Gulf & Pacific Equities Corp.

LETTER TO SHAREHOLDERS

Dear Shareholder,

I am pleased to report your Corporation's first quarter of 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 May 24, 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 Sheets

On the balance sheet, total assets stood at $14,852,270 as of March 31, 2006 compared to $13,863,278 as of December 31, 2005. The increase of nearly $1 million in total assets was primarily due to an increase of $1,084,834 in the book value of revenue producing properties, which resulted from the capital investment of $1,145,512 in the expansion of the Sobeys store anchoring our Valley Centre Mall in Whitecourt, Alberta. This project is anticipated to be complete by the end of June 2006. Our cash balance declined by $143,165 during the quarter to $482,066 at March 31, 2006, down from $625,231 as of December 31, 2005. This decline was largely due to the investment in the Sobeys expansion and the rental arrangements made with Sobeys and Saan Stores during the construction period. The capital investment program has been funded from corporate resources and from a mortgage loan from Servus Credit Union. The rest of the asset side of the balance sheet was little changed

With respect to liabilities, mortgages payable declined to $8,842,034 as of March 31, 2006 down $62,535 from $8,904,569 as of December 31, 2005 due to regular repayment of mortgages on the Corporation's properties. Convertible debentures increased to $2,350,132 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 3 to the unaudited quarterly financial statements) reflecting a non cash allocation within the balance sheet. A bank loan of

$1,015,102 represents the construction mortgage arranged to fund the major costs of completing the renovation at Whitecourt, Alberta. At completion, this mortgage loan will be rolled into a first mortgage on the Valley Centre Mall project. Accounts payable and accrued liabilities increased to $883,932 from $781,187 due mainly to outstanding invoices on the Valley Centre Mall construction. As this construction project is completed, accounts payable and accrued liabilities will decline appreciably. Total liabilities increased to $13,091,200 from $11,972,734 as of December 31, 2005, an increase of $1,118,466. As previously explained, this increase is primarily due to the construction mortgage and increase in accounts payable and accrued liabilities due to the renovation project in Whitecourt, Alberta.

Shareholders' equity stood at $1,761,070 compared to $1,890,544 as of December 31, 2005. The decline was principally due to the Corporation's deficit increasing to $2,364,285 from $2,220,227 largely as a result of the renovation project currently nearing completion in Whitecourt. 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. As this is written we began collecting rent from Saan Stores Limited for the 13,000 square feet that they occupy in their newly renovated store. As previously mentioned, upon substantial completion of the construction project, Sobeys will begin paying rent based on their new 20 year lease for their brand new store.

<u>Statements of Operations</u>

For the three months ended March 31, 2006 revenue declined to $464,702 from $475,854 for the same quarter last year. The decline was a result of the rental arrangements made with Sobeys and Saan Stores during the construction period at Valley Center Mall. Revenue will increase as a result of new rental terms with Saan Stores Limited which commenced in May 2006 and Sobeys which will commence shortly thereafter .

For the three month period ended March 31, 2006, expenses rose to $608,760 from $566,881 for the same quarter last year, an increase of $41,879 or 7.4 percent. The main reason for the increase in expenses was a $25,840 increase in interest expense related to the financing for the Valley Center Mall renovation , and small increases in operating costs, property taxes and administrative expenses. Management remains focused on controlling costs and operating efficiently.

Loss for the three month period was $144,058 compared to $91,027 for the same quarter last year.

Statements of Cash Flows

On the statements of cash flows, cash provided by operations totaled $49,780 compared to cash provided by operations of $105,951 for the same quarter last year. The change in cash provided by operations is primarily a result of the rental arrangements made with Sobeys and Saan Stores during the construction period and the interest expense associated with the construction mortgage loan on Valley Centre Mall. Financing activities provided $952,567 in funds compared to using $51,020 in funds for the year ago quarter. The main change was the drawdown of $1,015,102 against the construction mortgage loan for the Valley Center Mall renovation during the quarter, partially offset by $62,535 in mortgage repayments compared to repayment of $262,767 in mortgages payable last year, partially funded by the use of $211,747 of cash held in trust. For the three month period, $143,165 in cash was used compared to $54,931 in cash being provided during the same quarter last year with the Corporation investing $1,145,512 in revenue producing properties, mainly Valley Centre Mall. The Corporation also invested approximately $130,000 in a new roof for the Sobeys grocery store in St. Paul, Alberta. As at March 31, 2006 the Corporation had $482,066 in cash compared to $1,869,361 for the year ago quarter, before the Corporation's construction activities began in Whitecourt, Three Hills, and St. Paul, Alberta.

Liquidity

The Corporation had cash of $482,066 as of March 31, 2006. Management feels that it has adequate liquidity with which to carry on its operations during fiscal 2006.

Off-Balance Sheet Arrangements

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

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 3 to the unaudited quarterly financial statements) and the equity component of the convertible debenture is included in shareholders equity.

Related Party Transactions

During the three month period ended March 31, 2006, the Corporation charged related parties rent of approximately $8,607 compared to $8,607 in the same period last year. The companies are related by the fact that they have the same President and CEO. The subleasing of office space helps offset some of the Corporation's administrative expense.

The corporation was charged management fees of $6,000, compared to $6,000 in the same period last year, by a shareholder. In addition, an amount of $71,842 was paid to this shareholder during the period relating to a service fee for management of the construction and renovation project at Valley Centre Mall. In the prior period there was no similar fees paid.

Also during the three month period ended March 31 2006, the Corporation was charged consulting fees of $9,000 by an officer, compared to $Nil in the same period last year.

Changes In Accounting Policies

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 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 2006. Near the end of 2005 we completed the renovation and new roof of our Three Hills, Alberta property and signed a new 10 year lease with The Bargain! Shop. We also completed the renovation of the Saan Store at Whitecourt, Alberta. Upon the substantial completion of the construction and renovation project at Valley Centre Mall by the end of the second quarter, the company will begin collecting rent under the new 20 year lease with Sobeys and the revised lease with Saan Stores. We also announced our proposed acquisition of Tri-City Mall in Cold Lake, Alberta. Upon completion of this acquisition we will nearly double our square footage owned to approximately 336,000 square feet. With the exception of 11,000 square feet in Merritt, B.C. our square footage is located in Alberta.

Alberta's future looks very promising. Management is looking at other acquisition candidates as well. Last year, Gulf & Pacific Equities Corp. was named the 22nd fastest growing company in Canada by "Profit" magazine, a Rogers publication. We have recently been notified by "Profit" that we have made the list of 200 fastest growing companies in Canada again, in their June 2006 issue.

We are pleased to welcome Ian MacVicar to our Board of Directors. Ian is a C.A. and a certified director by the Institute of Corporate Directors by background, has a wide variety of highly relevant business experiences and will be a very solid addition to our Board. Welcome Ian. As always, I would like to thank our loyal shareholders, Board of Directors, staff at Rick Holdings Ltd. our terrific property managers and large shareholder, our consulting professionals, Susan Barrowclough my Executive Assistant and, as always, my family for your collective wisdom, help, and guidance.

On behalf of the Board of Directors,

(signed) "Anthony J. Cohen"

Anthony J. Cohen
President
May 24, 2006

Summary of Quarterly Financial Information

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

	Three Months Ended (Unaudited)			
	March 31, 2006	**December 31, 2005**	**September 30, 2005**	**June 30, 2005**
Revenue	$ 464,702	$ 468,387	$ 447,595	$ 444,863
Net (Loss) for the Period	(144,058)	(42,595)	(150,645)	(223,035)
Earnings (Loss) per common share - basic and diluted	(0.02)	(0.01)	(0.02)	(0.03)

	Three Months Ended (Unaudited)			
	March 31, 2005	**December 31, 2004**	**September 30, 2004**	**June 30, 2004**
Revenue	$ 475,854	$ 531,975	$ 466,018	$ 468,282
Net Income (Loss) for the Period	(91,027)	50,627	(62,424)	(94,723)
Earnings (Loss) per common share - basic and diluted	(0.01)	0.01	(0.01)	(0.01)