Condensed Interim Financial Statements

Gulf & Pacific Equities Corp.

For the Nine Months Ended September 30, 2022 and 2021
(Stated in Canadian Dollars)

INDEX

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, 2022	December 31, 2021 (Audited)
Assets		
Cash and cash equivalents	$ 1,430,215	$ 178,058
Accounts receivable	307,049	275,144
Sales tax receivable	69,266	-
Prepaid expenses	135,624	5,674
Right-of-use asset (note 5)	6,579	21,382
Investment properties (note 3)	46,238,444	43,500,000
Investments (note 6)	65,088	48,816
Other assets	71,124	51,448
	$ 48,323,389	$ 44,080,522
Liabilities		
Accounts payable and accrued liabilities	$ 3,952,408	$ 2,376,605
Mortgages (notes 4, 9)	21,412,082	19,272,565
Lease liability (note 5)	7,413	23,627
Loan payable (notes 7, 9)	2,147,000	1,697,000
Government loan payable (note 8)	37,640	38,099
Deferred income taxes	1,434,000	1,424,000
	28,990,543	24,831,896
Shareholders' Equity		
Share Capital (note 10a)	7,453,322	7,453,322
Contributed Surplus	2,946,917	2,946,917
Retained Earnings	8,932,607	8,848,387
	19,332,846	19,248,626
	$ 48,323,389	$ 44,080,522

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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue				
Rental	$ 2,069,842	$ 2,048,212	$ 690,698	$ 718,085
Step rent	(28,014)	(26,820)	(1,492)	1,131
Common area and realty tax recoveries	898,807	880,490	303,734	309,923
	2,940,635	2,901,882	992,940	1,029,139
Expenses				
Interest (note 4)	967,466	848,897	305,826	286,501
Operating costs and realty taxes	1,403,319	1,162,822	424,620	370,052
Administration	603,748	517,691	190,983	173,118
Share-based compensation (note 11)	-	134,508	-	-
Amortization (note 5)	14,802	14,803	4,934	4,934
	2,989,335	2,678,721	926,363	834,605
Net Income (Loss) before income taxes and the undernoted	(48,700)	223,161	66,577	194,534
Unrealized gain from investments	16,272	16,272	8,136	-
Gain on revaluation of government loan payable (note 8)	1,814	-	-	-
Government grant	-	23,472	-	-
Other income	19,676	-	10,809	-
Fair value adjustment (note 3)	105,158	43,225	(4,328)	(19,509)
Net Income before income taxes	94,220	306,130	81,194	175,025
Deferred income tax expense	(10,000)	(15,000)	(22,000)	(29,000)
Net Income and Comprehensive Income	$ 84,220	$ 291,130	$ 59,194	$ 146,025
Income per Share - Basic (note 10b)	$ -	$ 0.01	$ -	$ 0.01
Income per Share - Diluted (note 10b)	$ -	$ 0.01	$ -	$ 0.01
Weighted Average Number of Common Shares Outstanding - Basic (note 10b)	21,290,685	21,290,685	21,290,685	21,290,685
Weighted Average Number of Common Shares Outstanding - Diluted (note 10b)	21,717,302	22,190,685	21,771,093	22,340,685

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30
Unaudited - See Notice to Reader
(Stated in Canadian dollars)

	Share Capital		Contributed	Retained	
	Shares	Amount	Surplus	Earnings	Total
Balance - January 1, 2021	21,290,685	$ 7,453,322	$ 2,812,409	$ 4,458,377	$ 14,724,108
Share based compensation (note 11)	-	-	134,508	-	134,508
Net income and comprehensive income	-	-	-	291,130	291,130
Balance - September 30, 2021	21,290,685	$ 7,453,322	$ 2,946,917	$ 4,749,507	$ 15,149,746

	Share Capital		Contributed	Retained	
	Shares	Amount	Surplus	Earnings	Total
Balance - January 1, 2022	21,290,685	$ 7,453,322	$ 2,946,917	$ 8,848,387	$ 19,248,626
Net income and comprehensive income	-	-	-	84,220	84,220
Balance - September 30, 2022	21,290,685	$ 7,453,322	$ 2,946,917	$ 8,932,607	$ 19,332,846

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)

	2022	2021
Cash Provided By:		
Operating Activities		
Comprehensive income	$ 84,220	$ 291,130
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	2,649	2,381
Amortization	14,803	14,803
Deferred income tax expense	10,000	15,000
Amortization of deferred leasing costs	150,928	150,344
Step rent	28,014	26,820
Interest expense	931,091	845,406
Interest accretion	1,355	1,111
Gain on revaluation of government loan payable	(1,814)	-
Fair value adjustments	(121,430)	(59,497)
Government grant	-	(23,472)
Share-based compensation	-	134,508
	1,099,816	1,398,534
Changes in non-cash balances related to operations:		
Accounts receivable	(31,905)	39,660
Sales tax receivable	(69,266)	-
Prepaid expenses	(129,950)	(124,161)
Other assets	(19,676)	-
Accounts payable and accrued liabilities	1,448,228	(25,250)
	2,297,247	1,288,783
Financing Activities		
Repayment of mortgages payable	(849,782)	(814,210)
Advance of government loan payable	-	60,000
Receipt of mortgage proceeds	3,000,000	-
Receipt of loan	450,000	500,000
Repayment of loan payable	-	(150,000)
Interest paid	(802,941)	(775,524)
Payment of lease liability	(16,789)	(16,789)
Financing costs paid	(13,350)	(5,000)
	1,767,138	(1,201,523)
Investing Activities		
Investment property leasing costs	(73,784)	-
Investment property expenditures	(2,738,444)	(133,939)
	(2,812,228)	(133,939)
Increase in cash and cash equivalents	1,252,157	(46,679)
Cash and cash equivalents - beginning of period	178,058	147,875
Cash and cash equivalents - end of period	1,430,215	101,196
Cash and cash equivalents is comprised of:		
Cash	180,215	101,196
Cash equivalents	1,250,000	-
	1,430,215	101,196

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

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, 2021.

The polices applied in the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards ("IFRS") effective as of September 30, 2022 as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Directors on November 17, 2022.

b) Basis of Measurement

The Company's financial statements have been prepared on a going concern basis using the historical cost basis except for investment properties and investments which have been measured at fair value.

1. Basis of Presentation (continued)

c) Functional and Presentation Currency

The Company's functional currency is Canadian Dollars and the financial statements are presented in Canadian Dollars.

d) Reclassification

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

- For the nine months ended September 30, 2021, $23,472 of government grant was reclassified from the expense section to other income.

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

e) 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.

1. Basis of Presentation (continued)

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

i) Investment properties (continued)

Management reviews each appraisal (when obtained) and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an external appraisal is not obtained at the reporting date, management prepares internal valuations, for each investment property, to estimate the fair value.

Judgment is also applied in determining the extent and frequency of independent appraisals in order to determine fair values. The significant assumptions used by management in estimating the fair value of investment properties are set out in note 3.

In addition, the Company makes judgments with respect to whether tenant improvement expenditures represent an asset with a future economic benefit to the Company which impacts whether or not such amounts are treated as additions to the investment properties.

ii) Leases

The Company makes judgments in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property, are operating or finance leases. The Company has determined that all of its leases are operating leases.

Additional critical accounting estimates and assumptions include those used for estimating current and deferred taxes, certain accrued liabilities, 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, 2021. Except for the items described below, 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, 2021.

a) Cash and cash equivalents

Cash and cash equivalents includes balances with banks and term deposits that can be redeemed at any time.

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

b) Changes in accounting standards effective January 1, 2022

The IASB issued an amendment to IAS 16, Property, Plant and Equipment, to prohibit the deducting from property, plant and equipment amounts received from selling items produced while preparing an asset for its intended use. Instead, sales proceeds and its related costs must be recognized in profit or loss. The amendment will require companies to distinguish between costs associated with producing and selling items before the item of property, plant and equipment is available for use and costs associated with making the item of property, plant and equipment available for its intended use. The amendment is effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. The adoption of this amendment did not have any impact on the Company's condensed interim financial statements.

3. Investment Properties

	September 30, 2022	December 31, 2021
Balance - Opening	$ 43,500,000	$ 39,600,000
Leasing costs	73,784	151,447
Reduction in cost basis	-	(251,045)
Leasing costs amortization	(150,928)	(202,749)
Accrued rent receivable	(28,014)	(38,419)
Fair value adjustment	105,158	4,240,766
Construction in progress	2,738,444	-
Balance - Ending	$ 46,238,444	$ 43,500,000

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

During the period ended September 30, 2022, the Company began construction of a pad site on one of the investment properties. The costs associated with the construction are added to the investment properties balance and carried on a cost basis until the construction is completed and an estimated market value can be determined. As at September 30, 2022, the Company had incurred costs of $2,738,444 (December 31, 2021 - $Nil) for construction in progress which is included in investment properties.

As at September 30, 2022, management used a discounted cashflow approach performed by an external appraisal for one (1) of the properties that was appraised as at September 30, 2022. The external fair value of the appraised property remains the same as the appraisal performed for the same property as at December 31, 2021. As at September 30, 2022, management determined that there was no change in the fair value of the other property for which an external appraisal was obtained as of December 31, 2021.

3. Investment Properties (continued)

As at December 31, 2021, management used a discounted cash flow approach performed by an external appraisal for two (2) of the properties that are material to the financial statements. External appraisals for two of the three properties, totaling $43,100,000, were obtained as of December 31, 2021. As at December 31, 2021, the external fair value of $43,100,000 was determined for two properties based on a discounted cash flow approach. Internal rate of return of 8% to 8.25% and terminal capitalization rates of 7.00% to 7.25% as at December 31, 2021 were used to determine the fair value of the properties. The weighted average internal rate of return was 8.18% and weighted average terminal capitalization rate was 7.18% for December 31, 2021.

An external appraisal for the third property of $900,000 was obtained as of October 21, 2013. As at September 30, 2022 and December 31, 2021, internal fair value for the third property of $400,000 was determined based on the direct capitalization income approach using a capitalization rate of 7%.

Capitalized income approach: 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 obtains new external appraisals if the conditions disclosed change materially. As at September 30, 2022 and December 31, 2021, the Company valued one (1) investment property using this method which is classified as level 3 based on the fair value hierarchy.

Discounted cash flow method: Discount rates are applied to the forecasted cash flows reflecting the initial terms of the leases for the specific property and assumptions as to renewal and new leasing activity. The key assumptions are the normalized first year cash flows, the growth rate applied to the first year cash flows over the analysis period of the investment property, and the discount rate applied over the useful life of the investment property. As at September 30, 2022 and December 31, 2021, the Company valued two (2) investment properties using this method which is classified as level 3 based on the fair value hierarchy.

The discounted cash flow method includes a variety of inputs, variables, and assumptions as part of its valuation model. The most significant input included is the discount rate. As at September 30, 2022 and December 31, 2021, a 25-basis point increase in the discount rate would result in a $763,000 decrease in the estimated fair value of investment properties and a 25-basis point decrease in the discount rate would result in a $785,000 increase in the estimated fair value of the investment properties.

As at September 30, 2022, 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.

(Stated in Canadian Dollars)

4. Mortgages

	September 30, 2022	December 31, 2021
Mortgage payable, bearing interest at 5.85%, repayable monthly in blended principal and interest payments of $3,835, due December 1, 2023	$ 243,007	$ 266,278
Mortgage payable, bearing interest at 5.26%, repayable monthly in blended principal and interest payments of $112,710, due April 1, 2023	12,192,905	12,714,408
Mortgage payable, bearing interest at 5.26%, repayable monthly in blended principal and interest payments of $29,597, due April 1, 2023	3,201,727	3,338,668
Mortgage payable, bearing interest at prime plus 1%, requires interest only payments until March 4, 2023 and then repayable monthly in fixed principal payments of $12,500 plus interest, due March 4, 2027	3,000,000	-
Loan payable, bearing interest at 5.26%, repayable monthly in blended principal and interest payments of $2,215, due April 1, 2023	239,600	249,848
Non-revolving loan payable, bearing interest at 4.48%, repayable monthly in fixed principal payments of $17,535 plus interest, due April 1, 2025	2,577,711	2,735,530
	21,454,950	19,304,732
Unamortized mortgage financing costs	(42,868)	(32,167)
	$ 21,412,082	$ 19,272,565

The mortgages are secured by a general security agreement, the underlying revenue-producing properties, an assignment of rents and an assignment of fire insurance.

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization. For the nine months ended September 30, 2022, interest expense on the statement of income and comprehensive income includes amortized mortgage financing costs of $2,649 (2021 - $2,381).

(Stated in Canadian Dollars)

4. Mortgages (continued)

During the nine months ended September 30, 2022, the Company completed a $3,000,000 loan financing for the construction of a pad site at a Company property. Monthly interest only payments are payable on the loan for the first twelve (12) months after drawdown, at a variable rate of the Bank's prime lending rate plus 1%. As at September 30, 2022, the interest rate on the loan is 6.45%. Following, the interest only period, the loan is repayable in monthly payments of principal and interest based on an amortization period of twenty (20) years.

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 the right-of-use asset for office space as at and for the year ended:

	September 30, 2022	December 31, 2021
Cost		
Balance, beginning of the period	$ 80,590	$ 80,590
Lease additions	-	-
Balance, end of the year	$ 80,590	$ 80,590
Accumulated amortization		
Balance, beginning of the period	$ 59,208	$ 39,472
Amortization	14,803	19,736
Balance, end of the period	$ 74,011	$ 59,208
Carrying amount	$ 6,579	$ 21,382

b) Lease liability

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

	September 30, 2022	December 31, 2021
Balance, beginning of the period	$ 23,627	$ 44,277
Lease additions	-	-
Lease payments	(16,789)	(22,384)
Interest expense on lease liability	575	1,734
Balance, end of the period	$ 7,413	$ 23,627

(Stated in Canadian Dollars)

5. Right-of-Use Asset and Lease Liability (continued)

b) Lease liability (continued)

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:

2022	$	5,596
2023		1,865
Total minimum lease payments		7,461
Less: future interest expense		(48)
Present value of minimum lease payments	$	7,413

6. 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, 2022, the Company holds 1,627,200 (December 31, 2021 - 1,627,200) common shares of a related company at a fair value of $65,088 (December 31, 2021 - $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.

7. Loan Payable

The loan payable is due to a related corporation, Ceyx Properties Ltd. During the year ended December 31, 2021, the Company received additional loan proceeds of $500,000 and repaid $150,000 of the loan principal. During the nine months ended September 30, 2022, the Company received additional loan proceeds of $450,000. The balance outstanding as at September 30, 2022 is $2,147,000 (December 31, 2021 - $1,697,000).

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.

(Stated in Canadian Dollars)

8. 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 an 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.

During the nine months ended September 30, 2022, the repayment deadline for the CEBA loan to qualify for the partial loan forgiveness was extended from December 31, 2022 to December 31, 2023. An adjustment in the fair value of the loan resulted in a gain of $1,814 on the condensed interim statement of income and comprehensive income.

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

	September 30, 2022	December 31, 2021
Balance - beginning of the period	38,099	$ -
Loan received	-	60,000
Fair value adjustment	(1,814)	(23,472)
Payments	-	-
Interest accretion	1,355	1,571
Balance - end of the period	37,640	$ 38,099

As at September 30, 2022, the government loan payable has a face value of $60,000 (December 31, 2021 - $60,000).

(Stated in Canadian Dollars)

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

	Mortgages Payable	Loan Payable	Interest payable
Balance - January 1, 2022	$ 19,272,565	$ 1,697,000	$ 1,588,050
Proceeds	3,000,000	450,000	-
Payment of principal	(849,782)	-	-
Addition of deferred financing costs	(13,350)	-	-
Amortized deferred financing costs	2,649	-	-
Interest expense	880,024	-	82,863
Interest paid	(802,941)	-	-
Accrued interest	(77,083)	-	-
Balance - September 30, 2022	$ 21,412,082	$ 2,147,000	$ 1,670,913

As at September 30, 2022, interest payable of $1,670,913 (December 31, 2021 - $1,588,050) is included in accounts payable and accrued liabilities.

As at September 30, 2022, accrued interest of $77,083 (December 31, 2021 - $Nil) on the mortgages payable is included in accounts payable and accrued liabilities.

10. 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, 2022 is as follows:

Common shares	Number	Amount
Shares outstanding - January 1, 2021, December 31, 2021 and September 30, 2022	21,290,685	$ 7,453,322

b) Earnings per share

For the nine months ended September 30, 2022, basic earnings per share has been calculated using the weighted average number of shares outstanding of 21,290,685 (2021 - 21,290,685) and diluted earnings per share has been calculated using weighted average number of shares outstanding of 21,717,302 (2021 - 22,190,685) and includes 426,617 (2021 - 900,000) unexercised weighted average dilutive options.

(Stated in Canadian Dollars)

10. Share capital and earnings per share (continued)

b) Earnings per share (continued)

	September 30, 2022	September 30, 2021
Net income	$ 84,220	$ 291,130
Basic weighted average common shares outstanding	21,290,685	21,290,685
Basic & Diluted earnings per share	$ -	$ 0.01
Basic weighted average common shares outstanding	21,290,685	21,290,685
Effect of unexercised dilutive options	426,617	900,000
Diluted weighted average common shares outstanding	21,717,302	22,190,685
Diluted earnings per share	$ -	$ 0.01

11. 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, 2022 and December 31, 2021 and the changes during the years is presented below:

	2022		2021	
	Options	Weighted Average exercise price per option	Options	Weighted Average exercise price per option
Outstanding and exercisable, beginning of period	1,580,000	$ 0.223	873,500	$ 0.267
Granted/vested	-	-	900,000	0.180
Forfeited	-	-	-	-
Expired	(330,000)	0.260	(193,500)	0.223
Outstanding and exercisable, end of period	1,250,000	$ 0.213	1,580,000	$ 0.223

(Stated in Canadian Dollars)

11. 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 year ended December 31, 2021, 193,500 stock options expired unexercised.

During the nine months ended September 30, 2022, 330,000 stock options expired unexercised.

b) As at September 30, 2022, 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**
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
1,250,000	1,250,000			

12. Financial Instruments and Risk Management

Fair Value

The Company's cash, accounts receivable, other assets and other financial liabilities, which includes loan payable, government loan 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, 2022 and December 31, 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, 2022 of $307,049 (December 31, 2021 - $275,144).

Rent and common area and realty tax recoveries are past due when a tenant has failed to make a payment when contractually due. As at September 30, 2022, rent and common area and realty tax recoveries past due amounts to $264,422 (December 31, 2021 - $160,763).

12. 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, 2022, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net income would be approximately $2,441 (December 31, 2021 - $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 13. 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, 2022, the Company's financial liabilities include accounts payable and accrued liabilities, loan payable, lease liability, government loan payable and mortgages.

13. 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.

14. Related Party Transactions

During the nine months ended September 30, 2022, the Company:

a) Charged rent to related parties, Plato Gold Corp., $1,800 (2021 - $1,800) and Ceyx Properties Ltd., $2,700 (2021 - $2,700). The companies are related by virtue of the fact that they have the same President. As at September 30, 2022, included in accounts receivable is an amount of $18,000 (December 31, 2021 - $16,200) due from these related parties.

b) Was charged consulting fees of $106,492 (2021 - $90,117) Greg K. W. Wong, an officer of the Company. As at September 30, 2022, accounts payable and accrued liabilities included $12,077 (December 31, 2021 - $Nil) of consulting fees payable to this officer.

c) Incurred accounting fees of $58,500 (2021 - $63,500) from a company in which Paul Andersen, one of the Company's officers, is an officer. As at September 30, 2022, accounts payable and accrued liabilities included $68,150 (December 31, 2021 - $51,865) owing to this company.

d) Other related party transactions and balances are disclosed in notes 6, 7 and 11.

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.