
Condensed Interim Financial Statements

Gulf & Pacific Equities Corp.

**For the Nine Months Ended September 30, 2020 and 2019
(Stated in Canadian Dollars)**

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NOTICE TO READER

The accompanying unaudited condensed interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these interim financial statements

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Financial Position

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	September 30, 2020	December 31, 2019
Assets		
Cash	\$ 184,534	\$ 283,625
Other amounts receivable (note 3)	188,905	196,679
Prepaid expenses	163,350	38,469
Right-of-use asset (note 6)	46,052	60,854
Investment properties (note 4)	39,600,000	39,600,000
Investments (note 8)	65,088	48,816
	<u>\$ 40,247,929</u>	<u>\$ 40,228,443</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 1,897,194	\$ 1,961,124
Mortgages (note 5)	20,632,229	17,836,171
Lease liability (note 6)	49,273	63,874
Loan payable (note 9)	1,347,000	4,347,000
Purchase price payable (note 7)	658,776	658,776
Deferred income taxes	1,140,000	1,069,000
	<u>25,724,472</u>	<u>25,935,945</u>
Shareholders' Equity		
Share Capital (note 11a)	7,453,322	7,453,322
Contributed Surplus	2,812,409	2,812,409
Retained Earnings	4,257,726	4,026,767
	<u>14,523,457</u>	<u>14,292,498</u>
	<u>\$ 40,247,929</u>	<u>\$ 40,228,443</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 Income (Loss) and Comprehensive Income (Loss)

For the Three and Nine Months Ended September 30

Unaudited - See Notice to Reader

Stated in Canadian dollars

	Nine months ended		Three months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue				
Rental	\$ 2,035,474	\$ 2,199,628	\$ 681,169	\$ 788,391
Step rent	(48,781)	(76,664)	(14,036)	(4,010)
Common area and realty tax recoveries	757,278	773,425	232,509	318,802
	<u>2,743,971</u>	<u>2,896,389</u>	<u>899,642</u>	<u>1,103,183</u>
Expenses				
Interest (note 5)	872,113	964,639	292,434	321,428
Operating costs and realty taxes	1,057,912	1,187,365	311,472	519,514
Administration	705,723	610,926	215,386	210,564
Amortization (note 6)	14,802	14,802	4,934	4,934
	<u>2,650,550</u>	<u>2,777,732</u>	<u>824,226</u>	<u>1,056,440</u>
Net Income (Loss) before fair value adjustment and income taxes	93,421	118,657	75,416	46,743
Unrealized gain (loss) from investments	16,272	8,136	8,136	(16,272)
Gain on write-off of accounts payable	-	28,397	-	431
Fair value adjustment (note 4)	192,266	221,845	62,476	52,403
	<u>301,959</u>	<u>377,035</u>	<u>146,028</u>	<u>83,305</u>
Net Income (Loss) before income taxes	301,959	377,035	146,028	83,305
Deferred income tax expense	(71,000)	(146,047)	(38,000)	(17,370)
	<u>230,959</u>	<u>230,988</u>	<u>108,028</u>	<u>65,935</u>
Net Income (Loss) and Comprehensive Income (Loss)	<u>\$ 230,959</u>	<u>\$ 230,988</u>	<u>\$ 108,028</u>	<u>\$ 65,935</u>
Income (Loss) per Share - Basic (note 11b)	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ -</u>
Income (Loss) per Share - Diluted (note 11b)	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ -</u>
Weighted Average Number of Common Shares Outstanding - Basic (note 11b)	<u>21,290,685</u>	<u>21,290,685</u>	<u>21,290,685</u>	<u>21,290,685</u>
Weighted Average Number of Common Shares Outstanding - Diluted (note 11b)	<u>21,534,185</u>	<u>21,786,685</u>	<u>21,440,685</u>	<u>21,786,685</u>

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 Nine Months Ended September 30

Unaudited - See Notice to Reader

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, 2019	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,225,865	\$ 14,491,596
Impact on adoption of IFRS 16	-	-	-	(1,880)	(1,880)
Net income and comprehensive income	-	-	-	230,988	230,988
Balance - September 30, 2019	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,812,409</u>	<u>\$ 4,454,973</u>	<u>\$ 14,720,704</u>

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - January 1, 2020	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,026,767	\$ 14,292,498
Net income and comprehensive income	-	-	-	230,959	230,959
Balance - September 30, 2020	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,812,409</u>	<u>\$ 4,257,726</u>	<u>\$ 14,523,457</u>

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 Nine Months Ended September 30

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	2020	2019
Cash Provided By:		
Operating Activities		
Comprehensive income (loss)	\$ 230,959	\$ 230,988
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	1,958	30,145
Amortization	14,802	14,802
Deferred income tax expense	71,000	146,047
Amortization of deferred leasing costs	145,319	145,181
Accrued rent receivable	48,781	76,664
Interest expense	870,096	934,493
Fair value adjustment	(208,539)	(229,981)
	<u>1,174,376</u>	<u>1,348,339</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	(124,881)	(1,287)
Other amounts receivable	7,774	11,723
Accounts payable and accrued liabilities	(169,478)	(47,382)
	<u>887,791</u>	<u>1,311,393</u>
Financing Activities		
Repayment of mortgages payable	(456,165)	(590,733)
Receipt of mortgage proceeds	3,000,000	-
Repayment of loan	(3,000,000)	-
Interest paid	(497,911)	(727,506)
Payment of lease liability	(16,789)	(16,788)
Financing costs paid	(14,184)	(5,000)
	<u>(985,049)</u>	<u>(1,340,027)</u>
Investing Activities		
Investment property expenditures	(1,833)	-
	<u>(99,091)</u>	<u>(28,634)</u>
Increase in cash	(99,091)	(28,634)
Cash - beginning of period	283,625	355,638
Cash - end of period	\$ 184,534	\$ 327,004

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 Nine Months Ended September 30, 2020 and 2019
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 condensed interim 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.

These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2019.

The policies applied in the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards ("IFRS") effective as of September 30, 2020 as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Directors on November 19, 2020.

b) Reclassification

Certain amounts in the prior period statements of income (loss) and comprehensive income (loss) have been reclassified to conform with current period presentation and provide more relevant information. The Company classified the following items in the prior period:

- For the nine months ended September 30, 2019, \$8,136 of unrealized gain from investments was reclassified from expenses to fair value adjustment.
- For the three months ended September 30, 2019, \$16,272 of unrealized loss from investments was reclassified from expenses to fair value adjustment.

Certain amounts in the prior period statements of cash flow have been reclassified to correct a presentation error. The Company classified the following items in the prior period:

- For the nine months ended September 30, 2019, the Company reclassified \$136,783 from accounts payable and accrued liabilities to interest expense within the operating activities section of the cash flow statement. As a result of the restatement, the Company reported interest expense adjustment of \$934,493 (previously \$797,710) and change in accounts payable and accrued liabilities of negative \$47,382 (previously positive \$89,401). This reclassification did not impact the total cash provided by operating activities.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
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1. Basis of Presentation and Going Concern (continued)

c) 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:

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 4.

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.

Gulf & Pacific Equities Corp.

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1. Basis of Presentation and Going Concern (continued)

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 and determining the values of financial instruments for disclosure purposes.

2. Summary of Significant Accounting Policies

The Company's complete accounting policies have been included in the audited financial statements for the year ended December 31, 2019. The accounting policies the Company 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, 2019.

3. Other Amounts Receivable

Other amounts receivable includes trade accounts receivable of \$188,905 (December 31, 2019 - \$196,679) and taxes receivable of \$Nil (December 31, 2019 - \$Nil).

4. Investment Properties

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Balance - Opening	\$ 39,600,000	\$ 40,500,000
Additions	1,833	-
Leasing costs	-	-
Leasing costs amortization	(145,319)	(193,575)
Accrued rent receivable	(48,781)	(173,083)
Fair value adjustment	192,267	(533,342)
Balance - Ending	<u>\$ 39,600,000</u>	<u>\$ 39,600,000</u>

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 September 30, 2020, internal fair value for the three properties of \$39,600,000 (December 31, 2019 - \$39,600,000) was determined based on the direct capitalization income approach as defined below. Capitalization rates of 7.00% to 7.25% as at September 30, 2020 (December 31, 2019 - 7.00% to 7.25%) were used to determine the fair value of the properties. The weighted average capitalization rate for September 30, 2020 was 7.15% (December 31, 2019 - 7.15%).

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4. Investment Properties (continued)

As at December 31, 2019, management performed an assessment of 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, 2019. As a result, management recorded an aggregate fair value adjustment of \$533,342 to decrease the carrying value of the properties as at December 31, 2019.

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 materially. The Company has classified the three investment properties as level 3 based on the fair value hierarchy.

The recent outbreak of COVID-19 (note 16) has resulted in governments enacting emergency measures to combat the spread of the virus. These measures which include the implementation of travel bans, self-imposed quarantine periods, and social distancing have caused material disruption to businesses resulting in a global economic disruption. As at September 30, 2020, the duration and eventual impact of the COVID-19 outbreak is unknown. It is currently not possible to estimate the long term impact that COVID-19 will have in determining estimates of fair market value for the Company's investment properties. The significant assumptions used in the assessment of fair value could potentially be impacted, all of which may impact the underlying valuation of the investment properties.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
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5. Mortgages

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Mortgage payable, bearing interest at 5.85%, repayable monthly in blended principal and interest payments of \$3,835, due December 1, 2023	\$ 302,825	\$ 323,479
Mortgage payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$112,710, due April 1, 2023	13,540,371	13,672,658
Mortgage payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$29,597, due April 1, 2023	3,555,558	3,590,295
Loan payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$2,215, due April 1, 2023	266,079	268,679
Non-revolving loan payable, bearing interest at 4.48%, repayable monthly in fixed principal payments of \$17,535 plus interest, due April 1, 2025	2,998,562	
	<hr/>	<hr/>
	20,663,395	17,855,111
Unamortized mortgage financing costs	<hr/> (31,166)	<hr/> (18,940)
	<u>\$ 20,632,229</u>	<u>\$ 17,836,171</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.

On April 2, 2020, the Company completed a \$3,000,000 non-revolving loan financing from Canadian Western Bank. The non-revolving loan is repayable in monthly payments of principal and interest, at a fixed rate of 4.48% for the first 5 years, starting August 1, 2020. The proceeds from the new loan were used to repay the principal on the existing loan payable disclosed in note 9.

The Company and Lender agreed to defer payments of interest and principal for 4 of the 5 mortgages during the months of April, May, and June of 2020. Interest continued to accrue on the deferred payments and regular payments resumed in July of 2020.

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization. For the nine months ended September 30, 2020, interest expense on the statement of income (loss) and comprehensive income (loss) includes amortized mortgage financing costs of \$1,958 (September 30, 2019 - \$30,145).

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6. Right-of-Use Asset and Lease Liability

a) Right-of-use asset

The following is the continuity of the cost and accumulated amortization of right-of-use asset as at and for the period ended:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Cost		
Balance, beginning of the period	\$ 80,590	\$ 80,590
Lease additions	-	-
Balance, end of the period	<u>\$ 80,590</u>	<u>\$ 80,590</u>
Accumulated amortization		
Balance, beginning of the period	\$ 19,736	\$ -
Amortization	14,802	19,736
Balance, end of the period	<u>\$ 34,538</u>	<u>\$ 19,736</u>
Carrying amount	<u>\$ 46,052</u>	<u>\$ 60,854</u>

b) Lease liability

The following is the continuity of the lease liability as at and for the period end:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Balance, beginning of the period	\$ 63,874	\$ 82,470
Lease additions	-	-
Lease payments	(16,789)	(22,384)
Interest expense on lease liability	2,188	3,788
Balance, end of the period	<u>\$ 49,273</u>	<u>\$ 63,874</u>

The Company used its incremental borrowing rate of 5.25% to measure the lease liability.

Future minimum lease payments under the lease liability are as follows:

	<u>September, 2020</u>	<u>December 31, 2019</u>
2020	\$ 5,596	\$ 22,385
2021	22,385	22,385
2022	22,385	22,385
2022	1,865	1,865
Total minimum lease payments	<u>52,231</u>	<u>69,020</u>
Less: future interest expense	(2,958)	(5,146)
Present value of minimum lease payments	<u>\$ 49,273</u>	<u>\$ 63,874</u>

Gulf & Pacific Equities Corp.

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7. Purchase Price Payable

In December 2006, the Company acquired the Tri-City Mall in Cold Lake, Alberta and agreed to pay an additional \$658,776 if and when the property became fully leased at any time up to December 31, 2021. Since the Company expects to fully lease the property by this time, the contingency has been fully provided for and was added to the cost of the acquisition. As at September 30, 2020 and December 31, 2019, the property was not fully leased.

8. 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 September 30, 2020, the Company holds 1,627,200 (December 31, 2019 - 1,627,200) common shares of a related company at a fair value of \$65,088 (December 31, 2019 - \$48,816). The companies are related by virtue of the fact that they have the same President and CFO. 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.

9. Loan Payable

The loan payable is due to a related corporation, Ceyx Properties Ltd. During the year ended December 31, 2019, the Company repaid \$200,000 of loan principal. During the nine months ended September 30, 2020, the Company further repaid \$3,000,000 of loan principal. The balance outstanding as at September 30, 2020 is \$1,347,000 (December 31, 2019 - \$4,347,000).

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.

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

	<u>Mortgages Payable</u>	<u>Loan Payable</u>	<u>Interest payable</u>
Balance - January 1, 2020	\$ 17,836,171	\$ 4,347,000	\$ 1,367,988
Proceeds	3,000,000	-	-
Payment of principal	(456,165)	(3,000,000)	-
Addition of deferred financing costs	(14,184)	-	-
Amortized deferred financing costs	1,958	-	-
Interest expense	762,360	-	105,547
Interest paid	(497,911)	-	-
Balance - September 30, 2020	<u>\$ 20,632,229</u>	<u>\$ 1,347,000</u>	<u>\$ 1,473,535</u>

As at September 30, 2020, interest payable of \$1,473,535 (December 31, 2019 - \$1,367,988) is included in accounts payable and accrued liabilities.

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 September 30, 2020 follows:

Common shares	<u>Number</u>	<u>Amount</u>
Shares outstanding - January 1, 2019, December 31, 2019 and September 30, 2020	21,290,685	\$ 7,453,322

Gulf & Pacific Equities Corp.

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11. Share capital and earnings per share (continued)

b) Earnings (loss) per share

Basic earnings (loss) per share has been calculated using the weighted average number of shares outstanding of 21,290,685 (September 30, 2019 - 21,290,685). As at September 30, 2020, diluted shares total 21,534,185 and includes 243,500 unexercised dilutive options.

	September 30, 2020	September 30, 2019
Net income	\$ 230,959	\$ 230,988
Basic weighted average common shares outstanding	<u>21,290,685</u>	<u>21,290,685</u>
Basic earnings per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Basic weighted average common shares outstanding	21,290,685	21,290,685
Effect of unexercised dilutive options	<u>243,500</u>	<u>496,000</u>
Diluted weighted average common shares outstanding	<u>21,534,185</u>	<u>21,786,685</u>
Diluted earning per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>

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 September 30, 2020 and December 31, 2019 and the changes during the years is presented below:

	2020		2019	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding and exercisable, beginning of period	1,041,000	\$ 0.257	1,041,000	\$ 0.257
Expired	<u>(167,500)</u>	<u>0.206</u>	-	-
Outstanding and exercisable, end of period	<u>873,500</u>	<u>\$ 0.267</u>	<u>1,041,000</u>	<u>\$ 0.257</u>

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12. Share-based compensation (continued)

During the nine months ended September 30, 2020, no stock options were granted and 167,500 stock options expired unexercised.

- b) As at September 30, 2020, 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
93,500	93,500	2011	\$ 0.215	April 20, 2021
100,000	100,000	2011	\$ 0.230	June 23, 2021
330,000	330,000	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>873,500</u>	<u>873,500</u>			

13. Financial Instruments and Risk Management

Fair Value

The Company's cash, other accounts receivable and other financial liabilities, which includes loan payable, purchase price payable, and accounts payable and accrued liabilities, are carried at amortized cost, which approximates fair value due to their short-term nature. Such fair value estimates may not necessarily be indicative of the amounts that the Company might pay or receive in actual market transactions.

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.

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13. Financial Instruments and Risk Management (continued)

Market Risk (continued)

The Company has fixed rate mortgages and as a result, fluctuations in interest rates does not have a significant impact on the Company as at September 30, 2020 and 2019. The Company is subject to fair value risk on its fixed rate mortgages.

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 September 30, 2020 of \$188,905 (December 31, 2019 - \$196,679).

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$151,795 (December 31, 2019 - \$10,622).

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 September 30, 2020, 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, 2019 - \$2,441).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become 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 September 30, 2020, the Company's financial liabilities include accounts payable and accrued liabilities, purchase price payable, loan payable and mortgages payable.

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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.

15. Related Party Transactions

During the nine months ended September 30, 2020, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$1,800 (2019 - \$1,800) and Ceyx Properties Ltd., \$2,700 (2019 - \$2,700). The companies are related by virtue of the fact that they have the same President. As at September 30, 2020, included in accounts receivable is an amount of \$13,334 (December 31, 2019 - \$11,300) due from these related parties.
- b) Was charged consulting fees of \$85,782 (2019 - \$85,782) by Greg K. W. Wong, an officer of the Company. As at September 30, 2020, accounts payable and accrued liabilities included \$Nil (December 31, 2019 - \$Nil) of consulting fees payable to this officer.
- c) Incurred accounting fees of \$93,500 (2019 - \$55,915) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at September 30, 2020, accounts payable and accrued liabilities included \$6,000 (December 31, 2019 - \$42,396) owing to this accounting firm.
- d) Other related party balances are disclosed in notes 8 and 9.

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

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16. COVID-19 Impact

In March 2020, the World Health Organization declared a global pandemic related to the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures which include the implementation of travel bans, self-imposed quarantine periods, and social distancing have caused material disruption to businesses resulting in a global economic disruption. At the same time, global equity markets have experienced historic volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize domestic economic conditions. The duration and eventual impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

COVID-19 has no physical impact on the three properties located in northern Alberta. However, COVID-19 does significantly impact the daily operations of the company, the operations of the tenants, the rental payments from tenants, the cost of operations at each property and the Company’s ability to access funds in the capital markets for financing.