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**Condensed Interim Financial Statements**

**Gulf & Pacific Equities Corp.**

**For the Nine Months Ended September 30, 2021 and 2020  
(Stated in Canadian Dollars)**

**INDEX**

<b>Condensed Interim Statements of Financial Position</b>	<b>1</b>
<b>Condensed Interim Statements of Income and Comprehensive Income</b>	<b>2</b>
<b>Condensed Interim Statements of Changes in Shareholders' Equity</b>	<b>3</b>
<b>Condensed Interim Statements of Cash Flow</b>	<b>4</b>
<b>Notes to the Condensed Interim Financial Statements</b>	<b>5 - 18</b>

**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

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# Gulf & Pacific Equities Corp.

Condensed Interim Statements of Financial Position

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	September 30, 2021	December 31, 2020
<b>Assets</b>		
Cash	\$ 101,196	\$ 147,875
Accounts receivable	217,505	257,165
Prepaid expenses	162,630	38,469
Right-of-use asset (note 5)	26,315	41,118
Investment properties (note 3)	39,600,000	39,600,000
Investments (note 7)	56,952	40,680
	<u>\$ 40,164,598</u>	<u>\$ 40,125,307</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,967,891	\$ 1,924,662
Mortgages (notes 4, 10)	19,549,655	20,366,484
Lease liability (note 5)	28,891	44,277
Loan payable (notes 8, 10)	1,697,000	1,347,000
Government loan payable (note 9)	37,639	-
Purchase price payable (note 6)	658,776	658,776
Deferred income taxes	1,075,000	1,060,000
	<u>25,014,852</u>	<u>25,401,199</u>
<b>Shareholders' Equity</b>		
Share Capital (note 11a)	7,453,322	7,453,322
Contributed Surplus	2,946,917	2,812,409
Retained Earnings	4,749,507	4,458,377
	<u>15,149,746</u>	<u>14,724,108</u>
	<u>\$ 40,164,598</u>	<u>\$ 40,125,307</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 and Comprehensive Income

For the Nine Months Ended September 30

Unaudited - See Notice to Reader

Stated in Canadian dollars

	Nine months ended		Three months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Revenue</b>				
Rental	\$ 2,048,212	\$ 2,035,474	\$ 718,085	\$ 681,169
Step rent	(26,820)	(48,781)	1,131	(14,036)
Common area and realty tax recoveries	880,490	757,278	309,923	232,509
	<u>2,901,882</u>	<u>2,743,971</u>	<u>1,029,139</u>	<u>899,642</u>
<b>Expenses</b>				
Interest (note 4)	848,897	872,113	286,501	292,434
Operating costs and realty taxes	1,162,822	1,203,231	370,052	360,003
Administration	517,691	560,404	173,118	166,855
Share-based compensation (note 12)	134,508	-	-	-
Amortization (note 5)	14,803	14,802	4,934	4,934
Less: Government grant (note 9)	(23,472)	-	-	-
	<u>2,655,249</u>	<u>2,650,550</u>	<u>834,605</u>	<u>824,226</u>
<b>Net Income before unrealized gain, fair value adjustment and income taxes</b>	246,633	93,421	194,534	75,416
Unrealized gain from investments	16,272	16,272	-	8,136
Fair value adjustment (note 3)	43,225	192,266	(19,509)	62,476
<b>Net Income before income taxes</b>	306,130	301,959	175,025	146,028
Deferred income tax expense	(15,000)	(71,000)	(29,000)	(38,000)
<b>Net Income and Comprehensive Income</b>	<u>\$ 291,130</u>	<u>\$ 230,959</u>	<u>\$ 146,025</u>	<u>\$ 108,028</u>
<b>Income per Share - Basic</b> (note 11b)	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
<b>Income per Share - Diluted</b> (note 11b)	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
<b>Weighted Average Number of Common Shares Outstanding - Basic</b> (note 11b)	<u>21,290,685</u>	<u>21,290,685</u>	<u>21,290,685</u>	<u>21,290,685</u>
<b>Weighted Average Number of Common Shares Outstanding - Diluted</b> (note 11b)	<u>22,190,685</u>	<u>21,534,185</u>	<u>22,340,685</u>	<u>21,440,685</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

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

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance - January 1, 2021</b>	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,458,377	\$ 14,724,108
Net income and comprehensive income	-	-	-	291,130	291,130
Share-based compensation (note 12)	-	-	134,508	-	134,508
<b>Balance - September 30, 2021</b>	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,946,917</u>	<u>\$ 4,749,507</u>	<u>\$ 15,149,746</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)

	2021	2020
<b>Cash Provided By:</b>		
<b>Operating Activities</b>		
Comprehensive income	\$ 291,130	\$ 230,959
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	2,381	1,958
Amortization	14,803	14,802
Deferred income tax expense	15,000	71,000
Amortization of deferred leasing costs	150,344	145,319
Step rent	26,820	48,781
Interest expense	845,406	870,096
Interest accretion	1,111	-
Government grant	(23,472)	-
Fair value adjustments	(59,497)	(208,539)
Share-based compensation	134,508	-
	<u>1,398,534</u>	<u>1,174,376</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	(124,161)	(124,881)
Accounts receivable	39,660	7,774
Accounts payable and accrued liabilities	(25,250)	(169,478)
	<u>1,288,783</u>	<u>887,791</u>
<b>Financing Activities</b>		
Repayment of mortgages payable	(814,210)	(456,165)
Advance of government loan payable	60,000	-
Receipt of mortgage proceeds	-	3,000,000
Receipt of loan proceeds	500,000	-
Repayment of loan	(150,000)	(3,000,000)
Interest paid	(775,524)	(497,911)
Payment of lease liability	(16,789)	(16,789)
Financing costs paid	(5,000)	(14,184)
	<u>(1,201,523)</u>	<u>(985,049)</u>
<b>Investing Activities</b>		
Investment property expenditures	(133,939)	(1,833)
	<u>(46,679)</u>	<u>(99,091)</u>
<b>Increase in cash</b>	<b>(46,679)</b>	<b>(99,091)</b>
<b>Cash - beginning of period</b>	<b>147,875</b>	<b>283,625</b>
<b>Cash - end of period</b>	<b>101,196</b>	<b>184,534</b>

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

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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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.

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.

## 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 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, 2020.

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, 2021 as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Directors on November 18, 2021.

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 1. Basis of Presentation (continued)

### b) Reclassification

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

- For the nine months ended September 30, 2020, \$145,319 of amortization of deferred leasing costs was reclassified from administration expenses to operating costs and realty taxes.
- For the three months ended September 30, 2020, \$48,531 of amortization of deferred leasing costs was reclassified from administration expenses to operating costs and realty taxes.

These reclassifications had no effect on the reported results of operations.

### 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.

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 1. Basis of Presentation (continued)

### c) Critical judgments, accounting estimates and assumptions (continued)

#### *i) Investment properties (continued)*

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 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, 2020. 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, 2020.

## 3. Investment Properties

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
<b>Balance - Opening</b>	\$ 39,600,000	\$ 39,600,000
Additions	-	-
Leasing costs	133,939	-
Leasing costs amortization	(150,344)	(193,575)
Accrued rent receivable	(26,820)	(62,728)
Fair value adjustment	43,225	256,303
<b>Balance - Ending</b>	<u>\$ 39,600,000</u>	<u>\$ 39,600,000</u>



# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 3. Investment Properties (continued)

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, 2021, internal fair value for the three properties of \$39,600,000 (December 31, 2020 - \$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, 2021 (December 31, 2020 - 7.00% to 7.25%) were used to determine the fair value of the properties. The weighted average capitalization rate for September 30, 2021 was 7.15% (December 31, 2020 - 7.15%).

As at September 30, 2021, management performed an assessment of the underlying inputs and principles of the December 31, 2016 appraisals. As a result, management recorded an aggregate fair value adjustment of \$43,225 to increase the carrying value of the properties as at September 30, 2021.

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 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, 2021, 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  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

## 4. Mortgages

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Mortgage payable, bearing interest at 5.85%, repayable monthly in blended principal and interest payments of \$3,835, due December 1, 2023	\$ 273,753	\$ 295,704
Mortgage payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$112,710, due April 1, 2023	12,884,314	13,379,105
Mortgage payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$29,597, due April 1, 2023	3,383,284	3,513,211
Loan payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$2,215, due April 1, 2023	253,189	262,910
Non-revolving loan payable, bearing interest at 4.48%, repayable monthly in fixed principal payments of \$17,535 plus interest, due April 1, 2025	2,788,137	2,945,956
	<u>19,582,677</u>	<u>20,396,886</u>
Unamortized mortgage financing costs	<u>(33,022)</u>	<u>(30,402)</u>
	<u>\$ 19,549,655</u>	<u>\$ 20,366,484</u>

The mortgages are 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 8.

Due to the impact of COVID-19, 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, 2021, interest expense on the statement of income and comprehensive income includes amortized mortgage financing costs of \$2,381 (2020 - \$1,958).

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

## 5. 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 end:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
<b>Cost</b>		
Balance, beginning of the period	\$ 80,590	\$ 80,590
Lease additions	-	-
Balance, end of the period	<u>\$ 80,590</u>	<u>\$ 80,590</u>
<b>Accumulated amortization</b>		
Balance, beginning of the period	\$ 39,472	\$ 19,736
Amortization	14,803	19,736
Balance, end of the period	<u>\$ 54,275</u>	<u>\$ 39,472</u>
<b>Carrying amount</b>	<u>\$ 26,315</u>	<u>\$ 41,118</u>

### b) Lease liability

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

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
<b>Balance, beginning of the period</b>	\$ 44,277	\$ 63,874
Lease additions	-	-
Lease payments	(16,789)	(22,385)
Interest expense on lease liability	1,403	2,788
<b>Balance, end of the period</b>	<u>\$ 28,891</u>	<u>\$ 44,277</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:

2021	\$	5,597
2022		22,385
2023		1,865
Total minimum lease payments		<u>29,847</u>
Less: future interest expense		(956)
Present value of minimum lease payments	\$	<u>28,891</u>

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements

For the Nine Months Ended September 30, 2021 and 2020

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

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## 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 September 30, 2021 and December 31, 2020, 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 September 30, 2021, the Company holds 1,627,200 (December 31, 2020 - 1,627,200) common shares of a related company at a fair value of \$56,952 (December 31, 2020 - \$40,680). 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 period.

## 8. Loan Payable

The loan payable is due to a related corporation, Ceyx Properties Ltd. During the year ended December 31, 2020, the Company repaid \$3,000,000 of loan principal. During the nine months ended September 30, 2021, the Company received additional loan proceeds of \$500,000 and repaid \$150,000 of the loan principal. The balance outstanding as at September 30, 2021 is \$1,697,000 (December 31, 2020 - \$1,347,000).

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.

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

---

## 9. Government Loan Payable

On February 2, 2021, the Company obtained a \$40,000 interest-free loan from the Government of Canada under the Canada Emergency Business Account ("CEBA") COVID-19 Economic Response Plan. The loan is interest free until December 31, 2022. If the Company has repaid at least \$30,000 of the loan balance by December 31, 2022, the remaining \$10,000 balance is forgiven. If \$30,000 of the loan is not repaid by December 31, 2022, an interest rate of 5% per annum is charged on the remaining balance with interest payable on the last day of each month and the outstanding loan balance payable in full by December 31, 2025.

The \$40,000 of loan proceeds were initially recorded at fair value of \$27,331 using an effective rate of 5% to determine the fair value of the interest-free period. The difference between the amount received in cash and the related fair value was recognized as a government grant on the statements of income and comprehensive income.

On April 14, 2021, the Company obtained additional \$20,000 of loan proceeds as part of the expansion of the CEBA program. The terms of the CEBA program were amended such that if the Company has repaid at least \$40,000 of the loan balance by December 31, 2022, the remaining \$20,000 balance is forgiven. The additional \$20,000 loan proceeds were initially recorded at fair value of \$9,197 using an effective rate of 5% to determine the fair value of the interest-free period. The difference between the amount received in cash and the related fair value was recognized as a government grant on the statements of statements of income and comprehensive income.

The summary of the residual value of the loan is as follows:

<b>Balance - January 1, 2021</b>	\$ -
Loan received	60,000
Fair value adjustment attributed to government grant	(23,472)
Payments	-
Interest accretion	1,111
<b>Balance - September 30, 2021</b>	<u><u>\$ 37,639</u></u>

As at September 30, 2021, the government loan payable has a face value of \$60,000.

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

## 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>
<b>Balance - January 1, 2021</b>	\$ 20,366,484	\$ 1,347,000	\$ 1,493,906
Proceeds	-	500,000	-
Payment of principal	(814,210)	(150,000)	-
Addition of deferred financing costs	(5,000)	-	-
Amortized deferred financing costs	2,381	-	-
Interest expense	775,524	-	68,480
Interest paid	(775,524)	-	-
<b>Balance - September 30, 2021</b>	<u>\$ 19,549,655</u>	<u>\$ 1,697,000</u>	<u>\$ 1,562,386</u>

As at September 30, 2021, interest payable of \$1,562,386 (December 31, 2020 - \$1,493,906) 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 at September 30, 2021 is as follows:

<b>Common shares</b>	<u>Number</u>	<u>Amount</u>
Shares outstanding - January 1, 2020, December 31, 2020 and September 30, 2021	<u>21,290,685</u>	<u>\$ 7,453,322</u>

### b) Earnings per share

For the nine months ended September 30, 2021, basic earnings per share has been calculated using the weighted average number of shares outstanding of 21,290,685 (2020 - 21,290,685).

For the nine months ended September 30, 2021, diluted earnings per share has been calculated using weighted average number of shares outstanding of 22,190,685 (2020 - 21,534,185) and includes 900,000 (2020 - 243,500) unexercised dilutive options.

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
 For the Nine Months Ended September 30, 2021 and 2020  
 Unaudited - See Notice to Reader  
 (Stated in Canadian Dollars)

## 11. Share capital and earnings per share (continued)

### b) Earnings per share (continued)

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Net income	\$ 291,130	\$ 230,959
Basic weighted average common shares outstanding	<u>21,290,685</u>	<u>21,290,685</u>
Basic & Diluted 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>900,000</u>	<u>243,500</u>
Diluted weighted average common shares outstanding	<u>22,190,685</u>	<u>21,534,185</u>
Diluted earnings 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, 2021 and December 31, 2020 and the changes during the years is presented below:

	<u>2021</u>		<u>2020</u>	
	<u>Options</u>	<u>Weighted Average exercise price per option</u>	<u>Options</u>	<u>Weighted Average exercise price per option</u>
Outstanding and exercisable, beginning of period	873,500	\$ 0.267	1,041,000	\$ 0.257
Granted/vested	900,000	0.180	-	-
Forfeited	-	-	(17,500)	0.254
Expired	<u>(193,500)</u>	<u>-</u>	<u>(150,000)</u>	<u>0.200</u>
Outstanding and exercisable, end of period	<u>1,580,000</u>	<u>\$ 0.223</u>	<u>873,500</u>	<u>\$ 0.267</u>

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 12. Share-based compensation (continued)

On April 23, 2021, the Company granted and issued an aggregate of 900,000 stock options to the Company's directors and officers. The stock options were granted in accordance with the Company's stock option plan and are exercisable for a period of ten (10) years from the date of issuance at an exercise price of \$0.18 per share. The stock options vested immediately upon issuance.

The share-based compensation expense for options issued to directors, officers and employees was determined based on the estimated fair value of the options at the grant date based on the Black-Scholes option pricing model, with the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.61%
Expected life	10 years
Expected volatility	84%
Stock price	\$0.18

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

During the nine months ended September 30, 2021, 193,500 stock options expired unexercised.

- b) As at September 30, 2021, 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:

<b>Outstanding</b>	<b>Exercisable</b>	<b>Year of grant</b>	<b>Exercise price per option</b>	<b>Expiry date</b>
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
900,000	900,000	2021	\$ 0.180	April 23, 2031
<u>1,580,000</u>	<u>1,580,000</u>			



# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 13. Financial Instruments and Risk Management

### Fair Value

The Company's cash, 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.

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, 2021. 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, 2021 of \$217,505 (December 31, 2020 - \$257,165).

Rent and common area and realty tax recoveries are past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$168,994 (December 31, 2020 - \$140,913).

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 13. Financial Instruments and Risk Management (continued)

### 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, 2021, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net income would be approximately \$2,848 (December 31, 2020 - \$2,034).

### 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, 2021, the Company's financial liabilities include accounts payable and accrued liabilities, purchase price payable, loan payable, government loan payable and mortgages.

## 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.

# Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements  
For the Nine Months Ended September 30, 2021 and 2020  
Unaudited - See Notice to Reader  
(Stated in Canadian Dollars)

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## 15. Related Party Transactions

During the nine months ended September 30, 2021, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$1,800 (2020 - \$1,800) and Ceyx Properties Ltd., \$2,700 (2020 - \$2,700). The companies are related by virtue of the fact that they have the same President. As at September 30, 2021, included in accounts receivable is an amount of \$15,600 (December 31, 2020 - \$13,800) due from these related parties.
- b) Was charged consulting fees of \$90,177 (2020 - \$85,782) Greg K. W. Wong, an officer of the Company. As at September 30, 2021, accounts payable and accrued liabilities included \$10,326 (December 31, 2020 - \$Nil) of consulting fees payable to this officer.
- c) Incurred accounting fees of \$63,500 (2020 - \$93,500) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at September 30, 2021, accounts payable and accrued liabilities included \$12,780 (December 31, 2020 - \$35,000) owing to this accounting firm.
- d) Other related party transactions and balances are disclosed in notes 7, 8 and 12.

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.