Financial Statements

Gulf & Pacific Equities Corp.

Nine Months Ended September 30, 2008

Unaudited

INDEX

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

	September 30, 2008 (unaudited)	December 31, 2007
Assets		
Revenue-producing properties	$ 28,193,379	$ 28,570,431
Cash	28,778	191,544
Intangible assets	565,846	675,438
Prepaid expenses	421,012	75,363
Accounts receivable	160,207	376,792
Accrued rent receivable	316,324	226,270
	$ 29,685,546	$ 30,115,838
Liabilities		
Mortgages payable	$ 22,877,460	$ 23,189,762
Convertible debentures (note 4)	2,710,554	2,495,704
Purchase price payable	658,776	658,776
Loans payable	1,000,000	1,000,000
Intangible liabilities	634,358	753,307
Accounts payable and accrued liabilities	711,276	766,594
	28,592,424	28,864,143
Shareholders' Equity		
Share Capital (note 5)	2,810,512	2,749,312
Paid-in Capital	420,000	420,000
Equity Component of Convertible Debentures	1,059,883	1,059,883
Contributed Surplus	389,809	418,609
Deficit	(3,587,082)	(3,396,109)
	1,093,122	1,251,695
	$ 29,685,546	$ 30,115,838

The accompanying notes form an integral part of these financial statements

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
Nine Months Ended September 30a
Unaudited

	Nine Months Ended		Three Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenue				
Rental	$ 2,486,380	$ 2,344,522	$ 820,026	$ 797,674
Common area and realty tax recoveries	1,032,544	996,739	343,849	387,756
Interest and other	3,506	7,864	581	2,146
	3,522,430	3,349,125	1,164,456	1,187,576
Expenses				
Interest	1,494,581	1,540,679	496,720	530,547
Operating costs and realty taxes	1,245,477	1,244,510	442,812	556,076
Amortization	422,213	418,978	140,919	139,659
Administration	551,132	503,767	164,664	169,557
Stock-based compensation	-	77,204	-	-
	3,713,403	3,785,138	1,245,115	1,395,839
Net Loss for the Period	(190,973)	(436,013)	(80,659)	(208,263)
Deficit - Beginning of Period	(3,396,109)	(2,995,768)	(3,506,423)	(3,223,518)
Debt settlement costs	-	(6,536)	-	(6,536)
Deficit - End of Period	$(3,587,082)	$(3,438,317)	$(3,587,082)	$(3,438,317)
Loss per Share - Basic and Diluted	$ (0.02)	$ (0.05)	$ (0.01)	$ (0.03)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	8,712,376	8,246,673	8,791,651	8,252,523

The accompanying notes form an integral part of these financial statements

Gulf & Pacific Equities Corp.

Cash Flow Statements
Nine Months Ended September 30
Unaudited

	Nine Months Ended		Three Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Cash Provided By (Used In):				
Operating Activities				
Net loss	$ (190,973)	$ (436,013)	$ (80,659)	$ (208,263)
Accrued rent receivable	(90,054)	(33,306)	(23,779)	(12,083)
Accretion of discount on convertible debentures	177,317	192,806	59,105	56,301
Amortization of deferred financing costs	89,835	132,394	29,945	44,659
Amortization of revenue-producing properties	431,571	445,714	144,038	148,571
Amortization of capital assets	-	1,259	-	419
Debt settlement expense	-	6,876	-	6,876
Amortization of intangible assets	109,592	129,262	36,531	43,087
Amortization of intangible liabilities	(118,949)	(157,258)	(39,650)	(52,420)
Stock-based compensation	-	77,204	-	-
	408,339	358,938	125,476	27,147
Changes in non-cash balances related to operations:				
Prepaid expenses	(105,649)	(26,721)	(22,719)	(2,478)
Accounts receivable	216,585	65,882	(25,856)	(45,129)
Deferred financing and leasing costs	-	(26,270)	-	(26,270)
Accounts payable and accrued liabilities	(55,318)	46,278	(257,610)	(82,438)
	463,957	418,107	(180,654)	(129,168)
Financing Activities				
Repayment of mortgages payable	(364,604)	(326,075)	(126,496)	(115,062)
Repayment of convertible debentures	-	(3,000)	-	-
Prepayment of mortgage payable	(240,000)	-	(60,000)	-
Exercise of options	32,400	-	32,400	-
	(572,204)	(329,075)	(154,096)	(115,062)
Investing Activities				
Additions to revenue-producing properties	(54,519)	(39,024)	(54,519)	(27,655)
Additions to capital assets	-	(827)	-	(827)
	(54,519)	(39,851)	(54,519)	(28,482)
Increase (Decrease) in Cash	(162,766)	49,181	(389,269)	(272,712)
Cash - beginning of period	191,544	121,740	418,047	443,633
Cash - end of period	$ 28,778	$ 170,921	$ 28,778	$ 170,921

The accompanying notes form an integral part of these financial statements

Gulf & Pacific Equities Corp. ("the Company") 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 Company is listed on the TSX Venture Exchange. The Company commenced active operations during the 1999 fiscal year. The Company owns and operates commercial properties in Western Canada.

1. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) Revenue-producing properties and intangible assets/liabilities:

Revenue-producing properties are stated at cost. Amortization is provided over the estimated useful lives of the assets using the declining balance method at the following annual rates:

Asset	Rate
Building	2%
Paving	8%

Upon acquisition of revenue producing properties, the Company allocates the purchase price to the components of the revenue producing properties acquired: the amounts allocated to land and building are based on their estimated fair values; above- and below-market in-place operating leases are determined based on the present value of the difference between the rents payable under the contractual terms of the leases and estimated market rents; lease origination costs for in-place operating leases are determined based on the estimated costs that would be incurred to put the existing leases in place under the same terms and conditions; tenant relationships are measured based on the present value of the estimated avoided costs if a tenant were to renew its lease at expiry, discounted by the probability of such renewal. Above- and below-market in-place operating leases and lease origination costs are amortized on a straight-line basis over the remaining terms of the leases. The value associated with acquired tenant relationships is amortized on a straight-line basis over the expected term of the relationships.

b) Deferred financing and leasing costs:

Financing fees incurred in connection with long-term debt financing are included with the related debt and are amortized using the effective interest rate basis. Leasing costs are deferred and amortized on a straight-line basis over the term of the related lease. Amortization is included in administration expense for the year.

1. Summary of Significant Accounting Policies (continued)

c) Capital assets:

Capital assets are stated at cost. Amortization is provided for over the estimated useful lives of the assets using the declining balance method and the following annual rates:

Asset	Rate
Furniture and fixtures	20%
Office equipment	30%

d) Long lived assets:

Long-lived assets, including revenue-producing properties, intangible assets and capital assets, are amortized over the useful lives. The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount might not be recoverable. If the sum of the undiscounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

e) 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 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.

f) Stock-based compensation:

The Company has a stock-based compensation plan. The Company accounts for all stock-based payments to employees and non-employees using the fair value based method.

Under the fair value based method, stock-based payments are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The Company uses a Black-Scholes option pricing model to determine fair value. The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Any consideration paid by the directors and officers on exercise of stock options and a proportionate share of contributed surplus is credited to capital stock.

g) Issue costs:

The Company accounts for costs related to issuing equity as a charge against retained earnings (deficit) in the period incurred.

1. Summary of Significant Accounting Policies (continued)

h) Revenue recognition:

The Company uses the straight-line method of recognizing rental revenue whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is charged to accrued rent receivable.

The Company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Common area and realty tax recoveries are taken into income monthly based on estimated recoveries for the year and reconciled to actual on an annual basis. Interest and other income is recognized on an accrual basis.

i) Income taxes:

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the beginning and ending balances of the future income tax assets and liabilities.

j) Statement of cash flows:

The Company has adopted the indirect method of reporting cash flows, under which the net cash flow from operations is reported by adjusting net earnings for the effects of non-cash items and net changes in non-cash balances related to operations.

k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. The significant areas of estimation include impairment of assets, useful lives of assets to calculate amortization and fair values of financial instruments.

l) Interim financial statements:

The accompanying unaudited interim financial statements have been prepared by the Company 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 Company’s auditors.

1. Summary of Significant Accounting Policies (continued)

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 year ended December 31, 2007.

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

2. 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.

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.

2. Change In Accounting Policies (continued)

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.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash	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

2. Change In Accounting Policies (continued)

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.

Upon initial application of these new recommendations, all adjustments to the carrying amount of financial assets and liabilities are recognized as an adjustment to the opening balance of Deficit or Accumulated Other Comprehensive Income, depending on the classification of existing financial assets or liabilities. Under the recommendations, the Company has done a reclassification of deferred financing fees previously shown separately on the balance sheet as Deferred financing costs to the carrying amount of its related debt. The Company had no changes to Deficit, 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.

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 3.

2. Change In Accounting Policies (continued)

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.

d) 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. The Company's externally imposed capital requirements are outlined in note 7.

e) Financial Instruments Disclosures and Presentation

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.

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.

3. Future Accounting Pronouncements

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.

General Presentation of Financial Information

Section 1400 has been amended for new requirements relating to the assessment of an entity's ability to continue as a going concern. The Company has determined that these new standards will have no material impact on the financial statements.

4. Convertible Debentures

	September 30, 2008		December 31, 2007	
	Face Value	Carrying amount	Face value	Carrying amount
8% debentures	$ 2,960,000	$ 2,767,180	$ 2,960,000	$ 2,589,863
Unamortized deferred financing costs	-	(56,626)	-	(94,159)
	$ 2,960,000	$ 2,710,554	$ 2,960,000	$ 2,495,704

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

(i) $900,000 of the convertible debentures bear interest at 8%, matured September 1, 2007, which was extended to September 1, 2013, and can be converted by the holder into common shares of the Company at one common share for each $0.40 principal amount of debentures.

(ii) $2,060,000 of the 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 Company 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 Company 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 Company 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 Company 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.

4. Convertible Debentures (continued)

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

5. Share Capital

(a) Authorized and issued:

Authorized without limit as to number -

Preference shares
Common shares

Issued and fully paid:

Common shares	**Number**	**Amount**
Balance - December 31, 2007	8,672,303	$ 2,749,312
Issued for: conversion of debentures	-	-
exercise of options	180,000	61,200
Balance - September 30, 2008	8,852,303	$ 2,810,512

(b) Stock-based Compensation

The Stock Option Plan reserves a maximum of 10% of the issued and outstanding shares of the Company (determined at the time of the stock option grant) for issuance upon the exercise of stock options granted pursuant to the Stock Option Plan. Stock options granted have a term that does not exceed 5 years and the exercise prices and vesting provisions are determined by the board of directors.

At September 30, 2008, 644,000 options which had been granted to certain directors, officers, employees and consultants to purchase common shares of the Company subject to various requirements were outstanding as follows:

Outstanding	Exercisable	Year of grant	Exercise price per option	Expiry date
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
644,000	644,000			

6. Related Party Transactions

During the period ended September 30, 2008, the Company:

a) Charged a related party rent totalling approximately $18,000. The companies are related by virtue of the fact that they have the same President.

b) Charged a related party rent totalling approximately $9,000. The companies are related by virtue of the fact that they have the same President.

c) Was charged consulting fees of $90,325 by an officer.

d) Incurred accounting fees of $87,826 with an accounting firm in which one of the Company's officers is a partner.

e) Was charged fees of $19,083 by an architectural firm, which has a director in common.

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. Terms of Financing

Under the terms of a mortgage on one of the Company's properties, a prepayment amounting to $240,000 has been made as of September 30, 2008. This prepayment was made at the rate of $20,000 per month commencing one year prior to the lease renewal date of an anchor tenant, and is payable to a maximum of 12 months. This amount is repayable to the Company when the space is leased to a new anchor tenant.