
Financial Statements

Gulf & Pacific Equities Corp.

Six Months Ended June 30, 2007

Unaudited

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NOTICE TO READER

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

Gulf & Pacific Equities Corp.

Balance Sheets

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Revenue-producing properties	\$ 28,870,695	\$ 29,156,469
Cash	443,633	121,740
Deferred financing and leasing costs	420,196	507,931
Intangible assets	747,629	833,804
Prepaid expenses	76,654	52,411
Accounts receivable	26,570	137,581
Accrued rent receivable	115,579	94,356
Capital assets	839	1,679
	<u>\$ 30,701,795</u>	<u>\$ 30,905,971</u>
Liabilities		
Mortgages payable	\$ 23,667,860	\$ 23,878,873
Convertible debentures (note 3)	2,605,815	2,529,310
Purchase price payable	658,776	658,776
Loans payable	1,000,000	1,000,000
Intangible liabilities	835,128	939,966
Accounts payable and accrued liabilities	667,787	539,071
	<u>29,435,366</u>	<u>29,545,996</u>
Shareholders' Equity		
Share Capital (note 4)	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 (note 5)	418,609	341,405
Deficit	<u>(3,223,518)</u>	<u>(2,995,768)</u>
	<u>1,266,429</u>	<u>1,359,975</u>
	<u>\$ 30,701,795</u>	<u>\$ 30,905,971</u>

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

Six Months Ended June 30, 2007 and 2006

Unaudited

	<u>Six Months Ended</u>		<u>Three Months Ended</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue				
Rental	\$ 1,546,848	\$ 723,541	\$ 787,673	\$ 367,797
Common area and realty tax recoveries	608,983	224,006	319,024	125,031
Interest and other	5,718	13,381	3,238	3,398
	<u>2,161,549</u>	<u>960,928</u>	<u>1,109,935</u>	<u>496,226</u>
Expenses				
Interest	1,010,132	631,400	534,171	324,030
Operating costs and realty taxes	688,434	300,064	350,688	160,103
Amortization	279,319	121,648	139,660	60,824
Administration	334,210	245,851	213,290	145,246
Stock-based compensation	77,204	83,365	77,204	83,365
	<u>2,389,299</u>	<u>1,382,328</u>	<u>1,315,013</u>	<u>773,568</u>
Net Loss for the Period	<u>(227,750)</u>	<u>(421,400)</u>	<u>(205,078)</u>	<u>(277,342)</u>
Deficit - Beginning of Period	<u>(2,995,768)</u>	<u>(2,220,227)</u>	<u>(3,018,440)</u>	<u>(2,364,285)</u>
Deficit - End of Period	<u><u>\$(3,223,518)</u></u>	<u><u>\$(2,641,627)</u></u>	<u><u>\$(3,223,518)</u></u>	<u><u>\$(2,641,627)</u></u>
Loss per Share - Basic and Diluted	<u><u>\$ (0.03)</u></u>	<u><u>\$ (0.06)</u></u>	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.04)</u></u>
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	<u><u>8,243,732</u></u>	<u><u>7,629,363</u></u>	<u><u>8,243,732</u></u>	<u><u>7,695,883</u></u>

Gulf & Pacific Equities Corp.

Cash Flow Statements

Six Months Ended June 30, 2007 and 2006

Unaudited

	Six Months Ended		Three Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Cash Provided By (Used In):				
Operating Activities				
Net loss	\$ (227,750)	\$ (421,400)	\$ (205,078)	\$ (277,342)
Step rental revenue	(21,223)	(14,424)	(12,081)	8,690
Accretion of discount on convertible debentures	136,505	155,476	54,305	77,738
Amortization of deferred financing and leasing costs	87,735	32,823	46,774	16,411
Amortization of revenue-producing properties	297,143	121,356	148,572	60,678
Amortization of capital assets	840	292	420	146
Amortization of intangible assets	86,175	-	43,087	-
Amortization of intangible liabilities	(104,838)	-	(52,419)	-
Stock-based compensation	77,204	83,365	77,204	83,365
	<u>331,791</u>	<u>(42,512)</u>	<u>100,784</u>	<u>(30,314)</u>
Changes in non-cash balances related to operations:				
Prepaid expenses	(24,243)	(3,662)	(23,821)	4,888
Accounts receivable	111,011	(229,397)	42,469	(194,138)
Deferred financing and leasing costs	-	(55,673)	-	(58,715)
Accounts payable and accrued liabilities	128,716	15,395	185,050	(87,350)
	<u>547,275</u>	<u>(315,849)</u>	<u>304,482</u>	<u>(365,629)</u>
Financing Activities				
Cash held in trust	-	-	-	-
Increase in bank loans	-	2,249,128	-	1,234,026
Repayment of mortgages payable	(211,013)	(126,262)	(113,567)	(63,727)
Repayment of convertible debentures	(3,000)	-	-	-
Issuance of share capital	-	66,797	-	66,797
	<u>(214,013)</u>	<u>2,189,663</u>	<u>(113,567)</u>	<u>1,237,096</u>
Investing Activities				
Additions to revenue-producing properties	(11,369)	(2,205,747)	(9,099)	(1,060,235)
Additions to capital assets	-	-	-	-
	<u>(11,369)</u>	<u>(2,205,747)</u>	<u>(9,099)</u>	<u>(1,060,235)</u>
Increase (Decrease) in Cash	321,893	(331,933)	181,816	(188,768)
Cash - beginning of period	121,740	625,231	261,817	482,066
Cash - end of period	\$ 443,633	\$ 293,298	\$ 443,633	\$ 293,298

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

Six Months Ended June 30, 2006

Unaudited

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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

Six Months Ended June 30, 2007

Unaudited

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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

Six Months Ended June 30, 2007

Unaudited

3. Change In Accounting Policies (continued)

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
Six Months Ended June 30, 2007
Unaudited

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

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	<u>Face Value</u>	<u>Carrying Amount</u>	<u>Face Value</u>	<u>Carrying Amount</u>
8% debentures	\$ 3,110,000	\$ 2,605,815	\$ 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	<u>528,000</u>
	<u>\$ 900,000</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

Six Months Ended June 30, 2007

Unaudited

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:

	<u>Per Unit</u>	<u>Allocation of Proceeds</u>
Debenture	\$ 679	\$ 1,561,930
Conversion feature	245	564,420
Warrants	76	173,650
	<u>\$ 1,000</u>	<u>\$ 2,300,000</u>

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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements
Six Months Ended June 30, 2007
Unaudited

5. Share Capital

	<u>June 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
(a) Authorized:		
Unlimited preference shares		
Unlimited common shares		

Issued and fully paid:

8,243,732 common shares (2006 - 8,093,735)	<u>\$ 2,554,645</u>	<u>\$ 2,497,645</u>
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During the six months ended June 30, 2007, \$57,000 of debentures were converted into 149,997 shares.

(b) Stock-based Compensation

At June 30, 2007, 824,000 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:

<u>Outstanding</u>	<u>Exercisable</u>	<u>Year of Grant</u>	<u>Exercise Price per Option</u>	<u>Expiry Date</u>
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
364,000	364,000	2007	\$ 0.300	April 26, 2012
<u>824,000</u>	<u>824,000</u>			

During the six months ended June 30, 2007, 364,000 stock options were granted and 290,000 stock options were cancelled.

6. Related Party Transactions

During the six months ended June 30, 2007, the Corporation:

- a) charged a related party rent totalling approximately \$11,303 (2006 - \$11,215). 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 \$6,000 (2006 - \$6,000). 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 \$33,000 (2006 - \$18,000) by an officer.
- d) incurred accounting fees of \$55,900 (2006 - \$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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

Six Months Ended June 30, 2006

Unaudited

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 Events

On August 28, 2007, holders of the convertible debentures due September 1, 2007 agreed to extend the due date to September 1, 2008.