
Condensed Interim Financial Statements

Gulf & Pacific Equities Corp.

**For the Nine Months Ended September 30, 2023 and 2022
(Stated in Canadian Dollars)**

INDEX

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

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, 2023	December 31, 2022 (Audited)
Assets		
Cash and cash equivalents	\$ 1,356,768	\$ 185,227
Accounts receivable	444,937	499,785
Prepaid expenses	148,275	5,674
Right-of-use asset (note 6)	33,230	1,645
Investment properties (note 4)	49,883,649	47,830,000
Interest receivable	22,234	-
Investments (note 7)	16,272	40,680
Other assets	53,452	53,452
	<u>\$ 51,958,817</u>	<u>\$ 48,616,463</u>
Liabilities		
Accounts payable and accrued liabilities	3,082,735	2,824,931
Mortgages (notes 5, 10)	23,486,960	21,122,881
Lease liability (note 6)	33,990	1,865
Loan payable (notes 8, 10)	2,147,000	2,147,000
Government loan payable (note 9)	39,516	38,095
Deferred income taxes	1,702,000	1,660,000
	<u>30,492,201</u>	<u>27,794,772</u>
Shareholders' Equity		
Share Capital (note 11a)	7,453,322	7,453,322
Contributed Surplus	2,946,917	2,946,917
Retained Earnings	11,066,377	10,421,452
	<u>21,466,616</u>	<u>20,821,691</u>
	<u>\$ 51,958,817</u>	<u>\$ 48,616,463</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 Three and Nine Months Ended September 30

Unaudited - See Notice to Reader

(Stated in Canadian dollars)

	Nine months ended		Three months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue				
Rental	\$ 2,178,961	\$ 2,069,842	\$ 764,761	\$ 690,698
Step rent	47,908	(28,014)	31,375	(1,492)
Common area and realty tax recoveries	955,686	898,807	338,783	303,734
	<u>3,182,555</u>	<u>2,940,635</u>	<u>1,134,919</u>	<u>992,940</u>
Expenses				
Interest (note 5)	1,192,967	967,466	435,544	305,826
Operating costs and realty taxes	1,436,792	1,403,319	438,388	424,620
Administration	621,384	603,748	187,991	190,983
Amortization (note 6)	14,303	14,802	4,747	4,934
	<u>3,265,446</u>	<u>2,989,335</u>	<u>1,066,670</u>	<u>926,363</u>
Net Income (Loss) before income taxes and the undernoted	(82,891)	(48,700)	68,249	66,577
Unrealized gain (loss) from investments	(24,408)	16,272	(16,272)	8,136
Gain on revaluation of government loan payable (note 9)	-	1,814	-	-
Other income	28,349	19,676	15,364	10,809
Fair value adjustment (note 4)	765,875	105,158	(53,770)	(4,328)
	<u>686,925</u>	<u>94,220</u>	<u>13,571</u>	<u>81,194</u>
Net Income before income taxes	686,925	94,220	13,571	81,194
Deferred income tax recovery (expense)	(42,000)	(10,000)	13,000	(22,000)
	<u>\$ 644,925</u>	<u>\$ 84,220</u>	<u>\$ 26,571</u>	<u>\$ 59,194</u>
Net Income and Comprehensive Income	\$ 644,925	\$ 84,220	\$ 26,571	\$ 59,194
Income per Share - Basic (note 11b)	\$ 0.03	\$ -	\$ -	\$ -
Income per Share - Diluted (note 11b)	\$ 0.03	\$ -	\$ -	\$ -
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>22,011,093</u>	<u>21,717,302</u>	<u>22,036,001</u>	<u>21,771,093</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, 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	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,946,917</u>	<u>\$ 8,932,607</u>	<u>\$ 19,332,846</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, 2023	21,290,685	\$ 7,453,322	\$ 2,946,917	\$ 10,421,452	\$ 20,821,691
Net income and comprehensive income	-	-	-	644,925	644,925
Balance - September 30, 2023	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,946,917</u>	<u>\$ 11,066,377</u>	<u>\$ 21,466,616</u>

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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)

	2023	2022
Cash Provided By:		
Operating Activities		
Comprehensive income	\$ 644,925	\$ 84,220
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	13,834	2,649
Amortization	14,303	14,803
Deferred income tax expense (recovery)	42,000	10,000
Amortization of deferred leasing costs	163,257	150,928
Step rent	(47,908)	28,014
Interest expense	1,177,712	931,091
Interest accretion	1,421	1,355
Gain on revaluation of government loan payable	-	(1,814)
Fair value adjustments	(741,467)	(121,430)
	1,268,077	1,099,816
Changes in non-cash balances related to operations:		
Accounts receivable	54,848	(31,905)
Interest receivable	(22,234)	(69,266)
Prepaid expenses	(142,601)	(129,950)
Other assets	-	(19,676)
Accounts payable and accrued liabilities	30,633	1,448,228
	1,188,723	2,297,247
Financing Activities		
Repayment of mortgages payable	(928,437)	(849,782)
Receipt of mortgage proceeds	3,300,000	3,000,000
Receipt of loan proceeds	-	450,000
Interest paid	(948,725)	(802,941)
Payment of lease liability	(15,578)	(16,789)
Financing costs paid	(21,319)	(13,350)
	1,385,941	1,767,138
Investing Activities		
Investment property leasing costs	(476,490)	(73,784)
Investment property expenditures	(926,633)	(2,738,444)
	(1,403,123)	(2,812,228)
Increase in cash	1,171,541	1,252,157
Cash - beginning of period	185,227	178,058
Cash - end of period	\$ 1,356,768	\$ 1,430,215
Cash and cash equivalents is comprised of:		
Cash	\$ 156,768	\$ 180,215
Cash equivalents	1,200,000	1,250,000
	\$ 1,356,768	\$ 1,430,215

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, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

1. Nature of Operations

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.

2. 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, 2022.

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, 2023 as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Directors on November 16, 2023.

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.

c) Functional and Presentation Currency

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

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

2. Basis of Presentation (continued)

d) 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.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

2. Basis of Presentation (continued)

d) Critical judgments, accounting estimates and assumptions (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, certain accrued liabilities, assessing the allowance for doubtful accounts on trade receivables and determining the values of financial instruments for disclosure purposes.

3. Material Accounting Policies

The Company's complete accounting policies have been included in the audited financial statements for the year ended December 31, 2022. 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, 2022.

a) Changes in accounting standards effective January 1, 2023

IAS 12 Income Taxes (Amendment)

In May 2021, the International Accounting Standards Board (IASB) issued amendments to the recognition exemptions under IAS 12 Income Taxes which were incorporated into Part I of the CPA Canada Handbook – Accounting in September 2021. The amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023, with early option permitted. The Company adopted the amendments effective January 1, 2023, with no material impact to the financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)

In February 2021, the International Accounting Standards Board (IASB) issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which were incorporated into Part I of the CPA Canada Handbook – Accounting in June 2021. The amendments introduce a new definition of 'accounting estimates' to replace the definition of 'change in accounting estimates' and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023, with early option permitted. The Company adopted the amendments effective January 1, 2023, with no material impact to the financial statements.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

4. Investment Properties

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Balance - Opening	\$ 47,830,000	\$ 43,500,000
Additions	152,984	2,820,544
Construction in progress	773,649	-
Leasing costs	476,490	97,913
Leasing costs amortization	(163,257)	(202,952)
Accrued rent receivable	47,908	(5,175)
Fair value adjustment	765,875	1,619,670
	<hr/>	<hr/>
Balance - Ending	<u>\$ 49,883,649</u>	<u>\$ 47,830,000</u>

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, 2023, the Company began construction of a pad site on one of the investment properties. The cost associated with the construction are added to the investment properties balance and are carried on a cost basis until the construction is completed and an estimated market value can be determined. As at September 30, 2023, the Company has incurred costs of \$773,649 for construction in progress which is included in investment properties.

During the period ended September 30, 2023, the Company performed improvements on one of the investment properties and incurred costs of \$152,984.

During the year ended December 31, 2022, the Company began and completed construction of a pad site on one of the investment properties and incurred costs of \$2,820,544.

As at September 30, 2023, management used a discounted cashflow approach performed by an external appraisal for two (2) of the properties that were appraised as at March 31, 2023 and June 30, 2022 at a total value of \$47,400,000. Management performed an assessment of the underlying inputs and principals of the June 30, 2022 appraisal and determined there was a \$300,000 reduction in fair value of the property as a result of an increase in the internal rate as at September 30, 2023. As at September 30, 2023, the fair value of \$47,100,000 was determined for two properties based on a discounted cash flow approach. Internal rate of return of 8.20% to 8.50% and terminal capitalization rates of 7.20% to 7.50% as at September 30, 2023 were used to determine the fair value of the properties. The weighted average internal rate of return was 8.43% and weighted average terminal capitalization rate was 7.43% for September 30, 2023.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

4. Investment Properties (continued)

As at December 31, 2022, management used a discounted cashflow approach performed by an external appraisal for two (2) of the properties that were appraised as at December 31, 2022 and June 30, 2022 at a total value of \$47,200,000. Management performed an assessment of the underlying inputs and principals of the June 30, 2022 appraisal and determined there was a \$300,000 reduction in fair value of the property as a result of an increase in the internal rate as at December 31, 2022. As at December 31, 2022, the fair value of \$46,900,000 was determined for two properties based on a discounted cash flow approach. Internal rate of return of 8.20% to 8.50% and terminal capitalization rates of 7.20% to 7.50% as at December 31, 2022 were used to determine the fair value of the properties. The weighted average internal rate of return was 8.43% and weighted average terminal capitalization rate was 7.43% for December 31, 2022.

An external appraisal for the third property of \$930,000 was obtained as of December 31, 2022 based on the direct capitalization income approach using a capitalization rate of 7%. As at December 31, 2022, the Company also obtained another appraisal of \$2,010,000 which was conditional on signing a new lease agreement with a new tenant, at substantially greater rents than the existing tenant, and performing certain improvements to the property. During the period ended September 30, 2023, the Company signed the lease agreement with the new tenant and completed the improvements to the property. Management performed an assessment of the underlying inputs and principals of the December 31, 2022 appraisal and determined that there was a \$1,080,000 increase in the fair value of the property as at September 30, 2023 as a result of increased cashflows.

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, 2023 and December 31, 2022, 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, 2023 and December 31, 2022, 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, 2023, a 25-basis point increase in the discount rate would result in a \$891,000 (December 31, 2022 - \$932,000) decrease in the estimated fair value of investment properties and a 25-basis point decrease in the discount rate would result in a \$771,000 (December 31, 2022 - \$722,000) increase in the estimated fair value of the investment properties.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

5. Mortgages

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Mortgage payable, bearing interest at 5.85%, repayable monthly in blended principal and interest payments of \$3,835, due December 1, 2023	\$ -	\$ 235,008
Mortgage payable, bearing interest at 6.98%, repayable monthly in blended principal and interest payments of \$92,745, due April 1, 2025	11,860,179	12,013,890
Mortgage payable, bearing interest at 6.98%, repayable monthly in blended principal and interest payments of \$23,924, due April 1, 2025	3,059,457	3,154,720
Mortgage payable, bearing interest at 6.98%, repayable monthly in blended principal and interest payments of \$23,187, due April 4, 2025	2,959,233	3,000,000
Mortgage payable, bearing interest at 5.26%, repayable monthly in blended principal and interest payments of \$2,215, due April 1, 2023 ¹	-	236,083
Mortgage payable, bearing interest at 4.48%, repayable monthly in fixed principal payments of \$17,535 plus interest, due April 1, 2025	2,367,286	2,525,105
Mortgage payable, bearing interest at 6.98%, requires interest only payments until April 28, 2024 and then repayable monthly in blended principal and interest payments of \$15,488, due April 28, 2025	2,000,000	-
Mortgage payable, bearing interest at 6.98%, repayable monthly in blended principal and interest payments of \$10,069, due May 4, 2025	1,290,214	-
	<u>23,536,369</u>	<u>21,164,806</u>
Unamortized mortgage financing costs	<u>(49,409)</u>	<u>(41,925)</u>
	<u>\$ 23,486,960</u>	<u>\$ 21,122,881</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.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

5. Mortgages (continued)

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization. For the period ended September 30, 2023, interest expense on the statement of income and comprehensive income includes amortized mortgage financing costs of \$13,834 (2022 - \$2,649).

During the year ended December 31, 2022, the Company completed a \$3,000,000 loan financing for the construction of a pad site at a Company property.

During the period ended September 30, 2023, the Company renewed its existing mortgages with a carrying value of \$18,080,724, bearing interest at 5.26% and maturing on April 1, 2023. The renewed mortgages bear interest at 6.98% and mature in April 2025.

During the period ended September 30, 2023, the Company obtained a \$1,300,000 mortgage for one of its existing investment properties and a \$2,000,000 mortgage for the renovation of a pad site on one of the investment properties.

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Cost		
Balance, beginning of the period	\$ 80,590	\$ 80,590
Lease additions	45,888	-
Balance, end of the period	<u>\$ 126,478</u>	<u>\$ 80,590</u>
Accumulated amortization		
Balance, beginning of the period	\$ 78,945	\$ 59,208
Amortization	14,303	19,737
Balance, end of the period	<u>\$ 93,248</u>	<u>\$ 78,945</u>
Carrying amount	<u>\$ 33,230</u>	<u>\$ 1,645</u>

b) Lease liability

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Balance, beginning of the period	\$ 1,865	\$ 23,627
Lease additions	45,888	-
Lease payments	(15,578)	(22,386)
Interest expense on lease liability	1,815	624
Balance, end of the period	<u>\$ 33,990</u>	<u>\$ 1,865</u>

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
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6. Right-of-Use Asset and Lease Liability (continued)

b) Lease liability (continued)

The Company used its incremental borrowing rate of 6.98% to measure the lease liability.

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

2023	\$	5,142
2024		20,570
2025		<u>10,285</u>
Total minimum lease payments		35,997
Less: future interest expense		<u>(2,007)</u>
Present value of minimum lease payments	\$	<u><u>33,990</u></u>

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, 2023, the Company holds 1,627,200 (December 31, 2022 - 1,627,200) common shares of a related company at a fair value of \$16,272 (December 31, 2022 - \$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, 2022, the Company received additional loan proceeds of \$450,000 and repaid \$Nil of the loan principal. The balance outstanding as at September 30, 2023 is \$2,147,000 (December 31, 2022 - \$2,147,000).

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, 2023 and 2022
Unaudited - See Notice to Reader
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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 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 year ended December 31, 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 statement of income and comprehensive income.

During the period end September 30, 2023, the repayment deadline for the CEBA loan was extended from December 31, 2023 to January 18, 2024.

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Balance - beginning of the period	\$ 38,095	\$ 38,099
Loan received	-	-
Fair value adjustment	-	(1,814)
Payments	-	-
Interest accretion	1,421	1,810
Balance - end of the period	<u>\$ 39,516</u>	<u>\$ 38,095</u>

As at September 30, 2023, the government loan payable has a face value of \$60,000 (December 31, 2022 - \$60,000).

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
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>
Balance - January 1, 2023	\$ 21,122,881	\$ 2,147,000	\$ 1,703,382
Proceeds	3,300,000	-	-
Payment of principal	(928,437)	-	-
Addition of deferred financing costs	(21,319)	-	-
Amortized deferred financing costs	13,834	-	-
Interest expense	1,074,225	-	96,351
Interest paid	(943,403)	-	-
Accrued interest	(130,821)	-	-
Balance - September 30, 2023	<u>\$ 23,486,960</u>	<u>\$ 2,147,000</u>	<u>\$ 1,799,733</u>

As at September 30, 2023, interest payable of \$1,799,733 (December 31, 2022 - \$1,703,382) is included in accounts payable and accrued liabilities.

As at September 30, 2023, accrued interest of \$130,821 (December 31, 2022 - \$96,190) on the mortgages payable 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 preferred shares and unlimited common shares. The number of issued and outstanding common shares at September 30, 2023 is as follows:

Common shares	<u>Number</u>	<u>Amount</u>
Shares outstanding - January 1, 2022, December 31, 2022 and September 30, 2023	<u>21,290,685</u>	<u>\$ 7,453,322</u>

b) Earnings per share

For the period ended September 30, 2023, basic earnings per share has been calculated using the weighted average number of shares outstanding of 21,290,685 (2022 - 21,290,685) and diluted earnings per share has been calculated using weighted average number of shares outstanding of 22,011,093 (2022 - 21,717,302) and includes 720,408 (2022 - 426,617) unexercised weighted average dilutive options.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
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, 2023</u>	<u>September 30, 2022</u>
Net income and comprehensive income	\$ 644,925	\$ 84,220
Basic weighted average common shares outstanding	<u>21,290,685</u>	<u>21,290,685</u>
Basic & Diluted earnings per share	<u>\$ 0.03</u>	<u>\$ -</u>
Basic weighted average common shares outstanding	21,290,685	21,290,685
Effect of unexercised dilutive options	<u>720,408</u>	<u>426,617</u>
Diluted weighted average common shares outstanding	<u>22,011,093</u>	<u>21,717,302</u>
Diluted earnings per share	<u>\$ 0.03</u>	<u>\$ -</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, 2023 and December 31, 2022 and the changes during the periods is presented below:

	<u>September 30, 2023</u>		<u>December 31, 2022</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	1,250,000	\$ 0.213	1,580,000	\$ 0.223
Granted/vested	-	-	(330,000)	0.260
Expired	-	-	-	-
Outstanding and exercisable, end of period	<u>1,250,000</u>	<u>\$ 0.213</u>	<u>1,250,000</u>	<u>\$ 0.213</u>

During the year ended December 31, 2022, 330,000 stock options expired unexercised.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

12. Share-based compensation (continued)

- b) As at September 30, 2023, 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
<u>1,250,000</u>	<u>1,250,000</u>			

13. Financial Instruments and Risk Management

Fair Value

The Company's cash and cash equivalents, accounts receivable, other assets and 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 due to their short terms to maturity. 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, 2023 and December 31, 2022. The Company is subject to fair value risk on its fixed rate mortgages.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

13. Financial Instruments and Risk Management (continued)

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. The Company believes that the credit risk of trade accounts receivable is minimal as the balance receivable is limited to the amount receivable as at September 30, 2023 of \$444,937 (December 31, 2022 - \$499,785).

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, 2023, rent and common area and realty tax recoveries past due amounts to \$365,338 (December 31, 2022 - \$227,573).

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, 2023, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net income would be approximately \$814 (December 31, 2022 - \$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, 2023, the Company's financial liabilities include accounts payable and accrued liabilities, loan payable, lease liability, government loan payable and mortgages.

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
For the Nine Months Ended September 30, 2023 and 2022
Unaudited - See Notice to Reader
(Stated in Canadian Dollars)

14. Capital Management

The Company's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and
- b) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

The Company sets the amount of capital in proportion to risk. The Company includes equity in its definition of capital. Equity is comprised of share capital, contributed surplus and retained earnings. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristic of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements.

15. Related Party Transactions

During the period ended September 30, 2023, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$1,800 (2022 - \$1,800) and Ceyx Properties Ltd., \$2,700 (2022 - \$2,700). The companies are related by virtue of the fact that they have the same President. As at September 30, 2023, included in accounts receivable is an amount of \$20,400 (December 31, 2022 - \$18,600) due from these related parties.
- b) Was charged consulting fees of \$121,261 (2022 - \$106,492) by Greg K. W. Wong, an officer of the Company. As at September 30, 2023, accounts payable and accrued liabilities included \$Nil (December 31, 2022 - \$Nil) of consulting fees payable to this officer.
- c) Incurred accounting fees of \$88,500 (2022 - \$58,500) from a company in which Paul Andersen, one of the Company's officers, is an officer. As at September 30, 2023, accounts payable and accrued liabilities included \$47,085 (December 31, 2022 - \$51,085) owing to this company.
- 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.