
Condensed Interim Financial Statements

Gulf & Pacific Equities Corp.

**For the Three Months Ended March 31, 2018 and 2017
(Stated in Canadian Dollars)**

INDEX

Condensed Interim Statements of Financial Position	1
Condensed Interim Statements of Comprehensive Income	2
Condensed Interim Statements of Changes in Shareholders' Equity	3
Condensed Interim Statements of Cash Flow	4
Notes to the Condensed Interim Financial Statements	5

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Financial Position

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	March 31, 2018	December 31, 2017
Assets		
Cash	\$ 74,028	\$ 108,709
Other amounts receivable (note 3)	175,757	134,976
Prepaid expenses	37,182	46,983
Investment properties (note 4)	40,500,000	40,500,000
Investments (note 7)	65,088	73,224
	<u>\$ 40,852,055</u>	<u>\$ 40,863,892</u>
Liabilities		
Mortgages (note 5)	\$ 19,140,408	\$ 19,546,915
Purchase price payable (note 6)	658,776	658,776
Loan payable (note 8)	4,242,000	4,242,000
Deferred income taxes	1,044,000	1,040,000
Accounts payable and accrued liabilities	1,598,356	1,251,897
	<u>26,683,540</u>	<u>26,739,588</u>
Commitments (note 10)		
Subsequent Event (note 16)		
Shareholders' Equity		
Share Capital (note 11)	7,453,322	7,453,322
Contributed Surplus	2,812,409	2,812,409
Retained Earnings	3,902,784	3,858,573
	<u>14,168,515</u>	<u>14,124,304</u>
	<u>\$ 40,852,055</u>	<u>\$ 40,863,892</u>

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

Approved on behalf of the Board

"Anthony J. Cohen", Director "Greg K. W. Wong", Director

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Comprehensive Income

For the Three Months Ended March 31

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	2018	2017
Revenue		
Rental	\$ 666,456	\$ 675,887
Step rent	47,248	5,725
Common area and realty tax recoveries	251,697	256,687
Interest and other	301	302
	<u>965,702</u>	<u>938,601</u>
Expenses		
Interest	304,006	281,084
Operating costs and realty taxes	389,438	412,781
Administration	217,052	203,412
Unrealized Loss from Investments	8,136	-
	<u>918,632</u>	<u>897,277</u>
Net Income before fair value adjustment and income taxes	47,070	41,324
Fair value adjustment (note 4)	1,141	42,138
	<u>48,211</u>	<u>83,462</u>
Net Income before income taxes	48,211	83,462
Deferred income tax recoveries (expense)	(4,000)	(17,000)
	<u>\$ 44,211</u>	<u>\$ 66,462</u>
Net Income and Comprehensive Income		
	<u>\$ -</u>	<u>\$ -</u>
Earnings per Share - Basic (note 11b)		
	<u>\$ -</u>	<u>\$ -</u>
Earnings per Share - Diluted (note 11b)		
	<u>\$ -</u>	<u>\$ -</u>
Weighted Average Number of Common Shares Outstanding - Basic (note 11b)	21,290,685	21,290,685
Weighted Average Number of Common Shares Outstanding - Diluted (note 11b)	22,331,685	22,181,685

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Changes in Shareholders' Equity

For the Three Months ended March 31

(Stated in Canadian Dollars)

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - January 1, 2017	21,290,685	\$ 7,453,322	\$ 2,784,668	\$ 4,027,161	\$ 14,265,151
Net income and comprehensive income	-	-	-	66,462	66,462
Balance - March 31, 2017	21,290,685	\$ 7,453,322	\$ 2,784,668	\$ 4,093,623	\$ 14,331,613

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - January 1, 2018	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 3,858,573	\$ 14,124,304
Net loss and comprehensive loss	-	-	-	44,211	44,211
Balance - March 31, 2018	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 3,902,784	\$ 14,168,515

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Cash Flow

For the Three Months Ended March 31

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	2018	2017
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income (loss)	\$ 44,211	\$ 66,462
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	10,020	9,857
Deferred income tax expense (recoveries)	4,000	17,000
Amortization of deferred leasing costs	48,389	48,568
Accrued rent receivable	(47,248)	(5,725)
Interest expense	293,985	271,228
Fair value adjustment	6,995	(42,138)
	<u>360,352</u>	<u>365,252</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	9,801	-
Other amounts receivable	(40,781)	25,980
Accounts payable and accrued liabilities	284,398	183,509
	<u>613,770</u>	<u>574,741</u>
Financing Activities		
Repayment of mortgages payable	(416,027)	(409,517)
Interest paid	(231,924)	(220,139)
Financing costs paid	(500)	(705)
	<u>(648,451)</u>	<u>(630,361)</u>
Increase (Decrease) in cash	(34,681)	(55,620)
Cash - beginning of year	108,709	180,217
Cash - end of year	\$ 74,028	\$ 124,597

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

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(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.

1. Basis of Presentation

a) Statement of Compliance

The Company's interim condensed financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 condensed interim financial statements do not include all of the information required for annual financial statements.

The significant accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

The policies applied in the Company's financial statements are in accordance with International Financial Reporting Standards ("IFRS") effective as of March 31, 2018.

The Board of Directors approved these condensed consolidated interim financial statements on May 29, 2018.

b) 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:

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:

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

1. Basis of Presentation and Going Concern (continued)

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

i) Investment properties (continued)

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.

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.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies

The Company's complete accounting policies have been included in the financial statements for the year ended December 31, 2017. Accounting policies and methods of computation followed in the preparation of these condensed interim financial statements were the same as those applied by the Company in the annual financial statements as at and for the year ended December 31, 2017.

a) Changes in accounting standards effective January 1, 2018:

Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers, ("IFRS 15") replaced all pre-existing guidance, including, but not limited to IAS 11 Construction Contracts, IAS 18 Revenue, and IFRIC 15 Agreements for the Construction of Real Estate in IFRS related to revenue. IFRS 15 contains a single control-based model (the "model") that applies to contracts with customers and allows entities to recognize revenue at a point-in-time or over-time. The model consists of a 5-step analysis of transactions to determine whether, how much, and when revenue is recognized. IFRS 15 also includes additional requirements for revenue accounted for under the standard.

The Company adopted IFRS 15 effective January 1, 2018 and used the cumulative effect transition method; thus, the Company did not apply the requirements of IFRS 15 to the comparative period presented. The effect of applying IFRS 15 initially would have been recognized at January 1, 2018.

The Company completed its assessment of the effect of IFRS 15 and determined the pattern of revenue recognition will remain unchanged. The Company's assessment included an examination of contracts for all revenue streams, which includes base rent for the use of leased space and recoveries of common area costs and property taxes.

Revenue related to leased space is typically earned on a straight-line basis and revenue from the recovery of common area costs and property taxes is recognized over time, typically as the costs are incurred, which is when the services are provided.

Financial Instruments

IFRS 9 financial instruments ("IFRS 9") replaced IAS 39, Financial Instruments: recognition and Measurement. IFRS 9 includes guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedging requirements.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

a) Changes in accounting standards effective January 1, 2018 (continued)

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”), and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL. IFRS 9 permit entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

Classification and measurement of financial assets is dependent on the entity’s business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The following table summarizes the impact of the adoption of IFRS 9 on the classification of the Company’s financial assets and liabilities:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Investments	FVTPL	FVTPL
Other amounts receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Mortgages	Other liabilities at amortized cost	Amortized cost
Purchase price payable	Other liabilities at amortized cost	Amortized cost
Loan payable	Other liabilities at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost

ii. Impairment

IFRS 9 introduces a three-stage expected credit loss (“ECL”) model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires an entity to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset. The adoption of the ECL model did not have a material impact on the Company’s condensed interim financial statements.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

IAS 40 Investment Property

The IASB issued an amendment to IAS 40 Investment Property ("IAS 40") to clarify certain existing requirements in the standard. The amendments require an asset to be transferred to or from investment property only when a change in use occurs. A change in use occurs when a property meets or ceases to meet the definition of investment property and evidence of a change in use exists. The company adopted the amendment to IAS 40 effective January 1, 2018. The amendment did not have an impact on the Company's financial statements.

Amendments to IFRS 2 Share-based payments

In June 2016, the IASB issued amendments to IFRS 2 that clarify how to account for certain types of share-based payment transactions. Adoption of the amendments to IFRS 2 did not have an impact on the Company's financial statements.

b) Future accounting changes

IFRS 16, "Leases" is a new standard that sets out the principle for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirement in IAS 17, with enhanced disclosure requirement that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. The Company intends to adopt the new standard on the required effective date of January 1, 2019 without restatement of comparative information.

3. Other Amounts Receivable

Other amounts receivable includes amounts receivable of \$121,518 (December 31, 2017 - \$120,808) from Canada Revenue Agency, trade accounts receivable of \$53,160 (December 31, 2017 - \$13,372) and taxes receivable of \$1,079 (December 31, 2017 - \$796).

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Three Months Ended March 31, 2018
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

4. Investment Properties

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Balance - Opening	\$ 40,500,000	\$ 41,400,000
Leasing costs	-	776
Leasing costs amortization	(48,389)	(193,555)
Accrued rent receivable	47,248	25,625
Fair value adjustment	1,141	(732,846)
	<hr/>	<hr/>
Balance - Ending	\$ 40,500,000	\$ 40,500,000

The Company holds three investment properties and determines the fair value of each investment property based on external appraisals and internal review.

External appraisals for the three properties, totaling \$41,400,000, were obtained for the year ended December 31, 2016. As at March 31, 2018 and December 31, 2017, internal fair value for the three properties of \$40,500,000 was determined based on the direct capitalization income approach as defined below. Capitalization rates of 6.00% to 7.50% as at March 31, 2018 (December 31, 2017 – 6.00% to 7.50%) were used to determine the fair value of the properties. The weighted average capitalization rate for March 31, 2018 was 7.41% (December 31, 2017 - 7.41%).

As at December 31, 2017, management performed an assessment the underlying inputs and principles of the December 31, 2016 appraisals and noted a decrease in revenue on one of the properties; thus an internal review was completed for December 31, 2017. As a result, management recorded an aggregate fair value adjustment of \$732,846 to reduce the carrying value of the properties as at December 31, 2017. The adjustment resulted from a \$900,000 reduction of the fair value of one property, which was offset by a \$167,154 increase of fair value for the other two properties.

The internal fair values were based on 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.

Management will obtain new external appraisals if the conditions disclosed change. The Company has classified the three investment properties as level 3 based on the fair value hierarchy.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

5. Mortgages and Loan Payable

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Mortgage payable, bearing interest at 5.15%, repayable monthly in blended principal and interest payments of \$3,735, due December 1, 2018	\$ 369,410	\$ 375,803
Mortgage payable, bearing interest at prime plus 1.50%, repayable monthly in fixed principal payments of \$106,512 plus interest, due September 1, 2029	14,698,697	15,018,234
Mortgage payable, bearing interest at prime plus 1.50%, repayable monthly in fixed principal payments of \$27,969 plus interest, due September 1, 2029	3,859,722	3,943,629
Loan payable, bearing interest at prime plus 1.50%, repayable in monthly principal payments plus interest, due September 1, 2029	288,841	295,031
	19,216,670	19,632,697
Unamortized mortgage financing costs	<u>(76,262)</u>	<u>(85,782)</u>
	<u>\$ 19,140,408</u>	<u>\$ 19,546,915</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.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

6. 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 March 31, 2018, the property was not fully leased.

7. Financial instruments hierarchy and investments at fair value

Fair value measurements are based on a three-level fair value hierarchy based on inputs used in determining fair value of financial assets and liabilities. The hierarchy of inputs is summarized as follows:

Level 1 - inputs used to value financial assets and liabilities are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs used to value financial assets and liabilities are other than quoted prices included in Level 1 that are observable either directly or indirectly for the asset or liability.

Level 3 - inputs used to value financial assets and liabilities are not based on observable market data.

As at March 31, 2018, the Company holds 1,627,200 common shares of a related company at fair value \$65,088 (December 31, 2017 - \$73,224). Original cost of the investment was \$81,360. The aforementioned investment is classified as level 1 in the fair value hierarchy.

The Company did not record any transfers between fair value levels during the year.

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, 2016 the Company received further proceeds of \$492,000. During the year ended December 31, 2017, the Company received further proceeds of \$750,000.

The balance outstanding as at March 31, 2018 is \$4,242,000 (December 31, 2017 - \$4,242,000).

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.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

9. Reconciliation of movements of liabilities to cash flows arising from financing activities

	<u>Mortgage and Loan Payable</u>	<u>Loan Payable</u>	<u>Interest payable</u>
Balance - January 1, 2018	\$ 19,546,915	\$ 4,242,000	\$ 832,192
Proceeds	-	-	-
Payment of principal	(416,027)	-	-
Amortized deferred financing costs	9,520	-	-
Interest expense	231,924	-	62,061
Interest paid	(231,924)	-	-
Balance - March 31, 2018	<u>\$ 19,140,408</u>	<u>\$ 4,242,000</u>	<u>\$ 894,253</u>

10. Commitments

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

2018	26,961
2019	22,385
2020	22,385
2021	22,385
2022	22,385
2023	1,865
	<u>\$ 118,366</u>

11. Share capital and earnings per share

a) 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 at March 31, 2018 follows:

Common shares	Number	Amount
Shares outstanding - January 1, 2018	<u>21,290,685</u>	<u>\$ 7,453,322</u>
Shares outstanding - March 31, 2018	<u>21,290,685</u>	<u>\$ 7,453,322</u>

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

11. Share capital and earnings per share (continued)

b) Earnings per share

Basic earnings per share has been calculated using the weighted average number of shares outstanding 21,290,685 (March 31, 2017 - 21,290,685). As at March 31, 2018 diluted shares total 22,331,685 and includes 1,014,000 of unexercised options.

b) Earnings per share (continued)

Common shares	March 31, 2018	March 31, 2017
Net income	\$ 44,211	\$ 66,462
Basic and weighted average common shares outstanding - January 1	21,290,685	\$ 21,290,685
Basic and weighted average common shares outstanding - March 31	21,290,685	\$ 21,290,685
Basic earnings per share	\$ -	\$ -
Basic and weighted average common shares outstanding - March 31	21,290,685	21,290,685
Effect of unexercised options	1,041,000	891,000
Diluted weighted average common shares outstanding - March 31	22,331,685	22,181,685
Diluted earnings per share	\$ -	\$ -

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

12. Share-based compensation

- a) 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 March 31, 2018 and December 31, 2017 and the changes during the years is presented below:

	2018		2017	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding, beginning of period	1,041,000	\$ 0.257	891,000	\$ 0.266
Granted	-	-	150,000	0.205
Outstanding, end of period	1,041,000	\$ 0.257	,041,000	\$ 0.257
Exercisable, end of period	1,041,000	\$ 0.257	,041,000	\$ 0.257

- b) No stock options were granted during the three months ended March 31, 2018.

At March 31, 2018, 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
150,000	150,000	2017	\$ 0.205	April 26, 2027
<u>1,041,000</u>	<u>1,041,000</u>			

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Three Months Ended March 31, 2018
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

13. 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, 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, other amounts receivable and accrued rent receivable 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 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 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 increase or decrease the fair value of variable rate mortgages payable by approximately \$95,702 (December 31, 2017 - \$98,158).

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

13. 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 the amount receivable as at March 31, 2018 of \$175,757 (December 31, 2017 - \$134,976).

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$9,500 (December 31, 2017 - \$18,000), which is due from related parties as described in note 15.

Equity Risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company's investment in the common shares of a related company, Plato Gold Corp. is subject to fair value fluctuations arising from changes in the equity market. At March 31, 2018, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net loss would be approximately \$3,254 (December 31, 2017 - \$3,661).

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 14. 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 March 31, 2018, the Company's financial liabilities include accounts payable and accrued liabilities, purchase price payable, loan payable and mortgages payable.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

14. 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, 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.

Debt Covenants

The Company has certain financial covenants associated with their debt. Covenants are tested regularly, and the Company is in compliance with covenant requirements as at March 31, 2018. The Company's significant covenant is listed below:

	Financial Covenant	Requirement	As at March 31, 2018
Mortgage refinancing	Debts services coverage ratio	Not Less than 1.05x	1.05

15. Related Party Transactions

During the three months ended March 31, 2018, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$1,200 (March 31, 2017 - \$1,500) and Ceyx Properties Ltd., \$2,300 (March 31, 2017 - \$3,000). The companies are related by virtue of the fact that they have the same President. As at March 31, 2018, included in accounts receivable is an amount of \$9,800 (December 31, 2017 - \$6,000) due from these related parties.
- b) Was charged consulting fees of \$28,594 (March 31, 2017 - \$26,293) by Greg K. W. Wong, an officer of the Company. As at March 31, 2018, accounts payable and accrued liabilities included \$Nil (December 31, 2017 - \$108) of consulting fees payable to this officer.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Three Months Ended March 31, 2018

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

15. Related Party Transactions (continued)

c) Incurred accounting fees of \$15,000 (March 31, 2017 - \$15,000) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at March 31, 2018, accounts payable and accrued liabilities included \$56,750 (December 31, 2017 - \$44,000) owing to this accounting firm.

d) Other related party transactions information is disclosed in notes 7 & 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.

16. Subsequent Event

On April 4, 2018, the Company announced that it had converted its mortgages to fixed rates with Canadian Western Bank for the Company's St. Paul Shopping Centre in St. Paul and Tri-City Mall in Cold Lake, both in Alberta. Under the terms of the conversion, the mortgage will be fixed for 5 years with a rate of 5.26% maturing on September 1, 2023.