



## **GULF & PACIFIC EQUITIES CORP.**

### **MANAGEMENT DISCUSSION AND ANALYSIS** Quarterly Report for the three months ended March 31, 2012

This Management Discussion and Analysis ("MD&A") of Gulf & Pacific Equities Corp (the "Company") provides analysis of the Company's financial results for the three months ended March 31, 2012. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements for the three months ended March 31, 2012 and the audited financial statements and the related notes for the year ended December 31, 2011.

The unaudited financial statements and related notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Refer to the Notes of the March 31, 2012 unaudited financial statements for disclosure of the Company's significant accounting policies. The Company's functional and reporting currency is the Canadian dollar.

Gulf & Pacific Equities Corp is publicly traded on the TSX Venture Exchange (TSX-V: **GUF**).

#### **International Financial Reporting Standards**

The Canadian Accounting Standards Board requires publicly accountable enterprises such as the Company to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's unaudited financial statements for the three months ended March 31, 2012 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

The December 31, 2011 audited financial statements were the Company's first reporting under IFRS, thus, First-time Adoption of IFRS (IFRS 1) was applicable.

#### **Date of Report**

This report is prepared as of May 24, 2012.

#### **Forward Looking Statements**

This MD&A includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address the Company's ability to lease vacant property units, collect minimum rents, diversify its tenant base, undertake land intensification projects, refinance loans, debentures and mortgages at their maturity, complete accretive acquisitions and other events that impact the growth of the

Company are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include interest rates, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Additional information including press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval (“SEDAR”) and are available online under our profile at [www.sedar.com](http://www.sedar.com) or the Company’s website at [www.gpequrities.com](http://www.gpequrities.com).

Neither this document nor the financial statements have been reviewed by the Company’s Auditors but they are subject to approval by the Company’s Board of Directors prior to filing and distribution to the shareholders.

## **Company Overview**

Gulf & Pacific Equities Corp. 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 (TSX-V: GUF). The Company commenced active operations during the 1999 fiscal year. Gulf & Pacific is focused on the acquisition, management and development of anchored shopping centres in Western Canada.

The Company’s current portfolio consists of 4 properties located in Northern Alberta and in British Columbia. In Northern Alberta, the flagship property is Tri-City Mall located in Cold Lake, Alberta with gross lease area of 142,208 sq. ft., St. Paul Shopping Centre, in St. Paul, Alberta with gross lease area of 69,089 sq. ft. and a stand alone property in Three Hills, Alberta with 9,003 sq. ft. of lease space. The Merritt property in British Columbia consists of two lots with gross lease area of 11,980 sq. ft..

## **First Quarter 2012 Highlights**

In the first quarter 2012, the Company:

- Completed refinancing of mortgages due in 2011, which was closed on February 23, 2012 for \$14.5 million in new mortgages at 5.25%
- As of March 31, 2012 the Company is in a strong financial position for 2012 with
  - ✓ Mortgages due in 2017
  - ✓ Debentures due in 2014 and 2015
  - ✓ No short term liabilities
  - ✓ Strong cash position

- Quarter to quarter revenue remains stable, with good outlook for 2012 due to potential revenue growth from new tenants at Tri-City Mall and St. Paul Shopping Centre

## **Overall Performance**

### Statements of Financial Position

On the Statements of Financial Position, total assets stood at \$30,510,832 as of March 31, 2012, compared to \$30,188,616 as of December 31, 2011, as reported under IFRS.

The increase of \$322,216 in total assets was primarily due to an increase of cash as a result of refinancing of the mortgages, regular rental income and offset by a decrease in prepaid expenses.

Our cash balance increased by \$334,514 during the three months to \$1,281,267 at March 31, 2012, from \$946,753 as of December 31, 2011 due mostly to revenue from refinancing of the mortgages and regular rental income.

Other amounts receivable increased from \$1,073,209 at December 31, 2011 to \$1,104,048 as of March 31, 2012 due to normal receivables from tenants and government rebates. The payment of \$1,000,000 from the sale of Valley Centre Mall is due on November 18, 2012.

Total prepaid expenses for the company decreased to \$35,517 at three months ended March 31, 2012 from \$78,654 as of December 31, 2011, due to normal operations such as prepaid rent.

Investment properties remains unchanged at \$28,090,000 as of March 31, 2012 and December 31, 2011 as a result of fair value determination of the properties (see note 3 of the unaudited financial statement).

With respect to liabilities, mortgages payable increased to \$14,552,697 as of March 31, 2012 from \$14,343,817 as of December 31, 2011 due to the refinancing of the mortgages, retiring of mortgages, and regular repayment of mortgages on the Company's properties.

Convertible debentures increased to \$3,453,622 as of March 31, 2012 from \$3,367,975 as of December 31, 2011. The convertible debentures are carried at an amount that increases as time passes (see note 7 to the unaudited financial statements) reflecting a non-cash allocation within the condensed statement of financial position.

The purchase price payable of \$658,776 represents an agreement whereby the Company is obliged to pay the amount if the Tri-City Mall becomes fully leased subsequent to the purchase. Since the Company expects to fully lease the property in 2012, this obligation has been fully provided for.

Deferred income taxes of \$1,104,000 as of March 31, 2012 represents the tax effects of temporary differences that gives rise to significant portions of the future tax assets and future tax liabilities for the company.

Accounts payable and accrued liabilities increased to \$799,189 as of March 31, 2012 from \$520,274 as of December 31, 2011 due mainly to normal payments such as property taxes, common area expenses and debenture interest.

Total liabilities increased to \$20,568,284 from \$20,065,842 as of December 31, 2011. This increase is primarily due to refinancing of the mortgages, increase in convertible debentures and accounts payable and accrued liabilities, offset by a decrease in deferred income taxes.

Shareholders' equity stood at \$9,942,548 as of March 31, 2012 compared to \$10,122,774 as of December 31, 2011, as reported under IFRS. The decrease was mostly due to a decline in retained earnings.

### Statements of Comprehensive Income

For the three months ended March 31, 2012 revenue decreased to \$700,803 from \$994,906 for the same period last year. The decrease was primarily a result of reduced revenue due to the sale of Valley Centre Mall in November 2011, offset by increase in interest and other. Accordingly, rental income decreased by \$257,029 or 33.3% while common area and realty tax recoveries decreased by \$46,986 or 21.0% for the period. Interest and other increased to \$10,005 for the three months ended March 31, 2012 as a result of the cash invested from the sale of the property.

For the three months ended March 31, 2012, expenses decreased to \$848,395 from \$993,747 as of same period last year, a decrease of \$145,352 or 14.6%. The primary reasons for the decrease in expenses are decreases in interest expenses of \$115,083 or 22.6%, operating costs and realty taxes of \$43,143 or 12.9%, both reduced due to operating just the four properties, offset by increase in administration of \$12,874 or 8.5% due to increase in wages and benefits. Overall, within the normal operations of the company, expenses are holding steady and management remains focused on controlling costs and operating efficiently.

Net income for the three months ended March 31, 2012 was a loss of \$202,226 compared to income of \$1,159 for the same period last year. As a result, earnings per share was a loss of \$0.02 per share in the three months ended March 31, 2012 compared to \$nil earnings per share for the same period in 2011.

### Statements of Cash Flows

On the statements of cash flows, cash provided by operations totaled \$292,711 for the three months ended March 31, 2012 compared to cash provided of \$502,731 for the same period last year, as a result of IFRS adjustments. This represents a Funds From Operations (FFO) of \$0.03 per share for the period.

Financing activities for the three months recorded a funds provided of \$41,803 compared to funds used of \$521,216 for the same period a year ago. This is due to repayment of loans, debentures and mortgages payable for the quarter offset by proceeds received during the first quarter 2011 for the refinancing of the mortgages.

As at March 31, 2012, the Company had cash of \$1,281,267 compared to cash of \$45,897 at the same time a year ago.

### Selected Annual Information

The following selected financial data for each of the three most recently completed financial years are derived from the audited annual financial statements of Gulf & Pacific Equities Corp., which were prepared in accordance with International Financial Reporting Standards (“IFRS”) and Canadian generally accepted accounting principles (“C-GAAP”). The 2009 results are presented under C-GAAP and the 2010 and 2011 results are presented under IFRS based on audited statements and have been reviewed by the Company’s auditors.

<b>For the Years Ended December 31,</b>	<b>2011 (IFRS)</b>	<b>2010 (IFRS)</b>	<b>2009 (C-GAAP)</b>
	\$	\$	\$
Revenue	3,495,875	3,829,121	3,933,594
Net income (loss) before fair value adjustment, property sale expenditures and income taxes	(904,860)	(229,721)	(965,187)
Net income (loss) before fair value adjustment, property sale expenditures and income taxes, per share	(0.10)	(0.03)	(0.11)
Net income (loss) before fair value adjustment, property sale expenditures and income taxes, per share fully diluted	(0.10)	(0.03)	(0.11)
Net income (loss) and comprehensive income (loss)	145,954	1,005,751	(965,187)
Net income (loss) and comprehensive income (loss), per share	0.02	0.11	(0.11)
Net income (loss) and comprehensive income (loss), per share fully diluted	0.02	0.11	(0.11)
Total assets	30,188,616	38,266,595	29,443,089
Total liabilities	20,065,842	28,594,739	27,978,864
Cash dividends	-	-	-

### Summary of Quarterly Results

The following selected financial data are derived from the unaudited quarterly financial statements of Gulf & Pacific Equities Corp, which were prepared in accordance with International Financial Reporting Standards for the results from April 1, 2010 to March 31, 2012.

For the Quarters Ended	2012 (IFRS)	2011 (IFRS)				2010 (IFRS)		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	700,803	338,452	1,052,240	1,110,277	994,906	947,499	934,664	1,015,427
Net income (loss) before fair value adjustment, property sale expenditures and income taxes	(147,592)	(823,333)	(14,951)	(67,735)	1,159	(20,741)	(67,672)	(107,215)
Net income (loss) before fair value adjustment, property sale expenditures and income taxes, per share	(0.02)	(0.09)	-	(0.01)	-	-	(0.02)	(0.01)
Net income (loss) before fair value adjustment, property sale expenditures and income taxes, per share, fully diluted	(0.02)	(0.09)	-	(0.01)	-	-	(0.02)	(0.01)
Net income (loss) and comprehensive income (loss)	(202,226)	227,481	(14,951)	(67,735)	1,159	1,214,731	(67,672)	(107,215)
Net income (loss) per share	(0.02)	0.03	-	(0.01)	-	0.13	(0.01)	(0.01)
Net income (loss) per share, fully diluted	(0.02)	0.03	-	(0.01)	-	0.13	(0.01)	(0.01)

## Liquidity and Capital Resources

The Company had cash of \$1,281,267 as of March 31, 2012, which is sufficient to cover the Company's near term cash requirements. If additional capital resources are required, management believes that it has the ability to raise sufficient funds for the continuation of operations. While management has been historically successful in raising the necessary capital, it cannot provide assurance that it will be able to obtain the required financing.

## Changes in Accounting Policies

There have been no changes in accounting policies.

## 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 of the original debt discount is charged to interest expense over the term of the debt.

The Company 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 and the equity component of the convertible debenture is included in shareholders' equity.

### **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares without par value. As at March 31, 2012, the Company had issued and outstanding 8,936,678 common shares with a recorded value of \$2,835,212.

The Company is also authorized to issue an unlimited number of preference shares without par value, of which none have been issued.

### **Off-Balance Sheet Arrangements**

The Company had no off-balance sheet transactions for the period ended March 31, 2012 or the year ended December 31, 2011.

### **Related Party Transactions**

During the three months ended March 31, 2012, the Company:

- a) Charged related parties rent totaling approximately \$8,814. The companies are related by virtue of the fact that they have the same President. As at March 31, 2012, included in accounts receivable is an amount of \$54,320 due from these related parties.
- b) Was charged consulting fees of \$21,175 by an officer. As at March 31, 2012, accounts payable and accrued liabilities included \$nil payable to this officer.
- c) Incurred accounting fees of \$14,100 with an accounting firm in which one of the Company's officers is a partner. As at March 31, 2012, accounts payable and accrued liabilities included \$42,300 payable to this accounting firm.
- d) Other related party transactions are disclosed in note 8 and note 10 of the accompanying audited financial statements.

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.

### **Contractual Obligations and Commitments**

The Company's contractual obligations and commitments consists of loans, debentures and mortgages which are disclosed in the notes to the unaudited financial statement ended March 31, 2012 and in the notes to the audited financial statement ended December 31, 2011. The Company has lease obligations for its offices until 2013.

## **Internal Control over Financial Reporting**

The conversion to IFRS from Canadian GAAP impacts the way we present our financial results and the accompanying disclosures. We have evaluated the impact of the conversion on our financial reporting systems, processes and controls and have noted that the most significant change to our internal control and disclosure environment is the requirement to measure and report our portfolio of investment properties at fair value. This change has required us to design and implement new processes and internal controls surrounding the determination of fair values which include, but are not limited to, management's consideration of recent and comparable transactions, discount rates, estimates of future rental rates and leasing activities, and future capital expenditures, as well as, where appropriate, engaging external specialists to assist with the determination of fair value.

## **Risk and Uncertainties**

The Company 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 Company. The Company would also be adversely affected by a long standing large increase in interest rates or a severe economic slow down.

## **OUTLOOK**

Although recent reports from the Bank of Canada warn of possible interest rate increases in late 2012, the general consensus by economists is that interest rates won't rise until 2013 at the earliest.

The global economy continues to be in a fragile state. The European economy is still very much on the radar of global financial markets, in particular the recent political instability in Greece. This is creating daily and weekly market volatility which is driving investors away from equities. Recently India reduced its interest rates, the first time in three years. In China, their recent economic growth is showing signs of slowing down, in particular their demand for commodities.

With the instability of the European markets, the continuing weak US economy, and recent news of slow downs in the emerging markets of both China and India, indications are that global markets will remain weak past 2012. The US has indicated that their interest rates will remain at historic lows until 2013 which highlights the anticipated prolonged weak US economy. Given the close ties between the Canadian and US economies, its hard to foresee an increase in Canadian interest rates ahead of any increase in the US interest rates.

In Northern Alberta and British Columbia where our properties are located, oil prices remain steady and activities in the oil sector remain strong as most investments are for long term projects. However, the continuing robust oil sector is not reflected in the rural retail sector as consumers remain cautious.

Operationally, our business model has enabled the Company to weather the economic downturn better than most sectors, as our grocery anchor tenants and smaller local retailers are looking forward positively for 2012. The Company has been able to renew leases when due and secure new tenants when opportunities arise. Management has no assurance that if the economic downturn continues for a longer period than anticipated, that our smaller retail tenants can remain in business.

#### Tri-City Mall, Cold Lake, Alberta

The Tri-City Mall remains the flagship mall in the Company's portfolio and represents a major portion of the revenue generated for the Company. During the past year we renewed a number of leases and added some new tenants. Management is pleased to report that Sobeys has extended their lease for an additional 5 years, expiring in 2018. As well, we are currently exploring lease extensions with other key tenants.

Activity is picking up in the Alberta oil patch and this is good for Cold Lake. The Company is currently looking at developing a strip retail pad on our excess acreage in Cold Lake. As well, we are in discussions with national chains for the pad site. If developed, this project would add value to Gulf's portfolio as well as provide accretive cash flow.

#### St. Paul Shopping Centre, St. Paul, Alberta

In April 2011, the Company announced that LW Stores and Giant Tiger Stores are now the two new anchor tenants leasing a combined total of 45,228 sq. ft. or 65% of leaseable space. The remaining CRU space totals 20,197 sq. ft. which is more than half filled with existing tenants. The Company intends to resign leases with the current tenants and is in discussion with potential tenants for the unfilled vacancies of less than 9,681 sq. ft. or 14.0% of leaseable space. The two pad sites are leased by Tim Hortons which opened in 2009, and our long term tenant Suncor. A potential third pad site is being considered and the mall is shaping up to be a strong retail centre in St. Paul.

#### Three Hills, Alberta

Our Three Hills property continues to operate satisfactorily, since we renovated the building and moved The Bargain! Shop in the summer of 2005.

#### Merritt, British Columbia

The property is still vacant at this time. The Company is working with brokers and agents to try and secure a potential tenant for this 12,000 square foot building, well located in the growing community of Merritt, B.C.. We will keep shareholders posted as we continue to give our best efforts to fill this building.

The Company remains confident that the vacancies will be filled up in the near future. Management is looking at every opportunity in the market. Much effort and creativity has been placed on securing new tenants and retaining existing tenants.

Our long term financing consists of mortgages and debentures. In terms of mortgages, the Company closed on February 23, 2012 a five year mortgage for \$14,500,000 at 5.25% for its St Paul and Cold Lake properties. The Three Hills property has a mortgage of \$497,942 at 8.4% due December 1, 2013. As of March 1, 2012, the mortgage on the Merritt property was paid in full. The Company has two series of convertible debentures outstanding with face values of \$3,587,500 maturing December 31, 2014 and \$1,115,000 maturing October 31, 2015. With the exception of the small mortgage for the Three Hills property, the Company does not have to renew any long term financing for the next three years.

All outstanding short term loans have been repaid in full and the Company has cash of \$1,281,267 as of March 31, 2012 with 8,936,678 shares outstanding. The closing price on March 31, 2012 was \$0.26.

The Normal Course Issuer Bid expired in April 2012 and was not renewed. The Company still maintains the view that the current stock price does not accurately reflect the inherent value of the Company. Based on current market values of similar properties in Western Canada, the Company feels that the share price should be substantially higher and the Company continues to communicate this with investors in the market.

Management continues to reduce costs at the corporate level and, when appropriate, to reduce CAM expenses on all properties.

The current economic conditions continue to provide a number of growth opportunities for the Company as many properties and real estate holding companies are dramatically undervalued and represent a buying opportunity for a strong long term return on investment. The Company intends exploring all opportunities in this regard for the benefit of our shareholders in both Canada and the US.

Management recognizes that paramount to our growth strategy is to secure equity financing for acquisitions or construction loans for intensification. The current economic situation remains challenging for new financing, in particular, financing will be difficult to obtain in the small markets where our properties are located. In addition, with possible interest rates remaining low, the cost of new borrowing will depend on the spread available in the markets which could affect the Company's bottom line.

We are focused on maintaining a strong relationship with our many quality tenants such as Giant Tiger Stores, Guardian Drugs, LW Stores, Reitmans, Rexall Drug Stores, Sobeys, Suncor, Tim Hortons and The Bargain! Shop. To view a complete list of our tenants please visit our website at [www.gpequities.com](http://www.gpequities.com).

Our business model of investing in anchored shopping centres, with a focus on everyday needs, remains our competitive advantage during good and difficult economic conditions.

As a result, 2012 represents a year of opportunities for the Company. With long term financing completed and cash on hand, the Company can focus on retaining our current tenants for the existing properties and looking for new investments with good growth opportunities.

As always, I would like to thank our loyal shareholders, our Board of Directors for their invaluable contribution and wise counsel, our consulting professionals, Mr. Kim Donais of West Horizon Properties, our property manager for our properties, my Executive Assistant Susan Barrowclough and my family for your help and support over the past years.

Yours truly,

(signed) "Anthony J. Cohen"

Anthony J. Cohen

President & CEO

May 24, 2012