**Financial Statements**

# Gulf & Pacific Equities Corp.

**Three Months Ended March 31, 2007**

**Unaudited**

**INDEX**



**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

| | March 31, 2007 (unaudited) | December 31, 2006 |
|---|---|---|
| **Assets** | | |
| Revenue-producing properties | $ 29,010,168 | $ 29,156,469 |
| Cash | 261,817 | 121,740 |
| Deferred financing and leasing costs | 466,970 | 507,931 |
| Intangible assets | 790,716 | 833,804 |
| Prepaid expenses | 52,833 | 52,411 |
| Accounts receivable | 69,039 | 137,581 |
| Accrued rent receivable | 103,498 | 94,356 |
| Capital assets | 1,259 | 1,679 |
| | $ 30,756,300 | $ 30,905,971 |
| **Liabilities** | | |
| Mortgages payable | $ 23,781,427 | $ 23,878,873 |
| Convertible debentures (note 4) | 2,551,510 | 2,529,310 |
| Purchase price payable | 658,776 | 658,776 |
| Loans payable | 1,000,000 | 1,000,000 |
| Intangible liabilities | 887,547 | 939,966 |
| Accounts payable and accrued liabilities | 482,737 | 539,071 |
| | 29,361,997 | 29,545,996 |
| **Shareholders' Equity** | | |
| **Share Capital** (note 5) | 2,554,645 | 2,497,645 |
| **Paid-in Capital** | 420,000 | 420,000 |
| **Equity Component of Convertible Debentures** | 1,096,693 | 1,096,693 |
| **Contributed Surplus** | 341,405 | 341,405 |
| **Deficit** | (3,018,440) | (2,995,768) |
| | 1,394,303 | 1,359,975 |
| | $ 30,756,300 | $ 30,905,971 |

Approved on behalf of the Board

(Signed) "Anthony Cohen" , Director (Signed) "Greg K. W. Wong" , Director

# Gulf & Pacific Equities Corp.

Statements of Operations and Deficit
Three Months Ended March 31, 2007 and 2006
Unaudited

| | 2007 | 2006 |
|---|---|---|
| **Revenue** | | |
| Rental | $ 759,175 | $ 355,744 |
| Common area and realty tax recoveries | 289,959 | 98,975 |
| Interest and other | 2,480 | 9,983 |
| | 1,051,614 | 464,702 |
| **Expenses** | | |
| Interest | 475,961 | 307,370 |
| Operating costs and realty taxes | 337,746 | 139,961 |
| Amortization | 139,659 | 60,824 |
| Administration | 120,920 | 100,605 |
| | 1,074,286 | 608,760 |
| **Net Loss for the period** | (22,672) | (144,058) |
| **Deficit - beginning of period** | (2,995,768) | (2,220,227) |
| **Deficit - end of period** | $ (3,018,440) | $ (2,364,285) |
| **Loss per Common Share - Basic and Diluted** | $ - | $ (0.02) |
| **Weighted Average Number of Common Shares Outstanding - Basic and Diluted** | 8,243,732 | 7,562,103 |

# Gulf & Pacific Equities Corp.

Cash Flow Statements
Three Months Ended March 31, 2007 and 2006
Unaudited

| | 2007 | 2006 |
|---|---|---|
| **Cash Provided By (Used In):** | | |
| **Operating Activities** | | |
| Net loss | $ (22,672) | $ (144,058) |
| Step rental revenue | (9,142) | (23,114) |
| Accretion of discount on convertible debentures | 82,200 | 77,738 |
| Amortization of deferred financing and leasing costs | 40,961 | 16,412 |
| Amortization of revenue-producing properties | 148,571 | 60,678 |
| Amortization of capital assets | 420 | 146 |
| Amortization of intangible assets | 43,088 | - |
| Amortization of intangible liabilities | (52,419) | - |
| | 231,007 | (12,198) |
| Changes in non-cash balances related to operations: | | |
| Prepaid expenses | (422) | (8,550) |
| Accounts receivable | 68,542 | (35,259) |
| Deferred financing and leasing costs | - | 3,042 |
| Accounts payable and accrued liabilities | (56,334) | 102,745 |
| | 242,793 | 49,780 |
| **Financing Activities** | | |
| Bank loan | - | 1,015,102 |
| Repayment of mortgages payable | (97,446) | (62,535) |
| Repayment of convertible debentures | (3,000) | - |
| | (100,446) | 952,567 |
| **Investing Activity** | | |
| Additions to revenue-producing properties | (2,270) | (1,145,512) |
| **Increase (Decrease) in Cash** | 140,077 | (143,165) |
| **Cash - beginning of period** | 121,740 | 625,231 |
| **Cash - end of period** | $ 261,817 | $ 482,066 |

## 1. Nature of Operations

The Corporation was incorporated as Gulf & Pacific Equities Corp. 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. The Corporation owns and operates commercial properties in Alberta and British Columbia.

## 2. Interim Financial Statements

The accompanying unaudited interim financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These interim financial statements have not been reviewed by the Corporation's auditors.

The notes presented in these unaudited interim financial statements include only significant events and transactions and are not fully inclusive of all matters required by Canadian generally accepted accounting principles for annual audited financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the audited financial statements and accompanying notes for the years ended December 31, 2006 and 2005.

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

## 3. Change In Accounting Policies

a) Financial Instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments, and Section 3865, Hedges.

These changes in accounting policy have been adopted retroactively without restatement.

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

## 3. Change In Accounting Policies (continued)

**Financial assets**

Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

**Financial liabilities**

Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

**3. Change In Accounting Policies** (continued)

The Company has classified its financial instruments as follows:

| Financial Instrument | Classification |
|---|---|
| Cash and cash equivalents | 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 |

CICA Handbook Section 3865, Hedges, replaces CICA Handbook Accounting Guideline 13, Hedging Relationships, which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income.

CICA Handbook Section 1530, Comprehensive Income, establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income.

As a result of adopting these new recommendations as of January 1, 2007, the Company had no changes to its existing financial assets and liabilities, no changes to Retained Earnings, beginning of year and no Accumulated Other Comprehensive Income.

b) Accounting Changes

Effective January 1, 2007, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective.

## 3. Change In Accounting Policies (continued)

The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 7.

c) Cash Flow Statements

Effective January 1, 2007, the company has adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 1540, Cash Flow Statements, which has been amended to include disclosure of the extent to which cash distributions are non-discretionary. These requirements apply to all cash distributions on financial instruments classified as equity that are determined in accordance with a contractual agreement or relevant constating document. The Company does not expect the adoption of this standard to have a material impact on disclosure in its financial statements.

## 4. Convertible Debentures

| | March 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Face Value | Carrying Amount | Face Value | Carrying Amount |
| 8% debentures | $ 3,110,000 | $ 2,551,510 | $ 3,170,000 | $ 2,529,310 |

The face value of the convertible debentures consists of the following:

(i) $900,000 of the convertible debentures bear interest at 8%, mature September 1, 2007 and can be converted by the holder into common shares of the Corporation at one common share for each $0.40 principal amount of debentures.

Initially, the $900,000 was in the form of a 14% convertible debenture with a five year term and was unsecured. During the second quarter of 2004, the Corporation obtained the consent of the holders of 14% convertible debentures to change the terms of the debentures. Effective April 15, 2004, the debentures bear interest at 8% and the term of the debentures was extended to September 1, 2007.

The face value of the re-issued convertible debentures was allocated as follows:

| | |
|---|---|
| Debenture | $ 372,000 |
| Conversion feature | 528,000 |
| | $ 900,000 |

## 4. Convertible Debentures (continued)

(ii) $2,300,000 of convertible debentures bear interest at 8%, mature November 18, 2009 and are unsecured. The debentures can be converted by the holder into common shares of the Corporation at the following rates: one common share for each $0.315 principal amount of debentures converted during the first two years from the closing date; one common share for each $0.350 principal amount of debentures converted during the third year from the closing date; $0.385 principal amount of debentures converted during the fourth year from the closing date; and $0.425 principal amount of debentures converted during the fifth year from the closing date. The Corporation 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 Corporation has the right to force early conversion of the debentures in the event that the common shares of Corporation trade for a period of five consecutive days (a "Trading Period") at a price equal to or above the following prices and the cumulative trading volume of the common shares of the Corporation during this Trading Period represents not less than 5% of Corporation's issued and outstanding common shares: $0.60 per common share at any time during the two year period from the closing date; and $1.00 per common share at any time during the third, fourth and fifth years from closing date.

These convertible debentures were issued on November 18, 2004 in connection with a private placement. The Corporation 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.

In 2004, the Corporation used the following assumptions to measure the fair value of the debenture and common share purchase warrants: discount rate of 18%; dividend yield of 0%; and a volatility factor of the expected market price of the Corporation's shares of 40%. The cash proceeds received per unit less the fair value of the debenture and common share purchase warrants was allocated the conversion feature. The unit price was allocated as follows:

| | Per Unit | Allocation of Proceeds |
|---|---|---|
| Debenture | $ 679 | $ 1,561,930 |
| Conversion feature | 245 | 564,420 |
| Warrants | 76 | 173,650 |
| | $ 1,000 | $ 2,300,000 |

Aggregate proceeds from the private placement were $2,300,000 before deducting agent's cash commission of $184,000 and the offering expenses of $157,904. The Corporation also granted 575,000 common share purchase warrants to the agent.

Private placement costs of $370,654 include $341,904 cash settled amounts and $28,750 fair value of common share purchase warrants granted. The private placement costs were allocated as follows: $251,711 deferred financing costs and $118,943 issue costs.

## 5. Share Capital

| | | March 31, 2007 | December 31, 2006 |
|---|---|---|---|
| **(a) Authorized:** | | | |
| Unlimited | preference shares | | |
| Unlimtied | common shares | | |
| **Issued and fully paid:** | | | |
| 8,243,732 | common shares (2006 - 8,093,735) | $ 2,554,645 | $ 2,497,645 |

During the three months ended March 31, 2007, $57,000 of debentures were converted into 149,997 shares.

**(b) Stock-based Compensation**

At March 31, 2007, 460,000 options which had been granted to certain directors, officers, employees and consultants to purchase common shares of the Corporation subject to various requirements were outstanding as follows:

| Outstanding | Exercisable | Year of Grant | Exercise Price per Option | Expiry Date |
|---|---|---|---|---|
| 180,000 | 180,000 | 2003 | $ 0.180 | August 26, 2008 |
| 150,000 | 150,000 | 2005 | $ 0.305 | June 1, 2010 |
| 130,000 | 130,000 | 2006 | $ 0.305 | June 9, 2011 |
| 460,000 | 460,000 | | | |

During the three months ended March 31, 2007, 290,000 stock options were cancelled.

## 6. Related Party Transactions

During the three months ended March 31, 2007, the Corporation:

a) charged a related party rent totalling approximately $5,643 (2006 - $5,607). The companies are related by virtue of the fact that they have the same President and Chief Financial Officer.

b) charged a related party rent totalling approximately $3,000 (2006 - $3,000). The companies are related by virtue of the fact that they have the same President and Chief Executive Officer.

c) was charged consulting fees of $9,000 (2006 - $9,000) by an officer.

d) incurred accounting fees of $27,800 with an accounting firm in which one of the Corporation's officers is a partner.

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.

## 7. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change on the disclosure in its financial statements.

Financial Instruments Disclosures

CICA Handbook Section 3862, Financial Instruments –Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change on the disclosure in its financial statements.

Financial Instruments Presentation

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

## 8. Subsequent Event

On April 26, 2007, 364,000 stock options were granted to officers, directors and employees with an exercise price of $0.30 expiring on April 26, 2012.