



GULF & PACIFIC EQUITIES CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2017

This Management Discussion and Analysis (“**MD&A**”) of Gulf & Pacific Equities Corp (the “**Company**”) provides analysis of the Company's financial results for the year ended December 31, 2017. The following information should be read in conjunction with the accompanying audited financial statements and the related notes for the year ended December 31, 2017 and the audited financial statements and the related notes for the year ended December 31, 2016.

The audited 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 December 31, 2017 audited 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 audited financial statements for the year ended December 31, 2017 and the December 31, 2016 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 April 26, 2018.

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 or the Company’s website at www.gpequities.com.

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..

Fourth Quarter and Year Ended December 31, 2017 Highlights

In the quarter and year ended December 31, 2017:

- At **Tri-City Mall**, the Company continues to negotiate with new national & local tenants for the remaining vacancies and working to fully lease the mall. The Company anticipates the opening of a financial services firm in Q2 of 2018.
- 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 with reduced rent for the current year. Future rents are subject to renegotiation.
- 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 December 31, 2017 the balance outstanding is \$4,242,000.

Overall Performance

Statements of Financial Position

On the Statements of Financial Position, total assets were \$40,863,892 as of December 31, 2017, compared to \$41,720,406 as of December 31, 2016.

The decrease of \$856,514 in total assets during the year is primarily due to a fair value adjustment of \$900,000 in discussion with the auditors and management as a result of decreased revenue in the St. Paul Shopping Centre. External appraisals were completed for two properties in the previous year and there is no change in the fair value for the Tri-City Mall. For the third property, management in consultation with external real estate brokers determined that no value adjustment is required. In addition to the fair value adjustment, the total assets decreased during the year due to decreases in cash, offset by increases in other amounts receivable, prepaid expenses, and investments.

The Company's cash balance decreased by \$71,508 during the year to \$108,709 at December 31, 2017, from \$180,217 as of December 31, 2016. The decrease is mostly due to the use of cash for the Company's normal operations in particular professional fees.

Other amounts receivable increased from \$101,133 at December 31, 2016 to \$134,976 as of December 31, 2017 due to outstanding receivables in common area and property taxes, and CRA receivables.

Total prepaid expenses for the Company increased to \$46,983 for December 31, 2017 compared to \$39,056 as of December 31, 2016.

Investment properties decreased to \$40,500,000 as of December 31, 2017 from \$41,400,000 as of December 31, 2016 as a result of a fair value adjustment on investment properties as determined by the auditors and management.

During the year ended 2017, the Company accepted common shares of a related company in exchange for outstanding receivables from the same related company. The value of the shares is \$73,224 as of December 31, 2017.

With respect to liabilities, mortgages payable decreased to \$19,546,915 as of December 31, 2017 from \$21,174,069 as of December 31, 2016 due to the amounts paid on the principal during the year.

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 December 31, 2017, 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 December 31, 2017, the Company had an outstanding loan obligation of \$4,242,000 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 companies are related by virtue of the fact that they have the same President. The related corporation is not a subsidiary.

The deferred income tax liability of \$1,040,000 as of December 31, 2017 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 \$1,251,897 as of December 31, 2017 from \$1,179,410 as of December 31, 2016 due to normal operations such as property taxes, common area expenses, and loan interest.

Total liabilities decreased to \$26,739,588 as of December 31, 2017 from \$27,455,255 as of December 31, 2016. This decrease is primarily due to decrease in mortgages payable as a result of repayment of the mortgages, partially offset by increase in loan payable, accounts payable and accrued liabilities from interest due on loan payable and property taxes due net of property taxes collected in advance.

Shareholders' equity was \$14,124,304 as of December 31, 2017 compared to \$14,265,151 as of December 31, 2016. The decrease was mainly due to the fair value adjustment.

Statements of Comprehensive Income

For the year ended December 31, 2017 revenue decreased to \$3,870,165 from \$4,011,189 for the year ended December 31, 2016. The decrease was mainly due to a decrease in step rent and rental revenue. Accordingly, rental income decreased by \$113,885 or 4.0% as a result of decreases in rent from Comark, Ardene, Red Apple and the closing of Extreme Clothing in 2016, offset by the opening of Bentley in the year. Step rent revenue decreased from \$101,394 in the year ended December 31, 2016 to \$25,625 in the year ended December 31, 2017, 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 \$48,777 or 4.7% for the year. Interest income decreased to \$302 for the year as a result of decreased cash available to earn interest as compared to the same period last year.

For the year ended December 31, 2017, expenses decreased to \$3,216,907 from \$3,377,927 for the year ended December 31, 2016, a decrease of \$161,020 or 4.8%. The primary reasons for the decrease in expenses are decreased operating cost and realty taxes of \$199,921 or 13.8% due to reduced spending on the properties and reduced administration of \$8,271 or 1.0%. This is offset by nominal increase in interest of \$11,295 and one time expenses for share-based compensation of \$27,741 and unrealized loss from investment of \$8,136.

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 year ended December 31, 2017 was \$653,258 compared to net income of \$633,262 for the year ended December 31, 2016. As a

result, basic and diluted net income per share before fair value adjustment and income taxes was \$0.03 per share for the year ended December 31, 2017, compared to basic and diluted net income per share before fair value adjustment and income taxes of \$0.03 per share for the year ended December 31, 2016.

Net loss and comprehensive loss for the year ended December 31, 2017 was \$168,588 compared to a net loss of \$1,739,809 for the year ended December 31, 2016. As a result, basic and diluted loss per share were \$0.01 in the year ended December 31, 2017 compared to loss of \$0.08 per share, basic and diluted, for the year ended December 31, 2016.

Statements of Cash Flow

On the statements of cash flows, cash provided by operations totaled \$1,823,828 for the year ended December 31, 2017 compared to cash provided by operations of \$1,865,982 for the year ended December 31, 2016.

Financing activities for the year ended December 31, 2017 recorded funds used of \$1,895,336 compared to funds used of \$1,768,900 for the year ended December 31, 2016. This is mostly due to payment of the mortgages payable during the year compared to funds provided from the loan payable to related party.

As at December 31, 2017, the Company had cash of \$108,709 compared to cash of \$180,217 as at December 31, 2016.

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, 2017, 2016 and 2015.

For the Years Ended December 31,	2017	2016	2015
	\$	\$	\$
Revenue	3,870,165	4,011,189	3,824,520
Net Income (Loss) before fair value adjustment and income taxes	653,258	633,262	60,141
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and diluted	0.03	0.03	-
Net Income (Loss) and Comprehensive Income (Loss)	(168,588)	(1,739,809)	(764,147)
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	(0.01)	(0.08)	(0.04)
Net Income (Loss) and Comprehensive Income (Loss), per share - fully diluted	(0.01)	(0.08)	(0.04)
Total Assets	40,863,892	41,720,406	44,249,230
Total Liabilities	26,739,588	27,455,255	28,244,270
Cash Dividends	-	-	-

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 January 1, 2016 to December 31, 2017.

For the Quarters Ended	2017				2016			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	945,750	969,800	1,016,014	938,601	888,369	1,011,817	1,106,499	1,004,504
Net Income (Loss) before fair value adjustment and income taxes	442,086	96,750	73,098	41,324	236,819	96,304	170,675	129,464
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and fully diluted	0.03	-	-	-	0.01	-	0.01	0.01
Net Income (Loss) and Comprehensive Income (Loss)	(386,646)	72,530	79,066	66,462	(2,023,866)	96,333	69,824	117,900
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	(0.01)	-	-	-	(0.09)	-	-	0.01
Net Income (Loss) and Comprehensive Income (Loss), per share - fully diluted	(0.01)	-	-	-	(0.09)	-	-	0.01

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

Liquidity and Capital Resources

The Company had cash of \$108,709 as of December 31, 2017 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 December 31, 2017, \$4,242,000 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.

Fourth Quarter 2017

Major events and results relating to the quarter ending December 31, 2017 are covered in the section "Fourth Quarter and Year Ended December 31, 2017 Highlights".

Changes in Accounting Policies

The Company did not adopt any new accounting standards in preparing these 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, 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 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 December 31, 2017, 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 year ended December 31, 2017 or the year ended December 31, 2016.

Related Party Transactions

During the year ended December 31, 2017, the Company:

- a) Charged rent at 1300 Bay Street to related parties, Plato Gold Corp., \$6,000 (2016 - \$6,000) and Ceyx Properties Ltd., \$12,000 (2016 - \$12,000). 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 December 31, 2017, included in accounts receivable is an amount of \$6,000 (2016 - \$72,000) due from these related parties.
- b) Was charged consulting fees for financial and management services of \$105,171 (2016 - \$130,172) by Greg K. W. Wong, an officer of the Company. As at December 31, 2017, accounts payable and accrued liabilities included \$108 (2016 - \$12,593) of consulting fees payable to this officer.
- c) Incurred accounting fees for bookkeeping and financial statement preparation of \$87,800 (2016 - \$91,700) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at December 31, 2017,

accounts payable and accrued liabilities included \$44,000 (2016 - \$41,000) payable to this accounting firm.

- d) Other related party transactions are disclosed in note 7 & 8 to the accompanying audited financial statements.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the 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 audited financial statements ended December 31, 2017 and in the notes to the audited consolidated financial statements ended December 31, 2016. The Company has lease obligations for its old offices until 2018. In February 2018, the Company moved to new offices and has lease obligations for its new offices until 2023.

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 global market is faced with uncertainty and unpredictability due to the protectionist agenda in the US and similar trends emerging in Europe. The recent actions by the US government are stoking fears of a possible trade war with Canada, Mexico and China. In addition, the NAFTA and Brexit negotiations will dominate the economic agenda in the coming year. As well, indications are that US interest rates will be going up in 2018. Looking forward, the market is anticipating increased volatility due to many unknown factors from the US government which will affect oil prices, inflation and interest rates.

Domestically, uncertainty with NAFTA will be a key focus for the Canadian economy in 2018. A potential trade war between the US and China will have collateral effect in Canada. The Canadian government recently reduced their GDP outlook and future infrastructure spending by the government will be dependent on attracting private sector investments from around the world in a growing competitive market for the same capital.

Pipeline politics will be an issue in Alberta's economy. The US has indicated a desire to support the oil pipeline and government investment in infrastructure in the US, but with US steel. Growing discontent in British Columbia for the pipeline and lack of action by the Canadian government, along with the winds of political change in Alberta are creating uncertainty of investments in the Alberta oil sector. As a result, it is likely that the Canadian interest rate will remain low in 2018.

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 into 2018. 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 an impact on local economies, it will be mitigated somewhat in these two regions due to its diversification.

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

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 year ended December 31, 2017, the Company continues to negotiate with new national tenants at the mall and 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, 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 is operating at a reduced rent for the current year and is subject to renegotiation with Red Apple Stores Inc. for future years.

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 December 31, 2017 the mortgages outstanding for the Cold Lake and St. Paul properties stand at \$19,256,894 for these two properties bearing interest at prime plus 1.5% and maturing on September 1, 2029. The Three Hills property has a mortgage balance of \$375,803 as at December 31, 2017, paying interest at 5.15% and maturing on December 1, 2018.

The Company has access to the loan with Ceyx of up to \$6 million to finance the redevelopment of the two malls and general operation of the Company, of which \$4,242,000 is outstanding as of December 31, 2017 and as of the date of this report.

The Company had cash of \$108,709 as of December 31, 2017 with 21,290,685 shares outstanding. The closing price of the Company's common shares on the TSXV on December 31, 2017 was \$0.31.

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, 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.

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 2018 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

April 26, 2018