GULF & PACIFIC EQUITIES CORP.

# MANAGEMENT DISCUSSION AND ANALYSIS

Quarterly Report for the nine and three months ended September 30, 2013

This Management Discussion and Analysis ("MD&A") of Gulf & Pacific Equities Corp (the "Company") provides analysis of the Company's financial results for the nine and three months ended September 30, 2013. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements for the nine and three months ended September 30, 2013 and the audited financial statements and the related notes for the year ended December 31, 2012.

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 September 30, 2013 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 Company's unaudited condensed financial statements for the quarter ending September 30, 2013 and the December 31, 2012 audited 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 November 25, 2013.

## 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 or the Company's website at www.gpequities.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 does not have any affiliates nor is it the subsidiary of any entity. The Company owns one corporation, 766373 Alberta Ltd., which does not carry on active business.

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 77,866 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..

## Third Quarter 2013 Highlights

In the third quarter 2013, the Company:

- In Cold Lake completed the landlord's work for our new tenants Dollar Tree, Sportchek and Ardene. The tenants accepted possession of the premises in the third quarter. Subsequent to the third quarter Dollar Tree and Sportchek opened with near record sales with Ardene scheduled to open on November 30
- In addition, subsequent to the third quarter the Company signed two offers to lease and one lease with three national tenants for Tri-City Mall in Cold Lake
- In St. Paul, Dollar Tree accepted possession of the premises in the St. Paul Shopping Centre in the second quarter and opened in the third quarter to very strong sales

- In addition, the Company is in negotiations with a national tenant for one of the remaining space
- In Three Hills, Red Apple has assumed the premises and continues to operate as The Bargain Shop
- In Merritt, subsequent to the third quarter, the premise was leased to Westcan Auto Supplies
- In on going discussions with other national tenants for the remaining space in Tri-City Mall and St. Paul Shopping Centre
- With new tenants anticipated for next year, the Company will restart the landlord's work in early 2014 for newly leased premises.

## Overall Performance

Statements of Financial Position

On the Statements of Financial Position, total assets stood at $30,682,394 as of September 30, 2013, compared to $29,837,614 as of December 31, 2012. The increase of $844,780 in total assets for the quarter was primarily due to a decrease in deferred income taxes, mortgages payable and a one time write up of interest and capital tax accrued relative to the year ended 2012.

Our cash balance decreased by $1,273,348 during the nine months to $144,169 at September 30, 2013, from $1,417,517 as of December 31, 2012 due mostly to payment of the landlord's work in preparation for the new tenants in St. Paul Shopping Centre and Tri-City Mall and normal operations of the Company.

Other amounts receivable increased from $148,208 at December 31, 2012 to $163,353 as of September 30, 2013 due to normal operations of the Company in collecting outstanding rents, realty taxes and common area costs.

Total prepaid expenses for the Company increased to $2,284,872 at nine months ended September 30, 2013 from $181,889 as of December 31, 2012, as a result of expenses incurred for the redevelopment of St. Paul Shopping Centre and Tri-City Mall in preparation for new tenants and due to normal operations such as prepaid rent.

Investment properties remained the same at $28,090,000 as of September 30, 2013 and December 31, 2012 as a result of fair value adjustments in the determination of the investment properties (see note 3 of the unaudited financial statements). Subsequent to the third quarter, the Company received appraisals in the amount of $900,000 for Three Hills, $6.1 million for St. Paul Shopping Centre as of October 2013 and $7.9 million when fully leased, and $26.5 million for Cold Lake and $31.9 million when fully leased. These values will be reflected in the audited year end financial statements of the Company.

With respect to liabilities, mortgages payable decreased to $14,416,134 as of September 30, 2013 from $14,610,584 as of December 31, 2012 due to the regular repayment of mortgages on the Company's properties.

Convertible debentures increased to $4,048,241 as of September 30, 2013 from $3,741,401 as of December 31, 2012. The increase is due to the fact that the convertible debentures are carried at an amount that increases as time passes (see note 6 to the unaudited financial statements) reflecting a non-cash allocation within the balance sheet.

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, this obligation has been fully provided for.

Advance payable represents an unsecured advance of $1,500,000 from Ceyx Properties Ltd., a related party by virtue of the fact that they have the same President, with anticipated interest at 6% per annum. The advance is for general working capital purposes. Subsequent to the third quarter, a further $1,000,000 was advanced by Ceyx Properties Ltd. At the time of this report, the total advance payable is $2,500,000 to the related party.

Deferred income taxes of $797,000 as of September 30, 2013 represents the tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities for the Company.

Accounts payable and accrued liabilities decreased to $411,674 as of September 30, 2013 from $567,618 as of December 31, 2012 due mainly to expenses related to advance work on the redevelopment for the two malls and normal operations such as property taxes, common area expenses, and debenture interest.

Total liabilities increased to $21,831,825 from $20,604,379 as of December 31, 2012. This increase is primarily due to advances from the related party as a result of the work in the two malls and the accounting for the equity component within the convertible debentures, offset by a decrease in mortgages payable and deferred income taxes.

Shareholders' equity stood at $8,850,569 as of September 30, 2013 compared to $9,233,235 as of December 31, 2012. The decrease was due to reduced retained earnings.

Statements of Comprehensive Income

For the three months ended September 30, 2013 revenue decreased to $619,528 from $779,750 for the same period last quarter. The decrease was primarily a result of reduced rental income due to the departure of Zellers. Accordingly, rental income decreased by $128,846 or 23.1% while common area and realty tax recoveries decreased by $20,171 or 9.7% for the quarter. Interest income decreased to $1,023 for the quarter as a result of the cash invested in the properties.

For the three months ended September 30, 2013, expenses decreased to $711,190 from $907,028 as of same period last quarter, a decrease of $195,838 or 21.6%. The primary reasons for the decrease in expenses are decreases in operating costs and realty taxes of $106,527 or 31.0%, and a one time write up of accrued interest and capital tax of $141,651 reflected in the decrease in administration to $42,281 for the quarter. Interest expenses increased to $432,164 from $402,826 as of the same period last quarter and share-based compensation of nil for the quarter. Overall, within the normal operations of the Company, expenses are reduced reflecting the reduced rental revenue and management remains focused on controlling costs and operating efficiently.

Net loss for the three months ended September 30, 2013 was $102,044 compared to net loss of $121,553 for the same period last year. As a result, earnings per share was a loss of $0.01 per share in the three months ended September 30, 2013 compared to a loss of $0.01 earnings per share for the same period in 2012.

Statements of Cash Flow

On the statements of cash flow, cash used by operations totaled $213,760 for the three months ended September 30, 2013 compared to cash provided of $1,054,202 for the same period last year.

Financing activities for the quarter recorded funds provided of $752,728 compared to funds used of $208,245 for the same period a year ago. This is mostly due to advance payable received in the quarter. Other changes reflect the mortgage refinancing which took place in the first quarter of 2012. Funds used for investing activities for the quarter of $931,756 compared to nil for the same period a year ago.

As at September 30, 2013, the Company had cash of $144,169 compared to cash of $1,736,452 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 presented for 2012, 2011 and 2010.

| For the Years Ended December 31, | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | 2,799,996 | 3,495,875 | 3,829,121 |
| Net Loss before fair value adjustment and income taxes | (797,889) | (904,860) | (229,721) |
| Net Loss before fair value adjustment and income taxes, per share - basic and fully diluted | (0.09) | (0.10) | (0.03) |
| Net Income (Loss) and Comprehensive Income (Loss) | (971,438) | 145,954 | 1,005,751 |
| Net Income (Loss) and Comprehensive Income (Loss), per share - basic and fully diluted | (0.11) | 0.02 | 0.11 |
| Total Assets | 29,837,614 | 30,188,616 | 38,266,595 |
| Total Liabilities | 20,604,379 | 20,065,842 | 28,594,739 |
| 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 October 1, 2011 to September 30, 2013.

| | 2013 | | | 2012 | | | | 2011 |
|---|---|---|---|---|---|---|---|---|
| For the Quarters Ended | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | 619,528 | 534,918 | 633,681 | 521,328 | 779,750 | 798,115 | 700,803 | 338,452 |
| Net Income (Loss) before fair value adjustment and income taxes | (91,662) | (269,029) | (204,579) | (232,359) | (127,278) | (290,660) | (147,592) | (823,333) |
| Net Income (Loss) before fair value adjustment and income taxes, per share - basic and fully diluted | (0.01) | (0.03) | (0.02) | (0.03) | (0.01) | (0.03) | (0.02) | (0.09) |
| Net Income (Loss) and Comprehensive Income (Loss) | (102,044) | (160,051) | (120,571) | (450,935) | (121,553) | (196,724) | (202,226) | 227,481 |
| Net Income (Loss) and Comprehensive Income (Loss), per share - basic and fully diluted | (0.01) | (0.02) | (0.01) | (0.06) | (0.01) | (0.02) | (0.02) | 0.03 |

## Liquidity and Capital Resources

The Company had cash of $144,169 as of September 30, 2013 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 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.

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 September 30, 2013, 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 nine months ended September 30, 2013 or the year ended December 31, 2012.

## Related Party Transactions

During the nine months ended September 30, 2013, the Company:

a) Charged rent to related parties, Plato Gold Corp., approximately $4,500, and Ceyx Properties Ltd., approximately $10,593. The companies are related by virtue of the fact that they have the same President. As at September 30, 2013, included in accounts receivable is an amount of $66,184 due from these related parties.

b) Was charged consulting fees of $65,325 for corporate management fees by Greg K. W. Wong, an officer of the Company. As at September 30, 2013, accounts payable and accrued liabilities included $Nil payable to this officer.

c) Incurred accounting fees of $85,475 with the accounting firm of Forbes Andersen LLP in which Paul Andersen, one of the Company's officers, is a partner. As at September 30, 2013, accounts payable and accrued liabilities included $33,375 payable to this accounting firm.

d) Other related party transactions are disclosed in note 6(ii), note 8 and note 14.

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 consist of loans, debentures and mortgages which are disclosed in the notes to the unaudited financial statements ended September 30, 2013 and in the notes to the audited financial statements ended December 31, 2012. 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 issuer 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 issuer'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 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 Bank of Canada's interest rate is anticipated to remain the same through 2013 and unlikely to increase until late 2014 or early 2015. The financial market for the resource sector remains weak, but in Alberta local businesses remain optimistic where our properties are located. In northern Alberta many long term projects are still active in the province and Alberta remains as the province with the second lowest unemployment rate in Canada.

The global economy continues to be in a fragile state. The European economy is still an area of focus of the global financial markets and continues to maintain a low interest rate. In China, recent news of renewed demands for commodities and steady economic growth has renewed modest interest in some sectors of the market.

In the US, with the recent strength in the financial markets, the continuing weak domestic economy, and modest projections in the emerging markets of both China and India, are indications that any change in US interest rates will be slow. The government has indicated that their interest rates will remain at historic lows until 2014, but are starting to send signals of future increases in interest rates. Given the close ties between the Canadian and US economies, it is hard to foresee an increase in Canadian interest rates ahead of any increase in the US interest rates.

Operationally, our business model has enabled the Company to weather the past economic downturns better than most sectors, as our anchored tenants and the optimism of local retailers ensure a positive outlook for 2013 and 2014. The Company has been able to renew leases when due and recently secured a number of new tenants.

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 2012 we renewed a number of leases including Sobeys extending their lease for an additional 5 years, expiring in 2018. In March 2013, a significant portion of the leaseable space was vacated by Zellers. Since then, management has secured three new tenants; Dollar Tree, Sportchek and Ardene, with Dollar Tree and Sportchek recently opening to near record sales and Ardene scheduled for opening on November 30.

As well, at the time of this report, management has signed two offers to lease and one lease with three national tenants for the mall with anticipated openings in 2014. The Company anticipates that landlord's work for these tenants will start early in 2014. With the momentum generated by the new tenants, management is experiencing positive interest from national and local tenants for the remaining vacancies in the mall with an encouraging outlook for 2014.

St. Paul Shopping Centre, St. Paul, Alberta

In 2011, LW Stores, now Big Lots, and Giant Tiger Stores opened as the two new anchor tenants leasing a combined total of 45,228 sq. ft. or 65% of leaseable space. The remaining CRU space is being converted to a strip mall which increases our remaining leaseable space to 32,638 sq. ft.. Dollar Tree, the first tenant in this new space, signed a long term lease for 9,400 sq. ft. and recently opened in the third quarter to near record sales.

The Company is in current negotiations with another national tenant for another 7,000 sq. ft., leaving approximately 16,000 sq. ft. remaining to lease. The conversion to a strip mall will significantly reduce the annual operating cost of the mall.

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 The Bargain! Shop moved in during the summer of 2005. During the first quarter The Bargain! Shop made an application for protection from its creditors while they restructured their business under CCAA. In the second quarter the tenant emerged from CCAA as Red Apple Stores Inc. and is once again operating in the Three Hills location. The Company is receiving full rent for the property.

Merritt, British Columbia

Subsequent to the end of the third quarter the Merritt property was leased to Westcan Auto Supplies. The premise consists of a 12,000 square foot building well located in the growing community of Merritt, B.C..

The Company remains confident that the vacancies in St. Paul and Cold Lake will be filled up in the near future as the recent openings have generated interest from a number of national and local tenants. Management is looking at every opportunity in the market. Much effort and creativity have been placed in securing new tenants and retaining existing tenants.

Recent appraisals completed in October on the Tri-City Mall, St. Paul Shopping Centre and Three Hills properties indicate the fair value of the Company's combined properties to be $34.35 million at October 2013 and $41.55 when fully leased.

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, of which $14,255,373 is outstanding as of September 30, 2013. The Three Hills property as of September 30, 2013 has a mortgage of $471,733 at 8.4% due

December 1, 2013. At the time of this report, the Company has renegotiated a renewal of the expiring mortgage for Three Hills which will be announced when completed. 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 until December 2014.

At the time of this report, the Company has an unsecured advance payable of $2,500,000 with Ceyx Properties Ltd., a related party by virtue of the fact that they have the same President, to finance the landlord's work for the new leases. The Company is examining long term financing to replace the advance from the related party.

The Company had cash of $144,169 as of September 30, 2013 with 8,936,678 shares outstanding. The closing price on September 30, 2013 was $0.29.

The Company still maintains the view that the current stock price does not accurately reflect the inherent value of the Company, specifically as a result of the recent appraised values. 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 Common Area Maintenance ("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 new developments. 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 Ardene, ATB Financial, Big Lots, Bootlegger, Dollar Tree, Giant Tiger, Herbal Magic, Pennington's, Petro Canada, Pizza Hut, Red Apple, Sobeys, Sportchek, The Source, Tim Hortons, Value Drug, Warehouse One and Westcan Auto Parts. To view a complete list of our tenants please visit our website at 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, 2013 and 2014 represent exciting opportunities for the Company as we work to welcome the many new tenants to our properties and creating value for our shareholders.

Yours truly,

(signed) "Anthony J. Cohen"
Anthony J. Cohen
President & CEO
November 25, 2013