



GULF & PACIFIC EQUITIES CORP.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Quarterly Report for the nine and three months ended September 30, 2018

This Management Discussion and Analysis (“**MD&A**”) of Gulf & Pacific Equities Corp (the “**Company**”) provides analysis of the Company’s financial results for the nine and three months ended September 30, 2018. The following information should be read in conjunction with the accompanying unaudited condensed financial statements and the related notes for the three months ended September 30, 2018 and the audited consolidated financial statements and the related notes for the year ended December 31, 2017.

The unaudited condensed financial statements and related notes of the Company have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Refer to the Notes of the September 30, 2018 unaudited condensed financial statements for disclosure of the Company’s significant accounting policies. The Company’s functional and reporting currency is the Canadian dollar.

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

### **International Financial Reporting Standards**

The Company’s unaudited condensed financial statements for the quarter ended September 30, 2018 and the December 31, 2017 audited consolidated financial statements have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

### **Date of Report**

This report is prepared as of November 21, 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](http://www.sedar.com) or the Company’s website at [www.gpequities.com](http://www.gpequities.com).

Neither this document nor the unaudited condensed financial statements have been reviewed by the Company’s Auditors but they are subject to approval by the Company’s Board of Directors prior to filing and distribution to the shareholders.

## **Company Overview**

The Company was incorporated under the *Business Corporations Act* (Alberta) on April 8, 1998 and on June 17, 1998 filed Articles of Amendment to remove certain private corporation restrictions. The Company is listed on the TSX Venture Exchange (TSX-V: GUF). The Company commenced active operations during the 1999 fiscal year and is focused on the acquisition, management and development of anchored shopping centres in Western Canada.

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

## **Third Quarter 2018 Highlights**

In the Third Quarter 2018:

- 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.
- 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 September 30, 2018 the balance outstanding is \$4,547,000.

## **Overall Performance**

### Condensed Statements of Financial Position

On the Condensed Statements of Financial Position, total assets were \$40,809,818 as of September 30, 2018, compared to \$40,863,892 as of December 31, 2017. The decrease of \$54,074 in total assets during the quarter is primarily due to an increase in cash as a result of reduced mortgage payments and offset by decrease in other amounts receivable, prepaid expenses and investments.

The Company’s cash balance increased by \$72,216 during the nine months to \$180,925 at September 30, 2018, from \$108,709 as of December 31, 2017. The increase is mostly due to the reduced mortgage payments and cash provided from the Company’s normal operations.

Other amounts receivable decreased from \$134,976 at December 31, 2017 to \$42,895 as of September 30, 2018 due to the Company receiving the outstanding receivables in common area and property taxes, and CRA receivables.

Total prepaid expenses for the Company decreased to \$37,182 for September 30, 2018 compared to \$46,983 as of December 31, 2017.

Investment properties remained the same at \$40,500,000 as of September 30, 2018 and \$40,500,000 as of December 31, 2017.

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 \$48,816 as of September 30, 2018 compared to \$73,224 as of December 31, 2017.

With respect to liabilities, mortgages payable decreased to \$18,785,573 as of September 30, 2018 from \$19,546,915 as of December 31, 2017 due to the amounts paid on the principal during the nine months.

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 September 30, 2018, 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 September 30, 2018, the Company had an outstanding loan obligation of \$4,547,000 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 \$1,241,000 as of September 30, 2018 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 \$1,384,761 as of September 30, 2018 from \$1,251,897 as of December 31, 2017 due to normal operations such as property taxes, common area expenses, and loan interest.

Total liabilities decreased to \$26,617,110 as of September 30, 2018 from \$26,739,588 as of December 31, 2017. This decrease is primarily due to decrease in mortgages payable as a result of normal repayment of the mortgages, offset by increase in loan payable, deferred income taxes, and accounts payable and accrued liabilities.

Shareholders' equity was \$14,192,708 as of September 30, 2018 compared to \$14,124,304 as of December 31, 2017. The increase in shareholder's equity was mainly due to increase in retained earnings from the operations of the Company.

#### Condensed Statements of Comprehensive Income

For the three months ended September 30, 2018 revenue increased to \$1,005,051 from \$969,800 for the three months ended September 30, 2017. The increase was nominal mostly due to step rent offset by increases in rent and common area expenses for the quarter. Accordingly, rental income increased by \$15,954 or 2.3% as a result of increases in percentage rent during the quarter. Step rent revenue decreased from \$27,609 in the three months ended September 30, 2017 to \$8,572 in the three months ended September 30, 2018, 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 \$38,333 or 14.9% for the quarter. Interest income was \$nil for the quarter compared to \$nil for the same period last year.

For the three months ended September 30, 2018, expenses increased to \$947,181 from \$873,050 for the three months ended September 30, 2017, a increase of \$74,131 or 8.5%. The primary reasons for the increase in expenses is an increase in unrealized gain from investments, a non-cash item, as a result of decreased share value of investments. In addition, increase in interest of \$36,236 or 12.3% due to increase interest for loans payable, and increase in operating costs and realty taxes of \$37,762 or 9.8% due to spending on the properties during the quarter. Administration expenses decreased by \$24,275 or 12.6% due to share-based compensation of \$27,741 from the same period last year.

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 three months ended September 30, 2018 was \$57,870 compared to net income of \$96,750 for the three months ended September 30, 2017. As a result, basic and diluted net income per share before fair value adjustment and income taxes was \$nil per share for the three months ended September 30, 2018 and the three months ended September 30, 2017.

Net income and comprehensive income for the three months ended September 30, 2018 was a loss of \$66,480 for the three months ended September 30, 2018 compared to a gain of \$72,530 for the three months ended September 30, 2017. As a result, basic and diluted loss per share were \$nil per share in the three months ended September 30, 2018 compared to \$nil per share, basic and diluted, for the three months ended September 30, 2017.

### Condensed Statements of Cash Flow

On the condensed statements of cash flows, cash provided by operations totaled \$1,293,895 for the nine months ended September 30, 2018 compared to cash provided by operations of \$1,334,072 for the nine months ended September 30, 2017.

Financing activities for the nine months ended September 30, 2018 recorded funds used of \$1,221,678 compared to funds used of \$1,365,058 for the nine months ended September 30, 2017.

As at September 30, 2018, the Company had cash of \$180,925 compared to cash of \$108,709 as at December 31, 2017.

### **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.

<b>For the Years Ended December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	\$	\$	\$
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	-	-	-
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## Summary of Quarterly Results

The following selected financial data are derived from the unaudited quarterly financial statements of the Company, which were prepared in accordance with IFRS for the results from October 1, 2016 to September 30, 2018.

For the Quarters Ended	2018			2017			2016	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,005,051	1,021,065	965,702	945,750	969,800	1,016,014	938,601	888,369
Net Income (Loss) before fair value adjustment and income taxes	57,870	83,856	47,070	442,086	96,750	73,098	41,324	236,819
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and fully diluted	-	-	-	0.03	-	-	-	0.01
Net Income (Loss) and Comprehensive Income (Loss)	(66,480)	90,673	44,211	(386,646)	72,530	79,066	66,462	(2,023,866)
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	-	-	-	(0.01)	-	-	-	(0.09)
Net Income (Loss) and Comprehensive Income (Loss), per share - fully diluted	-	-	-	(0.01)	-	-	-	(0.09)

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

## Liquidity and Capital Resources

The Company had cash of \$180,925 as of September 30, 2018 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 September 30, 2018, \$4,547,000 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.

### **Third Quarter 2018**

Major events and results relating to the quarter ending September 30, 2018 are covered in the section "Third Quarter 2018 Highlights".

### **Changes in Accounting Policies**

The Company adopted IFRS 9 Financial Instruments ("IFRS 9") effective January 1, 2018. 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. Adoption of IFRS 9 did not have a material impact on the Company's financial statements.

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.

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. The amendment to IAS 40, which the Company adopted on the January 1, 2018 effective date did not have an impact on the Company's financial statements.

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.

## Financial Instruments

All of the Company's financial instruments are initially measured at fair value, with subsequent measurements dependent on the classification of each financial instrument as follows:

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

## Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of September 30, 2018, 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 nine and three months ended September 30, 2018 or the year ended December 31, 2017.

## Related Party Transactions

During the nine months ended September 30, 2018, the Company:

- a) Charged rent at 1300 Bay Street and 1240 Bay Street to related parties, Plato Gold Corp., \$2,400 (2017 - \$4,500) and Ceyx Properties Ltd., \$4,100 (2017 - \$9,000). 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 September 30, 2018, included in accounts receivable is an amount of \$10,400 (December 31, 2017 - \$6,000) due from these related parties.
- b) Was charged consulting fees for financial and management services of \$85,782 (2017 - \$78,879) by Greg K. W. Wong, an officer of the Company. As at September 30, 2018,

accounts payable and accrued liabilities included \$nil (December 31, 2017 - \$108) of consulting fees payable to this officer.

- c) Incurred accounting fees for bookkeeping and financial statement preparation of \$45,000 (2017 - \$70,575) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at September 30, 2018, accounts payable and accrued liabilities included \$9,000 (December 31, 2017 - \$44,000) payable to this accounting firm.
- d) Other related party transactions are disclosed in note 7 & 8 to the accompanying unaudited financial statements.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the particular related parties and the Company.

### **Contractual Obligations and Commitments**

The Company's contractual obligations and commitments consists of loans and mortgages which are disclosed in the notes to the unaudited condensed financial statements ended September 30, 2018 and in the notes to the audited consolidated financial statements ended December 31, 2017. 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 new USMCA agreement has reduced some uncertainties in the economy, but low oil prices and continued delays in pipeline constructions will impact the Alberta economy. As well, indications are that both Canadian and US interest rates will be going up in 2019.

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 continues to be an issue in Alberta's economy. Local governments in Canada and US continue to delay construction of pipelines. 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, the oil sector remains weak.

The central banks in the US and Canada are both talking up the potential for an increase in historic low interest rates for 2019. 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 up in the near future. However, any increase in interest rates in Canada will be low as many consumers who are already carrying record debts.

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 relative 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 in light of the recent increase in rates, the Company locked in a 5 year mortgage for its two key properties. 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 three months ended September 30, 2018, 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, Easy Financial, 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 September 30, 2018 the mortgages outstanding for the Cold Lake and St. Paul properties stand at \$18,485,421 for these two properties bearing interest at 5.26% and maturing on September 1, 2023. The Three Hills property has a mortgage balance of \$356,374 as at September 30, 2018, 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 \$4,547,000 is outstanding as of September 30, 2018 and as of the date of this report.

The Company had cash of \$180,925 as of September 30, 2018 with 21,290,685 shares outstanding. The closing price of the Company's common shares on the TSXV on September 30, 2018 was \$0.23.

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, Easy Financial, 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](http://www.gpequities.com).

Our business model of investing in anchored shopping centres, with a focus on everyday needs, remains our competitive advantage during good and difficult economic conditions.

In the last quarter the Company continues to focus on securing new leases based on the current interest by national and local tenants. Looking forward to 2019 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  
November 21, 2018