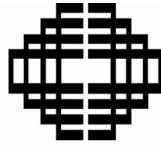

Financial Statements

Gulf & Pacific Equities Corp.

**For the Years Ended December 31, 2015 and 2014
(Stated in Canadian Dollars)**

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GULF & PACIFIC EQUITIES CORP.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements were prepared by the management of Gulf & Pacific Equities Corp., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

(Signed) "Anthony J. Cohen"
President and CEO

(Signed) "Greg K. W. Wong"
CFO

Toronto, Ontario
April 25, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Gulf & Pacific Equities Corp.:

We have audited the financial statements of Gulf & Pacific Equities Corp. which comprise of the statements of financial position as at December 31, 2015 and 2014 and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gulf & Pacific Equities Corp. as at December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba
April 25, 2016

MNP LLP

Chartered Professional Accountants



Gulf & Pacific Equities Corp.

Statements of Financial Position
(Stated in Canadian Dollars)

	December 31, 2015	December 31, 2014
Assets		
Cash	\$ 119,377	\$ 173,469
Other amounts receivable (note 4)	90,797	408,429
Prepaid expenses	39,056	39,056
Investment properties (note 3)	44,000,000	43,800,000
	<u>\$ 44,249,230</u>	<u>\$ 44,420,954</u>
Liabilities		
Mortgages payable (note 5)	\$ 22,471,293	\$ 17,983,163
Convertible debentures (note 6)	-	1,038,315
Purchase price payable (note 7)	658,776	658,776
Loan payable (note 8)	3,000,000	5,750,000
Deferred income taxes (note 11)	1,123,000	1,179,000
Accounts payable and accrued liabilities	991,201	2,157,593
	<u>28,244,270</u>	<u>28,766,847</u>
Commitments (note 9)		
Shareholders' Equity		
Share Capital (note 10)	7,453,322	6,008,607
Equity Component of Convertible Debentures (note 6)	-	329,715
Contributed Surplus	2,784,668	2,784,668
Retained Earnings	5,766,970	6,531,117
	<u>16,004,960</u>	<u>15,654,107</u>
	<u>\$ 44,249,230</u>	<u>\$ 44,420,954</u>

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board

(Signed) "Anthony J. Cohen", Director

(Signed) "Greg K. W. Wong", Director

Gulf & Pacific Equities Corp.

Statements of Comprehensive Income (Loss)

For the Years Ended December 31

(Stated in Canadian Dollars)

	2015	2014
Revenue		
Rental	\$ 2,860,096	\$ 2,293,628
Step rent	(132,352)	(3,246)
Common area and realty tax recoveries	1,094,676	768,983
Interest and other	2,100	4,821
	<u>3,824,520</u>	<u>3,064,186</u>
Expenses		
Interest	1,347,028	2,006,276
Operating costs and realty taxes	1,616,012	1,285,831
Administration (note 17)	801,339	825,609
Share-based compensation (note 10)	-	65,500
Loss on sale of property	-	35,019
	<u>3,764,379</u>	<u>4,218,235</u>
Net Income (Loss) before fair value adjustment and income taxes	60,141	(1,154,049)
Fair value adjustment (note 3)	<u>(880,288)</u>	<u>3,576,001</u>
Net Income (Loss) before income taxes	(820,147)	2,421,952
Deferred income tax recoveries (expense) (note 11)	<u>56,000</u>	<u>(152,000)</u>
Net Income (Loss) and Comprehensive Income (Loss)	<u>\$ (764,147)</u>	<u>\$ 2,269,952</u>
Income (Loss) per Share - Basic	<u>\$ (0.04)</u>	<u>\$ 0.23</u>
Income (Loss) per Share - Diluted	<u>\$ (0.04)</u>	<u>\$ 0.09</u>
Weighted Average Number of Common Shares Outstanding - Basic (note 10)	<u>18,205,343</u>	<u>9,934,585</u>
Weighted Average Number of Common Shares Outstanding - Diluted (note 10)	<u>18,205,343</u>	<u>25,732,603</u>

The accompanying notes form an integral part of these financial statements.

Gulf & Pacific Equities Corp.

Statements of Changes in Shareholders' Equity

For the Years Ended December 31

(Stated in Canadian Dollars)

	Share Capital		Equity Component of			Total
	Shares	Amount	Convertible Debentures	Contributed Surplus	Retained Earnings	
Balance - December 31, 2013	8,970,011	\$ 2,845,212	\$ 1,131,712	\$ 2,500,695	\$ 4,261,165	\$ 10,738,784
Share based compensation (note 10)	-	-	-	65,500	-	65,500
Exercise of options	120,000	49,212	-	(19,212)	-	30,000
Conversion of convertible debentures (note 6)	8,484,008	3,114,183	(564,312)	-	-	2,549,871
Maturation of convertible debentures (note 6)	-	-	(237,685)	237,685	-	-
Net income and comprehensive income	-	-	-	-	2,269,952	2,269,952
Balance - December 31, 2014	17,574,019	\$ 6,008,607	\$ 329,715	\$ 2,784,668	\$ 6,531,117	\$ 15,654,107

	Share Capital		Equity Component of			Total
	Shares	Amount	Convertible Debentures	Contributed Surplus	Retained Earnings	
Balance - December 31, 2014	17,574,019	\$ 6,008,607	\$ 329,715	\$ 2,784,668	\$ 6,531,117	\$ 15,654,107
Conversion of convertible debentures (note 6)	3,716,666	1,444,715	(329,715)	-	-	1,115,000
Net loss and comprehensive loss	-	-	-	-	(764,147)	(764,147)
Balance - December 31, 2015	21,290,685	\$ 7,453,322	\$ -	\$ 2,784,668	\$ 5,766,970	\$ 16,004,960

The accompanying notes form an integral part of these financial statements.

Gulf & Pacific Equities Corp.

Statements of Cash Flow

For the Years Ended December 31

(Stated in Canadian Dollars)

	2015	2014
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income (loss)	\$ (764,147)	\$ 2,269,952
Add (deduct) items not affecting cash:		
Accretion on convertible debentures	76,685	449,429
Amortization of deferred financing costs	37,530	309,578
Deferred income tax expense (recoveries)	(56,000)	152,000
Amortization of deferred leasing costs	189,716	144,996
Accrued rent receivable	132,352	3,248
Interest expense	1,232,813	1,247,269
Loss on sale of property	-	35,019
Fair value adjustment	880,288	(3,576,001)
Share-based compensation	-	65,500
	1,729,237	1,100,990
Changes in non-cash balances related to operations:		
Prepaid expenses	-	39,752
Other amounts receivable	317,632	(316,132)
Accounts payable and accrued liabilities	(1,346,156)	851,686
	700,713	1,676,296
Financing Activities		
Repayment of mortgages payable	(1,532,934)	(14,469,436)
Receipt of mortgage proceeds	6,000,000	18,000,000
Loan payable	(2,750,000)	3,250,000
Interest paid	(1,053,049)	(1,111,782)
Financing costs paid	(16,466)	(174,529)
Convertible debentures matured	-	(1,060,250)
Shares issued in lieu of interest	-	32,620
Exercise of stock options	-	30,000
	647,551	4,496,623
Investing Activities		
Sale of investment property	-	542,689
Investment property expenditures	(1,402,356)	(6,872,242)
	(1,402,356)	(6,329,553)
Decrease in Cash	(54,092)	(156,634)
Cash - beginning of year	173,469	330,103
Cash - end of year	\$ 119,377	\$ 173,469

The accompanying notes form an integral part of these financial statements.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

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 registered address and records office of the Company is located at 18104 102 Avenue N.W., Edmonton, AB. The Company is listed on the TSX Venture Exchange as “TSX-V: GUF”. The Company commenced active operations during the 1999 fiscal year. The Company owns and operates commercial rental properties in Western Canada. The Company does not have any affiliates nor is it the subsidiary of any entity.

These financial statements were authorized for issuance by the Board of Directors on April 25, 2016.

1. Basis of Presentation

a) Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company follows accounting policies under IFRS as disclosed in note 2.

The policies applied in the Company's financial statements are based on IFRS effective as of December 31, 2015.

b) Basis of Measurement

The Company's financial statements have been prepared on a going concern basis using the historical cost basis except for investment properties and cash which have been measured at fair value. Some prior year accounts have been reclassified to better conform with the current year's presentation. Specifically, step rent has been split out and presented as a separate revenue line item on the Statements of Comprehensive Income (Loss).

c) Functional and Presentation Currency

The Company's functional currency is Canadian Dollars and the financial statements are presented in Canadian Dollars.

d) Critical judgments, accounting estimates and assumptions

The Company makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ. The estimates and assumptions that the Company considered critical are described below.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

1. Basis of Presentation (continued)

d) Critical judgments, accounting estimates and assumptions (continued)

i) Investment properties

The fair value of the investment properties is determined based on either internal valuation models incorporating market evidence or valuations performed by independent third party appraisers. The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as tenant profiles, future revenue streams and overall repair and condition of the property) and discount rates applicable to those cash flows. These estimates are based on market conditions existing at the reporting date. The following approaches, either individually or in combination, are used in the determination of the fair value of the investment properties:

The Direct Capitalization Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal (when obtained) and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an external appraisal is not obtained at the reporting date, management prepares internal valuations, for each investment property, to estimate the fair value.

Judgment is also applied in determining the extent and frequency of independent appraisals in order to determine fair values. The significant assumptions used by management in estimating the fair value of investment properties are set out in Note 3.

In addition, the Company makes judgments with respect to whether tenant improvement expenditures represent an asset with a future economic benefit to the Company which impacts whether or not such amounts are treated as additions to the investment properties.

ii) Leases

The Company makes judgments in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property, are operating or finance leases. The Company has determined that all of its leases are operating leases.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

1. Basis of Presentation (continued)

d) Critical judgments, accounting estimates and assumptions (continued)

Additional critical accounting estimates and assumptions include those used for estimating current and deferred taxes and purchase price payable, assessing the allowance for doubtful accounts on trade receivables, estimating the fair value of share-based compensation and determining the values of financial instruments for disclosure purposes.

2. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

a) Fair value of investment property

Significant portions of the Company's operating assets are considered investment properties under IAS 40, Investment Property ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. The Company's revenue producing properties are classified as investment properties. Investment properties are initially measured at cost including transaction costs under IAS 40. However, subsequent to initial recognition, investment properties are recorded at fair value, which reflects an orderly transaction between market participants and current market conditions, at each financial position statement date. Gains and losses from changes in fair values are recorded in net income in the period in which they arise.

Leasing costs and lease incentives, which include costs incurred to make leasehold improvements to tenants' space, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction of investment properties revenue.

b) Deferred financing fees

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.

c) 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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

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, mortgages payable and the debt component of convertible debentures.

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, consisting of mortgages payable and loan payable, 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.

Impairment

The Company assesses at each statement of financial position date whether there is objective evidence that financial assets other than those designated as "fair value through profit and loss" are impaired. When impairment has incurred, the cumulative loss is recognized in the statement of comprehensive income (loss). For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive income (loss) in the year. Impairment losses may be reversed in subsequent years.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

The Company's financial assets and liabilities recorded at fair value on the statement of financial position have been categorized into three categories based on a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (ie. as prices) or indirectly (ie. derived from prices);

Level 3 - valuation techniques using inputs for the asset and liability that are not based on observable market data (unobservable inputs).

d) Share-based payments

Share-based compensation granted to directors, officers and employees is measured at the fair value of the grants on the grant date. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using an accepted option pricing model. IFRS requires an initial estimate of the number of equity settled instruments that are expected to vest based on expected forfeitures, and subsequently adjustments are made to the estimate to reflect the actual number of equity settled instruments that vest, unless forfeitures are due to market based vesting conditions. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The fair value of options granted to consultants is determined using fair value of the goods or services received. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Company cannot be reliably measured, they are measured at fair value of the equity instruments issued. The resulting value is charged to operations over the service period. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

e) Issue costs

The Company accounts for costs related to issuing equity as a charge against share capital in the period incurred.

f) Revenue recognition

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.

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. Step rent recorded on the statement of comprehensive income represents the difference between rental revenue recognized on a straight-line basis and the amount of rent contractually due under the lease agreements.

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 income is recognized in earnings on an accrual basis and to the extent not received at year end, recorded as a receivable.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

g) Income taxes

The IASB made amendments to IAS 12, Income Taxes ("IAS 12") that were applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40, Investment Property. The amendments, which were effective for annual periods beginning on or after January 1, 2012, introduced a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. This amendment had no impact on the financial statements of the Company as the Company's deferred tax assets and liabilities with respect to investment properties are measured using the presumption of recovery through sale.

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred 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 tax loss carryforwards, and are measured using the enacted or substantively enacted tax rates and laws expected to apply when these differences reverse.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

g) Income taxes (continued)

Income tax assets are recognized to the extent that management believes that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 deferred income tax assets and liabilities. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

h) Income (Loss) per share

Income (loss) per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted income (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the weighted average number of shares that would be issued on the conversion of all potentially dilutive options and warrants into common shares.

If the number of shares increases or decreases as a result of capitalization, bonus issue, share splits or share consolidation, earnings per share is accounted for retrospectively. If these transactions occur after the reporting period but prior to the issuance of the financial statements, income (loss) per share is calculated based on the new number of shares.

i) Related party transactions

All transactions with related parties are in the normal course of business and are measured at the amount agreed to by the parties involved in the transactions.

j) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

k) Contributed surplus

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants as well as transfers from the equity component of convertible debentures that have matured and whose equity option was not converted.

l) Future accounting changes

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of this standard and amendments on its financial statements.

IFRS 15, Revenue from Contracts and Customers ("IFRS 15") was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of IFRS 15 on its financial statements.

IFRS 16, Leases ("IFRS 16") replaces IAS 17 - Leases and requires lessees to account for leases on the statement of financial position by recognizing a right of use asset and a lease liability. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

3. Investment Properties

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Balance - beginning of year	\$ 43,800,000	\$ 34,077,708
Additions	1,370,781	5,959,419
Leasing costs	31,575	912,824
Leasing costs amortization	(189,716)	(144,996)
Accrued rent receivable	(132,352)	(3,248)
Fair value adjustments	(880,288)	3,576,001
Disposals	-	(577,708)
	<hr/>	<hr/>
Balance - end of year	<u>\$ 44,000,000</u>	<u>\$ 43,800,000</u>

The Company determines the fair value of each investment property internally based upon the direct capitalization income approach with reference to the direct comparison approach and external appraisers for additional support. The fair value is determined by applying a capitalization rate to stabilized net operating income which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the investment property. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the income and non-recoverable capital expenditures.

External appraisals for two of the three properties, representing \$43,100,000 of the total value, were obtained for March 31, 2015. At March 31, 2015 and December 31, 2014, the fair value was determined from the information directly from the external appraisals and applying updated capitalization rates determined from available market data, material leasing activity and material changes in local market conditions. Capitalization rates of 7.00% to 7.25% as at December 31, 2014 and rates of 7.00% to 7.25% at March 31, 2015 were used in helping to determine the fair value of the properties. The weighted average capitalization rates are 7.18% for December 31, 2014 and 7.18% for March 31, 2015. Management has assessed the underlying inputs and principles of the March 31, 2015 appraisal and noted no material changes for December 31, 2015. There have been minimal changes to the underlying principles which determine the appraisal value. Management will obtain a new appraisal if these conditions change. The properties are classified at Level 3 on the fair value hierarchy.

4. Other Amounts Receivable

Other amounts receivable include trade accounts receivable \$86,633 (December 31, 2014 - \$134,026) and taxes receivable of \$4,164 (December 31, 2014 - \$274,403).

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

5. Mortgages Payable

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Mortgage payable, bearing interest at 5.15%, repayable monthly in blended principal and interest payments of \$3,735, due December 1, 2018	\$ 424,099	\$ 446,447
Mortgage payable, bearing interest at prime plus 1.50%, repayable monthly in fixed principal payments of \$106,512 plus interest, due September 1, 2019	17,574,529	13,766,667
Mortgage payable, bearing interest at prime plus 1.50%, repayable monthly in fixed principal payments of \$27,969 plus interest, due September 1, 2019	<u>4,614,885</u>	<u>3,933,333</u>
	22,613,513	18,146,447
Unamortized mortgage financing costs	<u>(142,220)</u>	<u>(163,284)</u>
	<u>\$ 22,471,293</u>	<u>\$ 17,983,163</u>

The mortgage is secured by a general security agreement, the underlying revenue-producing properties, an assignment of rents and an assignment of fire insurance.

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization.

Principal repayments required under the terms of the mortgages are as follows:

2016	\$ 1,637,303
2017	1,638,544
2018	1,989,579
2019	<u>17,348,087</u>
	<u>\$22,613,513</u>

Gulf & Pacific Equities Corp.

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For the Years Ended December 31, 2015 and 2014

(Stated in Canadian Dollars)

6. Convertible Debentures

	December 31, 2015		December 31, 2014	
	Face value	Carrying amount	Face value	Carrying amount
8% - October 31, 2015 (i)	\$ -	\$ -	\$ 1,115,000	\$ 1,038,315
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,115,000</u>	<u>\$ 1,038,315</u>

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

- (i) This series of convertible debentures bore interest at 8%, matured October 31, 2015, were held by a related party and were unsecured. The related party, Ceyx Properties Ltd., and the Company are related by virtue of the fact that they have the same President. The debentures could have been converted by the holder into common shares of the Company at a conversion price of \$0.30 per share if converted prior to October 31, 2015.

The fair value of the debt component of the convertible debentures was estimated at issuance to be \$785,285 based on an effective rate of 18% and the residual allocated to the equity component was determined to be \$329,715.

During the year ended December 31, 2015, debentures amounting to \$1,115,000 were converted to common shares at a deemed price of \$0.30 per share. As a result the Company issued an aggregate 3,716,666 common shares. The balance of the equity component of the debentures was transferred to share capital.

During the year ended December 31, 2015, the Company incurred interest expense relating to this series of convertible debentures of \$74,334.

7. Purchase Price Payable

In December 2006, the Company acquired the Tri-City Mall in Cold Lake, Alberta and agreed to pay an additional \$658,776 if and when the property became fully leased at any time up to December 31, 2021. Since the Company expects to fully lease the property by this time, the contingency has been fully provided for and was added to the cost of the acquisition. As at December 31, 2015, the property was not fully leased.

Gulf & Pacific Equities Corp.

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For the Years Ended December 31, 2015 and 2014

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8. Loan Payable

During the year ended December 31, 2013, the Company received loan proceeds of \$2,500,000 from a related corporation, Ceyx Properties Ltd. During the year ended December 31, 2014, the Company received further proceeds of \$7,750,000 and also repaid \$4,500,000 of the balance outstanding. During the year ended December 31, 2015, the Company received further proceeds of \$2,250,000 and also repaid \$5,000,000 of the balance outstanding. The balance outstanding as at December 31, 2015 is \$3,000,000.

The loan is unsecured, has no fixed terms of repayment, with access to a maximum value of up to \$6,000,000, with interest payable at 6% per annum. Interest is accrued but not compounded. The loan is to be used for financing of the leasing and development of the investment properties, along with general working capital purposes. The companies are related by virtue of the fact that they have the same President. The related corporation is not a subsidiary.

9. Commitments

Minimum annual lease payments required under an operating lease are approximately as follows:

2016	\$	47,073
2017		49,416
2018		8,307
2019		-
2020		-
	\$	<u>104,796</u>

10. Share Capital

The Company is authorized to issue unlimited preference shares and unlimited common shares. The number of issued and outstanding common shares and unexercised options and convertible debentures at December 31, 2015 and December 31, 2014 are as follows:

Common shares	Number	Amount
Balance - January 1, 2014	8,970,011	\$ 2,845,212
Issued on exercise of options	120,000	49,212
Issued on conversion of debentures	8,390,820	3,081,563
Issued in lieu of cash for interest owed on debentures	93,188	32,620
Shares outstanding - December 31, 2014 ⁽¹⁾	17,574,019	\$ 6,008,607
Issued on conversion of debentures	3,716,666	1,444,715
Shares outstanding - December 31, 2015 ⁽²⁾	<u>21,290,685</u>	<u>\$ 7,453,322</u>

(1) Total diluted shares includes 891,000 of unexercised options and 3,716,667 of unexercised convertible debentures for total diluted shares of 22,181,686.

(2) Total diluted shares not presented as there is no dilution.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

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10. Share Capital (continued)

a) Share-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 10 years and the exercise prices and vesting provisions are determined by the Board of Directors.

A summary of the status of the Company's Plan as at December 31, 2015 and December 31, 2014 and the changes during the years are presented below:

	2015		2014	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of year	891,000	\$ 0.266	891,000	\$ 0.239
Granted	-	-	200,000	0.370
Exercised	-	-	(120,000)	0.250
Expired	-	-	(80,000)	0.250
Outstanding, end of year	891,000	\$ 0.266	891,000	\$ 0.266
Exercisable, end of year	891,000	\$ 0.266	891,000	\$ 0.266

- b) On April 25, 2014, the Company granted 200,000 stock options to directors, officers, and employees. Each option entitles the holder to purchase one share of the Company's common stock at a price of \$0.37 per share until April 25, 2024. The options vested upon grant. The estimated fair value of \$65,500 has been included in share-based compensation expense and contributed surplus. The share-based compensation expense for options issued to directors, officers and employees was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	2.50%
Expected life	10.0 years
Expected volatility	96%

Expected volatility is based on the historical volatility of the Company.

- c) No stock options were granted during the year ended December 31, 2015.

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10. Share Capital (continued)

At December 31, 2015, 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	2010	\$ 0.200	June 21, 2020
96,000	96,000	2011	\$ 0.215	April 20, 2021
100,000	100,000	2011	\$ 0.230	June 23, 2021
345,000	345,000	2012	\$ 0.260	April 30, 2022
200,000	200,000	2014	\$ 0.370	April 25, 2024
<u>891,000</u>	<u>891,000</u>			

11. Income Taxes

a) The major components of income tax expense are as follows:

	2015	2014
Deferred tax expense relating to origination and reversal of temporary differences and unused tax losses	\$ (56,000)	\$ 152,000
	<u>\$ (56,000)</u>	<u>\$ 152,000</u>

b) Income tax recovery attributable to the income (loss) differs from the amounts computed by applying the combined federal and provincial income tax rates of 26.3% (2014 - 25.8%) to the pretax income (loss) as a result of the following:

	2015	2014
Net income before income taxes	\$ (820,147)	\$ 2,421,952
Income taxes computed at statutory rates	(216,000)	625,000
Non-deductible expense	116,000	17,000
Change in tax rates	44,000	-
Difference in tax rates for capital gains	-	(491,000)
Other	-	1,000
Deferred income tax expense	<u>\$ (56,000)</u>	<u>\$ 152,000</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

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11. Income Taxes (continued)

- c) The continuity of deferred tax assets and liabilities recorded in the financial statements is as follows:

	January 1, 2015	Recognized in income (loss)	Recognized in equity	December 31, 2015
Deferred tax assets				
Unused tax losses	\$ 599,000	\$ (23,000)	\$ -	\$ 576,000
Financing costs	41,000	(24,000)	-	17,000
	640,000	(47,000)	-	593,000
Deferred tax liabilities				
Investment properties	(1,799,000)	83,000	-	(1,716,000)
Convertible debentures	(20,000)	20,000	-	-
	(1,819,000)	103,000	-	(1,716,000)
Net	\$ (1,179,000)	\$ 56,000	\$ -	\$ (1,123,000)
	January 1, 2014	Recognized in income (loss)	Recognized in equity	December 31, 2014
Deferred tax assets				
Unused tax losses	\$ 421,000	\$ 178,000	\$ -	\$ 599,000
Financing costs	-	41,000	-	41,000
	421,000	219,000	-	640,000
Deferred tax liabilities				
Investment properties	(1,309,000)	(490,000)	-	(1,799,000)
Convertible debentures	(135,000)	115,000	-	(20,000)
Financing costs	(4,000)	4,000	-	-
	(1,448,000)	(371,000)	-	(1,819,000)
Net	\$ (1,027,000)	\$ (152,000)	\$ -	\$ (1,179,000)

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

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12. Financial Instruments and Risk Management

Fair Value

The Company's trade accounts receivable, accrued rent receivable and other financial liabilities, which includes mortgages payable, loan payable, purchase price payable, the debt component of convertible debentures and accounts payable and accrued liabilities, are carried at amortized cost, which approximates fair value. Such fair value estimates may not necessarily be indicative of the amounts that the Company might pay or receive in actual market transactions.

Cash, trade accounts receivable, accrued rent receivable and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturities of these instruments. The valuation method is classified as Level 1 on the fair value hierarchy. Management has determined that the fair value of mortgages payable and debt components of convertible debentures does not differ from its carrying value as underlying interest rates are not materially different than current market conditions. The valuation method is classified as Level 2 on the fair value hierarchy. The Company has no financial instruments at Level 3.

The Company had no embedded derivatives requiring separate recognition as at December 31, 2015 and December 31, 2014.

The Company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair values of financial instruments); credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates such as changes in equity prices, commodity prices or credit spreads.

The Company manages market risk from the impact of changes in interest rates by funding assets with financial liabilities with similar interest rate characteristics.

The interest rates on 98% of the Company's mortgages payable are tied to the lender's prime lending rate. Changes in the lender's prime lending rate can cause fluctuations in the amounts of interest paid by the Company.

A change of 0.5% in the prime rate would impact the fair value of variable rate mortgages payable by approximately \$113,068 (December 31, 2014 - \$90,732).

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

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12. Financial Instruments and Risk Management (continued)

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. The Company believes that the credit risk of trade accounts receivable is minimal as the balance receivable is limited to only \$86,633 (December 31, 2014 - \$134,026).

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$66,000 (December 31, 2014 - \$60,000) which is due from related parties as described in note 14.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 13. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. The Company is subject to the risk associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt with maturities over an extended period of time.

As at December 31, 2015, the Company's financial liabilities include accounts payable and accrued liabilities, purchase price payable, loan payable and mortgages payable (note 5).

The following are estimated maturities of the Company's financial liabilities at December 31, 2015 with convertible debentures disclosed at their face value:

	2016	2017	2018	2019	2020	Total
Accounts payable and accrued liabilities	\$ 991,201	\$ -	\$ -	\$ -	\$ -	\$ 991,201
Loan payable	3,000,000	-	-	-	-	3,000,000
Mortgages payable	1,637,303	1,638,544	1,989,579	17,348,087	-	22,613,513
Purchase price payable	658,776	-	-	-	-	658,776
	<u>\$ 6,287,280</u>	<u>\$ 1,638,544</u>	<u>\$ 1,989,579</u>	<u>\$ 17,348,087</u>	<u>\$ -</u>	<u>\$ 27,263,490</u>

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13. Capital Management

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.

The Company sets the amount of capital in proportion to risk. The Company includes equity in its definition of capital. Equity is comprised of share capital, the equity component of convertible debentures, contributed surplus and retained earnings. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristic of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

14. Related Party Transactions

During the year ended December 31, 2015, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$6,000 (December 31, 2014 - \$6,000) and Ceyx Properties Ltd., \$12,000 (December 31, 2014 - \$12,732). The companies are related by virtue of the fact that they have the same President. As at December 31, 2015, included in accounts receivable is an amount of \$66,000 (December 31, 2014 - \$60,000) due from these related parties.
- b) Was charged consulting fees of \$130,172 (December 31, 2014 - \$131,992) by Greg K. W. Wong, an officer of the Company. As at December 31, 2015, accounts payable and accrued liabilities included \$12,657 (December 31, 2014 - \$Nil) of consulting fees payable to this officer.
- c) Incurred accounting fees of \$89,300 (December 31, 2014 - \$97,825) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at December 31, 2015, accounts payable and accrued liabilities included \$34,100 (December 31, 2014 - \$53,300) payable to this accounting firm.
- d) Other related party transactions are disclosed in note 6ii and note 8.

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.

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15. Management Compensation

Key management includes all directors (management and non-management directors) and the Chief Financial Officer. The Chief Executive Officer is a management director. The compensation paid or payable to key management for services is shown below:

	December 31, 2015	December 31, 2014
Salaries	\$ 175,680	\$ 181,000
Consulting	130,171	131,992
Directors fees	74,550	71,000
Share-based compensation	-	65,500
	<u>\$ 380,401</u>	<u>\$ 449,492</u>

16. Revenue

The Company enters into long-term lease contracts with tenants for space in its properties. Initial lease terms are generally between 5 and 10 years. Leases generally provide for the tenant to pay the Company base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating cost and realty tax recoveries.

Minimum rent payments under non-cancellable operating leases are as follows:

Not later than 1 year	\$ 2,885,196
Later than 1 year and not later than 5 years	8,495,009
Later than 5 years	<u>5,954,474</u>
	<u>\$ 17,334,679</u>

17. Administration

The administration account is broken down as follows:

	2015	2014
Bank and service charges	\$ 5,678	\$ 4,681
Office & general	69,373	63,175
Interest and other	-	7,436
Professional fees	309,902	329,872
Rent	78,641	78,307
Transfer and filing fees	27,557	30,345
Wages and benefits	310,188	311,793
	<u>\$ 801,339</u>	<u>\$ 825,609</u>