



GULF & PACIFIC EQUITIES CORP.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### Quarterly Report for the three months ended March 31, 2016

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, 2016. The following information should be read in conjunction with the accompanying unaudited condensed financial statements and the related notes for the three months ended March 31, 2016 and the audited consolidated financial statements and the related notes for the year ended December 31, 2015.

The unaudited condensed 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, 2016 unaudited condensed financial statements for disclosure of the Company’s significant accounting policies. The Company’s functional and reporting currency is the Canadian dollar.

The Company is publicly traded on the TSX Venture Exchange (TSX-V: **GUF**).

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

The Company’s unaudited condensed financial statements for the quarter ending March 31, 2016 and the December 31, 2015 audited consolidated financial statements have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

#### **Date of Report**

This report is prepared as of May 26, 2016.

#### **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 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.gpequities.com](http://www.gpequities.com).

Neither this document nor the unaudited condensed 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**

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

The Company’s current portfolio consists of three properties located in Northern Alberta. The three properties consist of Tri-City Mall located in Cold Lake, Alberta with gross lease area of 141,289 sq. ft., St. Paul Shopping Centre, in St. Paul, Alberta with gross lease area of 79,042 sq. ft. and a stand alone property in Three Hills, Alberta with 9,003 sq. ft. of lease space. The Company still holds a vacant lot in Merritt, B.C..

## **First Quarter 2016 Highlights**

In the first quarter 2016:

- At **Tri-City Mall**, in first quarter of 2016, the Company welcomed Bentley to the mall which opened for business in late March. The Company continues to negotiate with new national & local tenants for the remaining vacancies and working to fully lease the mall.
- At **St. Paul Shopping Centre**, management is pleased to report that the St. Paul Shopping Centre is fully leased in its current configuration.
- In **Three Hills**, Red Apple Stores Inc. continues to operate the premises as The Bargain Shop.

- In **Merritt**, the Company still holds a vacant lot with nominal value.
- The Company has a revolving unsecured loan agreement with Ceyx Properties Ltd. (“**Ceyx**”) for up to \$6 million at an annual interest rate of 6% with no fixed terms for repayment (the “**Loan**”). As of March 31, 2016 the balance outstanding is \$3,000,000.

## **Overall Performance**

### Condensed Statements of Financial Position

On the Condensed Statements of Financial Position, total assets were \$44,200,722 as of March 31, 2016, compared to \$44,249,230 as of December 31, 2015.

The decrease of \$48,508 in total assets during the quarter is primarily due to the use of cash for operating and a decrease in account receivable, partially offset by cash received from rental revenue.

The Company’s cash balance decreased by \$30,080 during the quarter to \$89,297 at March 31, 2016, from \$119,377 as of December 31, 2015. The decrease is mostly due to the use of cash for the Company’s normal operations partially offset by rental revenue received.

Other amounts receivable decreased from \$90,797 at December 31, 2015 to \$72,369 as of March 31, 2016 due to decreases in amounts owing from tenants for rent, realty taxes and common area costs.

Total prepaid expenses for the Company remained at \$39,056 for March 31, 2016 and December 31, 2015.

Investment properties is unchanged at \$44,000,000 as of March 31, 2016 and as of December 31, 2015 as a result of no changes to the fair value of the investment properties, which is based on external appraisals, the most recent of which completed during the first quarter of 2015.

With respect to liabilities, mortgages payable decreased to \$22,071,665 as of March 31, 2016 from \$22,471,293 as of December 31, 2015 due to the amounts paid on the principal during the quarter.

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. As at March 31, 2016, the property was not fully leased. Since the Company expects to fully lease the property in the future, this obligation has been fully provided for.

As March 31, 2016, the Company had an outstanding loan obligation of \$3,000,000 from a related corporation, Ceyx Properties Ltd. The loan is unsecured, with access to a maximum value of up to \$6,000,000 and interest payable of 6% per annum. Interest is accrued but not

compounded. The loan is with Ceyx Properties Ltd. a related party by virtue of the fact that they have the same President.

The deferred income tax liability of \$1,119,000 as of March 31, 2016 represents the Company's future obligations due to the net of items including temporary differences between the accounting basis and the tax basis of the assets and liabilities, and tax loss carry forwards.

Accounts payable and accrued liabilities increased to \$1,228,421 as of March 31, 2016 from \$991,201 as of December 31, 2015 due to normal operations such as property taxes, common area expenses, and loan interest.

Total liabilities decreased to \$28,077,862 as of March 31, 2016 from \$28,244,270 as of December 31, 2015. This decrease is primarily due to decrease in mortgages payable as a result of the lower interest rates partially offset by increase in accounts payable and accrued liabilities from interest due on loan payable and property taxes collected in advance.

Shareholders' equity was \$16,122,860 as of March 31, 2016 compared to \$16,004,960 as of December 31, 2015. The increase was due to the increase in retained earnings from operations of the Company.

#### Condensed Statements of Comprehensive Income

For the quarter ended March 31, 2016 revenue increased to \$1,004,504 from \$924,915 for the quarter ended March 31, 2015. The increase was primarily a result of increased revenue from the new tenants compared to the same period last quarter. Accordingly, rental income increased by \$19,618 or 3.0%. Step rent revenue increased from \$51,229 in March 31, 2015 to \$63,028 in March 31, 2016, a non-cash amount representing the straight line recognition of future rent increase for the new leases. Common area and realty tax recoveries increased by \$49,126 or 23.5% for the quarter. Interest income decreased to \$Nil for the quarter as a result of decreased cash available to earn interest as compared to the same period last year.

For the quarter ended March 31, 2016, expenses decreased to \$875,040 from \$887,686 for the quarter ended March 31, 2015, a decrease of \$12,646 or 1.4%. The primary reasons for the decrease in expenses are decreased interest expenses of \$56,925 or 16.4% due to refinancing at lower rates which was completed in 2015. The decrease in expenses is offset by increases in operating cost and realty taxes of \$38,919 or 11.3% due to increase costs related to the new tenants. As well, there was an increase in administration expenses of \$5,360 or 2.7% due mainly to increases in advertising expenses in the quarter to secure new tenants.

Overall, within the normal operations of the Company, expenses are holding steady and management remains focused on controlling costs and operating efficiently.

Net income before fair value adjustment and income taxes for the quarter ended March 31, 2016 was \$129,464 compared to net income of \$37,229 for the quarter ended March 31, 2015. As a result, basic and diluted net income per share before fair value adjustment and income taxes was \$0.01 for the quarter ended March 31, 2016, compared to basic and diluted net income per share

before fair value adjustment and income taxes of \$Nil per share for the quarter ended March 31, 2015.

Net income and comprehensive income for the quarter ended March 31, 2016 was \$117,900 compared to a net loss of \$1,057,071 for the quarter ended March 31, 2015. As a result, basic and diluted income per share were \$0.01 in the quarter ended March 31, 2016 compared to a loss of \$0.06 per share, basic and diluted, for the quarter ended March 31, 2015.

#### Condensed Statements of Cash Flow

On the statements of cash flows, cash provided by operations totaled \$615,541 for the quarter ended March 31, 2016 compared to cash provided by operations of \$152,368 for the quarter ended March 31, 2015.

Financing activities for the quarter ended March 31, 2016 recorded funds used of \$645,621 compared to funds provided of \$2,465,502 for the quarter ended March 31, 2015. This is mostly due to payment of the mortgages payable during the quarter compared to funds provided from the mortgage refinancing and from related party during the same period in 2015.

Investing activities recorded funds of \$Nil for the quarter ended March 31, 2016 compared to funds used of \$1,438,395 for the same period last quarter.

As at March 31, 2016, the Company had cash of \$89,297 compared to cash of \$1,352,944 as at March 31, 2015.

#### **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 the Company, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) and presented for the years ended December 31, 2015, 2014 and 2013.

<b>For the Years Ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	\$	\$	\$
Revenue	3,824,520	3,064,186	2,401,981
Net Income (Loss) before fair value adjustment and income taxes	60,141	(1,154,049)	(1,533,198)
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and diluted	-	(0.12)	(0.17)
Net Income (Loss) and Comprehensive Income (Loss)	(764,147)	2,269,952	1,495,549
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	(0.04)	0.23	0.17
Net Income (Loss) and Comprehensive Income (Loss), per share - fully diluted	(0.04)	0.09	0.06
Total Assets	44,249,230	44,420,954	34,578,916
Total Liabilities	28,244,270	28,766,847	23,840,132

Cash Dividends	-	-	-
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## Summary of Quarterly Results

The following selected financial data are derived from the unaudited quarterly financial statements of the Company, which were prepared in accordance with IFRS for the results from April 1, 2014 to March 31, 2016.

	2016	2015			2014			
For the Quarters Ended	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,004,504	716,534	1,095,473	1,087,598	924,915	860,058	705,191	616,172
Net Income (Loss) before fair value adjustment and income taxes	129,464	22,453	34,684	(34,225)	37,229	(270,100)	(418,661)	(356,827)
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and fully diluted	0.01	0.00	0.00	0.00	0.00	(0.02)	(0.05)	(0.04)
Net Income (Loss) and Comprehensive Income (Loss)	117,900	241,175	167,966	(116,217)	(1,057,071)	376,540	(1,929,846)	(779,737)
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	0.01	0.02	0.01	(0.01)	(0.06)	0.02	(0.21)	(0.09)
Net Income (Loss) and Comprehensive Income (Loss), per share – fully diluted	0.01	0.01	0.01	*	*	0.01	*	*

\* Not presented as effect of dilutive items are anti-dilutive

## Liquidity and Capital Resources

The Company had cash of \$89,297 as of March 31, 2016 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.

The Company has commitments for capital expenditures related to the landlord's work in securing the new tenants. The Company currently has access of up to \$6,000,000 in loan proceeds from a related party. As at March 31, 2016, \$3,000,000 is outstanding on this loan.

The Company is committed under lease contract for the rental of its office premises in Toronto.

To date, the Company has not paid any dividends on its shares and as of the date of this MD&A does not plan to pay dividends in the immediate future.

The Company's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and
- b) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

## **First Quarter 2016**

Major events and results relating to the quarter ending March 31, 2016 are covered in the section "First Quarter 2016 Highlights".

## **Changes in Accounting Policies**

The Company did not adopt any new accounting standards in preparing these condensed financial statements.

## **Financial Instruments**

IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") requires classification of financial instruments into one of the following categories: financial assets and liabilities at fair value through profit and loss, held-to-maturity investments, loans and receivables, available-for-sale and other financial liabilities. The Company determines the classification of its financial assets and liabilities at initial recognition.

All of the Company's financial instruments are initially measured at fair value, with subsequent measurements dependent on the classification of each financial instrument. Financial assets at fair value through profit or loss include cash which is measured at fair value and all gains and losses are included in net loss in the period in which they arise. Other amounts receivable and accrued rent receivable are recorded at amortized cost. The Company has no financial assets classified as available-for-sale or as held-to-maturity. Other financial liabilities at amortized cost include accounts payable and accrued liabilities and mortgages payable.

Financial instruments with substantive characteristics of both a financial liability and equity instrument are accounted for through separate classification of the liability and equity elements. The debt component is recognized at fair value and the residual value is allocated to the conversion feature, classified as equity. The initial liability balance recognized is less than the face value of the debt. 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

using the effective interest rate method. Transaction costs are allocated to the liability and equity elements in proportion to the allocation of the proceeds.

Long-term debt is initially recognized at fair value less directly attributable transactions costs. After initial recognition, long-term debt is subsequently measured at amortized cost using the effective interest rate method.

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 of March 31, 2016, the Company had issued and outstanding 21,290,685 common shares with a recorded value of \$7,453,322.

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 three months ended March 31, 2016 or the year ended December 31, 2015.

### **Related Party Transactions**

During the three months ended March 31, 2016, the Company:

- a) Charged rent at 1300 Bay Street to related parties, Plato Gold Corp., \$1,500 and Ceyx Properties Ltd., \$3,000. The companies are related parties of the Company by virtue of the fact that they both have the same President of the Company. As at March 31, 2016, included in accounts receivable is an amount of \$67,500 due from these related parties.
- b) Was charged consulting fees for financial and management services of \$26,293 by Greg K. W. Wong, an officer of the Company. As at March 31, 2016, accounts payable and accrued liabilities included \$8,283 of consulting fees payable to this officer.
- c) Incurred accounting fees for bookkeeping and financial statement preparation of \$15,000 with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at March 31, 2016, accounts payable and accrued liabilities included \$46,100 payable to this accounting firm.

- d) Other related party transactions are disclosed in note 6ii and note 8 to the accompanying unaudited condensed 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 particular related parties and the Company.

### **Contractual Obligations and Commitments**

The Company's contractual obligations and commitments consists of loans and mortgages which are disclosed in the notes to the unaudited condensed financial statements ended March 31, 2016 and in the notes to the audited consolidated financial statements ended December 31, 2015. The Company has lease obligations for its offices until 2018.

### **Internal Control over Financial Reporting**

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited annual financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited annual financial statements and (ii) the audited annual financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the audited annual financial statements.

In contrast to the certificate required under Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("MI 52-109"), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in MI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer (such as the Company) to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **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**

The world oil price, provincial infrastructure spending and low interest rates are the key determinants of the overall economy in Alberta where our properties are located. In recent months oil prices staged a turnaround to above \$40 with some analysts predicting \$65 by year end. Indications are that oil price has likely bottomed, but it's unlikely to return to the highs of recent years. The oil sector in Alberta will need to adjust to the new reality to remain competitive globally.

Recent wild fires in Fort McMurray stopped oil production in the area for a short period of time and damages to the local infrastructures will result in years local redevelopment, a possible increase in local economic activities.

In the near future much of the economic growth will depend on the speed in which both the provincial and federal governments can implement their announced infrastructure programs to help stimulate the provincial economy. The speed in which these projects can be implemented will help keep the workers and trades operating in Alberta.

While the central bank in the US is talking up the potential for an increase in historic low interest rates, the Canadian central bank is maintaining the low interest rates for 2016 with possibly another decrease in interest rates due to the poor performance of the Canadian economy. Given the close ties between the Canadian and US economies, with the strong performance in the US, it is anticipated that US and Canadian interest rates will be heading in opposite directions in the near future. The low interest rate in Canada will benefit many consumers who are already carrying record credit card debts in spending.

For the Company, our properties in St. Paul Shopping Centre and Tri-City Mall are located in regions with diverse economies and do not solely depend on the oil sector. While it's anticipated that the continuing low oil prices will have impact on local economies, it will be mitigated somewhat in these two regions due to its diversification.

The low interest rate environment will be an advantage for the Company as it reduces the interest cost for the financing of our investment portfolio. As well, commercial real estate is once again becoming a core holding in major investment portfolios, which should provide for low cap rates.

Operationally, our business model has enabled the Company to weather the past economic downturns better than most sectors, as our anchor tenants and national retailers have a positive outlook for the region.

While the Canadian retail market is facing a major reorganization, the Company has been able to renew leases when due and secure new tenants when opportunities arise.

Management is continuing its efforts to fully lease the remaining vacancies at Tri-City Mall.

#### 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.

In the quarter ended March 31, 2016, the Company welcomed Bentley to our growing list of quality tenants. The Company continues to negotiate with new national tenants at the mall. The Company is in ongoing discussions with other local tenants for the remaining space in Tri-City Mall and working to fully leasing the mall.

With the changes noted above, the current tenant profile remains stable with Ardene, ATB Financial, Bentley, Bootlegger, Bross Hair, Dollar Tree, Herbal Magic, Pet Valu, Pizza Hut, Sobeys, Sportschek, V-Nails & Spa, Value Drug Mart, Warehouse One and Winners. When fully leased, the mall will add substantial value to the Company's investment portfolio.

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

St. Paul Shopping Centre continues to be fully leased in its current configuration.

The current tenant profile consists of Peavey Mart, Ardene, Dollar Tree, Marks, and with Giant Tiger Stores remaining as an anchor tenant at the east end of the mall. The two pad sites are leased by Tim Hortons, and our long-term tenant Petro Canada.

#### Three Hills, Alberta

Our Three Hills property continues to operate satisfactorily with Red Apple Stores Inc. operating the premises as The Bargain Shop.

In Merritt, British Columbia, the Company still holds a vacant lot.

Our long term financing consists of mortgages and unsecured loan with a related party. As of March 31, 2016 the mortgages outstanding for the Cold Lake and St. Paul properties stand at \$21,785,970 for these two properties bearing interest at prime plus 1.5% and maturing on September 1, 2019. The Three Hills property has a mortgage balance of \$418,330 as at March 31, 2016, paying interest at 5.15% and maturing on December 1, 2018.

The Company has access to the Loan of up to \$6 million to finance the redevelopment of the two malls and general operation of the Company, of which \$3,000,000 is outstanding as of March 31, 2016 and as of the date of this report.

The Company had cash of \$89,297 as of March 31, 2016 with 21,290,685 shares outstanding. The closing price of the Company's common shares on the TSXV on March 31, 2016 was \$0.27.

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

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.

We are focused on maintaining a strong relationship with our many quality tenants such as Ardene, ATB Financial, Bentley, Bootlegger, Dollar Tree, Giant Tiger Stores, Herbal Magic, Mark's Work Warehouse, Peavey Mart, Pet Valu, Petro Canada, Pizza Hut, Sobeys, Sportchek, The Bargain Shop, Tim Hortons, V-Nails & Spa, Value Drug Mart, Warehouse One, and Winners. 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.

In the last quarter the Company continues to focus on securing new leases based on the current interest by national and local tenants. Looking forward to 2016 management hopes to fully lease Tri-City Mall which will provide a substantial increase in valuation of the investment portfolio based on external appraisals. The Company is pleased to report that St. Paul Shopping Centre continues to be fully leased based on the current configuration.

Yours truly,

(signed) "Anthony J. Cohen"  
Anthony J. Cohen  
President & CEO  
May 26, 2016