Gulf & Pacific Equities Corp.

LETTER TO SHAREHOLDERS

Dear Shareholder,

I am pleased to report your Corporation's second 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 August 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 $15,885,777 as of June 30, 2006, compared to $13,863,278 as of December 31, 2005. The increase of $2 million in total assets was primarily due to an increase in the book value of revenue producing properties, which resulted from the capital investment in the expansion of the Sobeys store anchoring our Valley Centre Mall in Whitecourt, Alberta. This project was substantially completed in June 2006 and the new rent for Sobeys was accrued starting June 2006. Our cash balance declined by $331,933 during the six months to $293,298 at June 30, 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. Accounts receivable increased by $229,397 mainly due to the expected recovery of construction costs incurred by Sobeys on the Valley Centre Mall and increased GST rebate from the construction costs. As of the writing of this report, we have collected the receivable from Sobeys. The rest of the asset side of the balance sheet was little changed.

With respect to liabilities, mortgages payable declined to $8,778,307 as of June 30, 2006 down $126,261 from $8,904,569 as of December 31, 2005 due to regular repayment of mortgages on the Corporation's properties. Convertible debentures increased to $2,427,870 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 $2,249,128 represents the construction mortgage arranged to fund the major costs of completing the Sobeys' renovation and roof repairs 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 $796,582 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 $14,251,887 from $11,972,734 as of December 31, 2005, an increase of $2,285,153. 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 $1,633,890 compared to $1,890,544 as of December 31, 2005. The decline was principally due to the Corporation's deficit increasing to $2,641,627 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 of May 1, 2006, we began accruing rent for Saan Stores Limited for the 13,000 square feet that they occupy in their newly renovated store. As previously mentioned, as of June 1, 2006, Sobeys began paying rent based on their new 20 year lease for their brand new store.

Statements of Operations

For the six months ended June 30, 2006 revenue increased to $960,928 from $920,717 for the same period last year. The increase was a result of the new rental arrangements made with Sobeys and Saan Stores starting June 1 and May 1 respectively. Revenue will continue to increase as a result of new rental terms with Saan Stores Limited and Sobeys which are reflected in the quarter.

For the six month period ended June 30, 2006, expenses rose to $1,382,328 from $1,234,779 for the same period last year, an increase of $147,549 or 11.9 percent. The main reasons for the increase in expenses were a $62,354 increase in interest expense related to the financing for the Valley Centre Mall renovation, and stock-based compensation of $44,325, with minor increases in operating costs, property taxes, and administrative expenses. Management remains focused on controlling costs and operating efficiently.

Loss for the six month period was $421,400 compared to $314,062 for the same period last year.

Statements of Cash Flows

On the statements of cash flows, cash used in operations totaled $315,849 compared to cash provided by operations of $20,247 for the same period 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 $2,189,663 in funds compared to the use of $108,158 in funds for the period a year ago. The main change was the drawdown of $2,249,128 against the construction mortgage loan for the Valley Centre Mall renovation during the period, partially offset by $126,262 in mortgage repayments compared to repayment of $319,905 in mortgages payable last year, partially funded by the use of $211,747 of cash held in trust. For the six month period, $2,205,747 was invested in revenue producing properties compared to $21,348 being invested in capital assets during the same period last year. The Corporation also invested approximately $130,000 in a new roof for the Sobeys grocery store in St. Paul, Alberta. As at June 30, 2006 the Corporation had $293,298 in cash compared to $1,705,171 at the same time a year ago, before the Corporation's construction activities began in Whitecourt, Three Hills, and St. Paul, Alberta.

Liquidity

The Corporation had cash of $293,298 as of June 30, 2006. Management feels that it has adequate liquidity with which to carry on its operations during fiscal 2006.

The Corporation anticipates that it will complete refinancing of some of its properties prior to year end.

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet transactions for the six months ended June 30, 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 six months ended June 30, 2006, the Corporation charged a related party rent of approximately $11,215 compared to $7,643 in the same period last year. The companies are related by the fact that they have the same President and CFO. In addition, the Corporation charged another related party rent of $6,000 compared to the same amount in the same period last year. These companies are related by virtue of 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 $12,000, compared to $12,000 in the same period last year, by a shareholder. In addition, an amount of approximately $80,000 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 were no similar fees paid.

Also during the six month period ended June 30, 2006, the Corporation was charged consulting fees of $18,000 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 and substantially completed the construction and renovation of the Sobeys' store at Valley Centre Mall. The Corporation has begun 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 and Valley Centre Mall is successfully repositioned in its marketplace. 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 <u>"Profit"</u> magazine, a Rogers publication. This year we made the list again as the 162nd fastest growing company in Canada.

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,

<u>(signed) "Anthony J. Cohen"</u>

Anthony J. Cohen
President
August 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)			
	June 30, 2006	**March 31, 2006**	**December 31, 2005**	**September 30, 2005**
Revenue	$ 496,226	$ 464,702	$ 468,387	$ 447,595
Net (Loss) for the Period	(277,342)	(144,058)	(42,595)	(150,645)
Earnings (Loss) per common share - basic and diluted	(0.04)	(0.02)	(0.01)	(0.02)

	Three Months Ended (Unaudited)			
	June 30, 2005	**March 31, 2005**	**December 31, 2004**	**September 30, 2004**
Revenue	$ 444,863	$ 475,854	$ 531,975	$ 466,018
Net Income (Loss) for the Period	(223,035)	(91,027)	50,627	(62,424)
Earnings (Loss) per common share - basic and diluted	(0.03)	(0.01)	0.01	(0.01)