Pacific Equities Corp. ("Gulf & Pacific" or the "Corporation"). Early in the year, a major tenant, Saan Stores Limited filed for CCAA protection. Saan emerged from CCAA protection in April 2005 and is operating as a smaller, leaner retail chain. Gulf & Pacific was paid full rental income throughout the period. During March 2005, Saan vacated our property in Three Hills, Alberta. Gulf & Pacific then signed a new 10 year lease with The Bargain! Shop and completed a total renovation of our Three Hills property, including a new roof. The project cost approximately $150,000 and was completed in 2005 on time and budget.

At Valley Centre Mall in Whitecourt, Alberta we began the renovation and expansion of the Sobeys grocery store in July from 26,000 square feet to 38,000 square feet. The extra 12,000 square feet was obtained from the Saan Store located adjacent to Sobeys. Saan downsized from 25,000 square feet to 13,000 square feet. The construction project is over 80% complete as of this writing. We have budgeted $2.8 million for this project and have spent approximately $2.2 million on this project to date. The Corporation has arranged a $2 million construction mortgage, convertible into a term mortgage, from Servus Credit Union, of St. Paul, Alberta. This project is complex as both Saan Stores and Sobeys have operated throughout the construction. At the time of this writing we expect to be within 15 percent of budget on completion, a very good result given that Alberta is a most challenging place to operate with rapid labour and materials price escalation. Media reports have documented that construction inflation has been approximately 1 percent per month for the last couple of years in Alberta and most of the province is experiencing severe labour shortages. When the Sobeys expansion is completed we will have a new 20 year lease with this fine grocery chain, solidly anchoring the 80,000 square foot Valley Centre Mall.

Our property portfolio contains many quality tenants including Guardian Drugs, Petro Canada, Reitmans, Rexall Pharmacies, Saan Stores Limited, Sobeys and The Bargain! Shop.

During the year, we announced that Greg K W. Wong joined the Corporation, on a part-time consulting basis, as Chief Financial Officer. Mr. Wong has contributed to the operation of the Corporation as we grow our business.

Subsequent to fiscal 2005 year end, we entered into a letter of intent to the Tri City Mall in Cold Lake, Alberta, for $13.3 million. We are in the process of completing due diligence.

As always, I would like to thank our loyal shareholders, Board of Directors for their invaluable contribution and wise counsel, our consulting professionals, my Executive Assistant Susan Barrowclough, Mr. Rick Filanti, Mr. Kim Donais and Mrs. Buryl Keath of Rick Holdings Ltd. and my family for your help and support over the past twelve months.

Yours truly,

(SIGNED) *"Anthony J. Cohen"*

Anthony J. Cohen
President
April 25, 2006

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 25, 2006. 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 Sheet

On the balance sheet, assets totaled $13,863,278 as of December 31, 2005 compared to $14,127,870 as of December 31, 2004. While revenue producing properties increased by $1,055,956, net of amortization of $ 248,545, year over year due to the construction projects at Three Hills and Whitecourt, cash declined to $625,231 from $1,814,430 due mainly from the investment in these construction projects. Cash held in trust from the previous year was used to pay off the vendor take-back mortgage at Three Hills. Other asset categories did not change materially other than accrued rent receivable which increased to $82,873 from $6,370 the previous year, due to changes in lease terms. This increase did not affect cash flow as it was the result of recording rental revenue using the straight-line method. This method of accounting requires recognizing the total rental income equally over the term of the lease. This accounting method was adopted last year.

On the liabilities side of the balance sheet, mortgages payable declined to $8,904,569, down $438,366 from $9,342,935 the previous year. This decline was due to the previously mentioned cash held in trust paying off the vendor take-back mortgage on the Three Hills, Alberta property as well as normal course pay-down of mortgage principal throughout the year. Convertible debentures rose to $2,286,978 compared to $2,052,818 as the carrying cost for these debentures increases each year. Accounting policies require an allocation of the proceeds of the convertible debentures to equity and the balance to debt whereby the initial liability balance recorded is less than the face value of the debentures. The difference between the face value of the debentures and the recorded amount is amortized over the term of the debt. This is a non-cash adjustment. Accounts payable and accrued liabilities increased to $781,187 from $373,311 as a result of increased payables relating to the construction of the Sobeys Store in Whitecourt, Alberta. Total liabilities increased to $11,972,734 compared to $11,769,064 for the year earlier period.

Shareholders' equity totaled $1,890,544 at December 31, 2005 compared to $2,358,806 at December 31, 2004, a decline of $468,262. This was a result of lower revenues and increased cost as explained below.

Statements of Operations

Rental revenue declined by $101,163 to $1,411,696 from $1,512,859 the previous year. The decline was due to rental concessions made in connection with the changes at Whitecourt and the construction, where Saan Stores downsized their store to accommodate expansion of the Sobey store. After the completion of the Saan renovation, rental revenue recorded from Saan Stores was approximately $60,000 compared to $170,000 last year. Rental income is reported on a straight-line basis for accounting purposes, with the result that cash rents received will differ from rental revenue reported. Common area and realty tax recoveries declined to $378,260 from $400,105 for primarily the same reason. Interest and other income increased because of higher average cash balances during fiscal 2005 compared to the previous year.

Interest expense increased by $236,339 to $1,127,630 from $891,291 mainly due to the new series of convertible notes that the Corporation issued in November 2004. In addition, interest expense also includes the annual accretion of the discount on the convertible debenture, which is a non-cash expense. Operating costs and realty taxes declined slightly in 2005 compared to 2004. Administration costs increased by $78,608 in 2005 compared to 2004 as a result of additional staff, and higher amortization of deferred financing and leasing costs, a non-cash item. Amortization was relatively flat while stock-based compensation expense was $39,040 compared to nil in 2004 because of the issuance of 320,000 options during the year. The result was a net loss for 2005 of $507,302 compared to a loss of $65,919 the prior year. Again, the decrease in revenue and increase in interest expense due to the convertible note issue accounted for the bulk of the loss in 2005.

Statement of Cash Flow

On the statements of cash flow, cash provided by operations totaled $5,213 compared to $332,402 the previous year. The main reason for the decline was the large increases in the net loss and the step rental revenue. This was offset by the increases in the accretion of discount on convertible debentures, amortization of deferred financing and leasing costs and stock based compensation, all of which are non-cash charges added back to the net loss. Amortization of revenue producing properties was virtually flat year over year. After changes in non-cash balances related to operations, cash provided by operations totaled $341,921 compared to $330,766 the previous year. Financing activities used $226,619 in cash during the year as $438,366 in mortgage principal was paid off compared to cash generated of $1,424,937 the previous year when a $2,300,000 private placement was closed. While last year there were no additions to revenue-producing properties, this year we invested $1,304,501 in our construction projects. The net result was a decrease in cash of $1,189,199 in fiscal 2005 compared to an increase of $1,755,703 the previous year. Cash stood at $625,231 as of December 31, 2005 compared to $1,814,430 as of December 31, 2004.

Fourth Quarter 2005 Review

Revenue for the fourth quarter totaled $468,387 and the net loss totaled $42,595 compared to revenue of $531,975 and net income of $50,627 for the year earlier quarter. The main reason for the divergence is the construction projects which provided less rental income and lower expense reimbursement.

Liquidity

The Corporation had cash of $625,231 as at year end 2005. The Corporation has arranged for a $2.0 million construction mortgage loan, which can be drawn down in as needed, to fund the balance of the Whitecourt construction project. Management feels that it has adequate liquidity with which to carry on its operations in 2006.

Off Balance Sheet Arrangements

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

Financial Instruments

Please refer to the note 8 of the audited financial statements.

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 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.

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 6 to the audited financial statements) and the equity component of the convertible debenture is included in capital stock (see note 9 to the audited financial statements).

Related Party Transactions

During the year, the Corporation charged related parties rent totaling approximately $34,430 (2004 - $47,000). 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 (2004 - $24,000) by a shareholder. In addition, an amount of approximately $70,000 was paid to this shareholder during the year relating to the service fee referred to in note 7. This amount has been capitalized to the construction-in-progress.

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.

Accounting Changes

There have been no changes in accounting policies.

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 an adverse affect on the Corporation. If interest rates rise significantly or if economic conditions deteriorated significantly, that too would have an adverse impact on the Corporation.

OUTLOOK

Management is optimistic about the Corporation's prospects for the balance of 2006. The majority of the Corporation's assets are located in Alberta which should experience above average growth. The Bargain! Shop is doing very well at our Three Hills, Alberta property. When the new Sobeys is complete at Whitecourt, Alberta we will have a new 20 year lease. Our recently announced intention to acquire Tri City Mall at Cold Lake, Alberta will generate significant growth for Gulf & Pacific. We are also looking at other potential acquisition candidates. We look forward to continuing to build shareholder value at our properties in Alberta and British Columbia.

Summary of Quarterly Financial Information for Fiscal 2005 and 2004

The results for each of the three month periods are as follows:

	Three Months Ended (Unaudited)				Year Ended (Audited)
2005	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Dec 31**
Revenue	$ 475,854	$ 444,863	$ 447,595	$ 468,387	$ 1,836,699
Loss for the period	(91,027)	(223,035)	(150,645)	(42,595)	(507,302)
Loss per common share - basic and diluted	(0.01)	(0.03)	(0.02)	(0.01)	(0.07)

	Three Months Ended (Unaudited)				Year Ended (Audited)
2004	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Dec 31**
Revenue	$ 468,252	$ 468,282	$ 466,018	$ 531,975	$ 1,934,527
Loss for the period	(32,313)	(94,723)	(62,424)	50,627	(138,833)
Loss per common share - basic and diluted	(0.01)	(0.01)	(0.01)	0.01	(0.02)