



GULF & PACIFIC EQUITIES CORP.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Quarterly Report for the nine and three months ended September 30, 2017

This Management Discussion and Analysis (“**MD&A**”) of Gulf & Pacific Equities Corp (the “**Company**”) provides analysis of the Company's financial results for the nine and three months ended September 30, 2017. The following information should be read in conjunction with the accompanying unaudited condensed financial statements and the related notes for the nine and three months ended September 30, 2017 and the audited consolidated financial statements and the related notes for the year ended December 31, 2016.

The unaudited condensed financial statements and related notes of the Company have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Refer to the Notes of the September 30, 2017 unaudited condensed financial statements for disclosure of the Company's significant accounting policies. The Company's functional and reporting currency is the Canadian dollar.

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

### **International Financial Reporting Standards**

The Company's unaudited condensed financial statements for the quarter ending September 30, 2017 and the December 31, 2016 audited consolidated financial statements have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

### **Date of Report**

This report is prepared as of November 22, 2017.

### **Forward Looking Statements**

This MD&A includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address the Company's ability to lease vacant property units, collect minimum rents, diversify its tenant base, undertake land intensification projects, refinance loans and mortgages at their maturity, complete accretive acquisitions and other events that impact the growth of the Company are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from

those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include interest rates, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Additional information including press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval (“**SEDAR**”) and are available online under our profile at [www.sedar.com](http://www.sedar.com) or the Company’s website at [www.gpequities.com](http://www.gpequities.com).

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

## **Company Overview**

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

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

## **Third Quarter 2017 Highlights**

In the third quarter 2017:

- At **Tri-City Mall**, the Company continues to negotiate with new national & local tenants for the remaining vacancies and working to fully lease the mall.
- At **St. Paul Shopping Centre**, management is pleased to report that the St. Paul Shopping Centre is fully leased in its current configuration.
- In **Three Hills**, Red Apple Stores Inc. continues to operate the premises as The Bargain Shop with reduced rent for the current year. Future rents are subject to renegotiation.
- In **Merritt**, the Company still holds a vacant lot with nominal value.

- The Company has a revolving unsecured loan agreement with Ceyx Properties Ltd. (“Ceyx”) for up to \$6 million at an annual interest rate of 6% with no fixed terms for repayment (the “Loan”). As of September 30, 2017 the balance outstanding is \$4,042,000.

## **Overall Performance**

### Condensed Interim Statements of Financial Position

On the Condensed Interim Statements of Financial Position, total assets were \$41,649,056 as of September 30, 2017, compared to \$41,720,406 as of December 31, 2016.

The decrease of \$71,350 in total assets during the nine months is primarily due to cash from drawdown of the loan payable, offset by the non-cash fair value adjustments to the investment properties, nominal decrease in rental revenue and step rent, decrease in account receivable, and the use of cash for operations.

The Company’s cash balance decreased by \$45,986 during the nine months to \$134,231 at September 30, 2017, from \$180,217 as of December 31, 2016. The decrease is mostly due to the drawdown of the loan payable offset by the use of cash for the Company’s normal operations.

Other amounts receivable decreased from \$101,133 at December 31, 2016 to \$75,769 as of September 30, 2017 due to decreased rent, common area and property taxes receivables.

Total prepaid expenses for the Company remained at \$39,056 for September 30, 2017 and December 31, 2016.

Investment properties value of \$41,400,000 is unchanged as of September 30, 2017 and December 31, 2016 as a result of external appraisals completed during the first quarter of 2017.

With respect to liabilities, mortgages payable decreased to \$19,952,847 as of September 30, 2017 from \$21,174,069 as of December 31, 2016 due to the amounts paid on the principal during the nine months.

The purchase price payable of \$658,776 represents an agreement whereby the Company is obliged to pay the amount if the Tri-City Mall becomes fully leased subsequent to the purchase. As at September 30, 2017, the property was not fully leased. Since the Company expects to fully lease the property in the future, this obligation has been fully provided for.

As September 30, 2017, the Company had an outstanding loan obligation of \$4,042,000 from a related corporation, Ceyx Properties Ltd. The loan is unsecured, with access to a maximum value of up to \$6,000,000 and interest payable of 6% per annum. Interest is accrued but not compounded. The companies are related by virtue of the fact that they have the same President. The related corporation is not a subsidiary.

The deferred income tax liability of \$1,021,000 as of September 30, 2017 represents the Company's future obligations due to the net of items including temporary differences between the accounting basis and the tax basis of the assets and liabilities, and tax loss carry forwards.

Accounts payable and accrued liabilities increased to \$1,463,582 as of September 30, 2017 from \$1,179,410 as of December 31, 2016 due to normal operations such as property taxes, common area expenses, and loan interest.

Total liabilities decreased to \$27,138,205 as of September 30, 2017 from \$27,455,255 as of December 31, 2016. This decrease is primarily due to decrease in mortgages payable as a result of repayment of the mortgages, partially offset by increase in loan payable, accounts payable and accrued liabilities from interest due on loan payable and property taxes due net of property taxes collected in advance.

Shareholders' equity was \$14,510,851 as of September 30, 2017 compared to \$14,265,151 as of December 31, 2016. The increase was due to an increase in retained earnings.

#### Condensed Interim Statements of Comprehensive Income

For the three months ended September 30, 2017 revenue decreased to \$969,800 from \$1,011,817 for the quarter ended September 30, 2016. The decrease was mainly due to a decrease in rental revenue and common area and realty tax recoveries, offset by an increase in step rent. Accordingly, rental income decreased by \$33,833 or 4.7% as a result of decrease percentage rent from a tenant. Common area and realty tax recoveries decreased by \$22,852 or 8.2% for the quarter. Step rent revenue increased from \$12,941 in the quarter ended September 30, 2016 to \$27,609 in the quarter ended September 30, 2017, a non-cash amount representing the straight line recognition of future rent increase for the new leases.

For the quarter ended September 30, 2017, expenses decreased to \$873,050 from \$915,513 for the quarter ended September 30, 2016, a decrease of \$42,463 or 4.6%. The primary reasons for the decrease in expenses are decreased operating costs and realty taxes of \$36,748 or 8.7% representing reduced operating expenditures in the quarter and administration decreased of \$11,494 or 5.6% due to decrease costs mostly related to management and operating fees for the quarter. Interest and financing costs increased by \$5,779 or 2.0% due to recent nominal increase in prime rate.

Overall, within the normal operations of the Company, expenses are holding steady and management remains focused on controlling costs and operating efficiently.

Net income before fair value adjustment and income taxes for the three months ended September 30, 2017 was \$96,750 compared to net income of \$96,304 for the quarter ended September 30, 2016. As a result, basic and diluted net income per share before fair value adjustment and income taxes was \$nil per share for the three months ended September 30, 2017 and for the quarter ended September 30, 2016.

Net income and comprehensive income for the three months ended September 30, 2017 was \$72,530 compared to a net income and comprehensive income of \$96,333 for the quarter ended September 30, 2016. As a result, basic and diluted income per share were \$nil in the three months ended September 30, 2017 compared to basic and diluted income of \$nil per share, for the quarter ended September 30, 2016.

#### Condensed Interim Statements of Cash Flow

On the condensed interim statements of cash flows, cash provided by operations totaled \$573,119 for the three months ended September 30, 2017 compared to cash provided by operations of \$666,643 for the quarter ended September 30, 2016.

Financing activities for the three months ended September 30, 2017 recorded funds used of \$646,244 compared to funds used of \$577,016 for the quarter ended September 30, 2016. This is mostly due to payment of the mortgages payable and interest paid during the quarter, offset by loan proceeds in the quarter ended September 30, 2016.

Investing activities recorded funds used of \$15,000 for the three months ended September 30, 2017 compared to funds used of \$35,400 for the same period last year.

As at September 30, 2017, the Company had cash of \$134,231 compared to cash of \$224,612 as at September 30, 2016.

#### **Selected Annual Information**

The following selected financial data for each of the three most recently completed financial years are derived from the audited annual financial statements of the Company, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) and presented for the years ended December 31, 2016, 2015 and 2014.

<b>For the Years Ended December 31,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	\$	\$	\$
Revenue	4,011,189	3,824,520	3,064,186
Net Income (Loss) before fair value adjustment and income taxes	633,262	60,141	(1,154,049)
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and diluted	0.03	-	(0.12)
Net Income (Loss) and Comprehensive Income (Loss)	(1,739,809)	(764,147)	2,269,952
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	(0.08)	(0.04)	0.23
Net Income (Loss) and Comprehensive Income (Loss), per share - fully diluted	(0.08)	(0.04)	0.09
Total Assets	41,720,406	44,249,230	44,420,954
Total Liabilities	27,455,255	28,244,270	28,766,847
Cash Dividends	-	-	-

## Summary of Quarterly Results

The following selected financial data are derived from the unaudited quarterly financial statements of the Company, which were prepared in accordance with IFRS for the results from October 1, 2015 to September 30, 2017.

	2017			2016				2015
For the Quarters Ended	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	969,800	1,016,014	938,601	888,369	1,011,817	1,106,499	1,004,504	716,534
Net Income (Loss) before fair value adjustment and income taxes	96,750	73,098	41,324	236,819	96,304	170,675	129,464	22,453
Net Income (Loss) before fair value adjustment and income taxes, per share - basic and fully diluted	-	-	-	0.01	-	0.01	0.01	-
Net Income (Loss) and Comprehensive Income (Loss)	72,530	79,066	66,462	(2,023,866)	96,333	69,824	117,900	241,175
Net Income (Loss) and Comprehensive Income (Loss), per share - basic	-	-	-	(0.09)	-	-	0.01	0.02
Net Income (Loss) and Comprehensive Income (Loss), per share - fully diluted	-	-	-	(0.09)	-	-	0.01	0.01

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

## Liquidity and Capital Resources

The Company had cash of \$134,231 as of September 30, 2017 which is sufficient to cover the Company's near term cash requirements. If additional capital resources are required, management believes that it has the ability to raise sufficient funds for the continuation of operations. While management has been historically successful in raising the necessary capital, it cannot provide assurance that it will be able to obtain the required financing.

The Company has commitments for capital expenditures related to the landlord's work in securing the new tenants. The Company currently has access of up to \$6,000,000 in loan proceeds from a related party. As at September 30, 2017, \$4,042,000 is outstanding on this loan.

The Company is committed under lease contract for the rental of its office premises in Toronto.

To date, the Company has not paid any dividends on its shares and as of the date of this MD&A does not plan to pay dividends in the immediate future.

The Company's objectives when managing capital are:

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

### **Third Quarter 2017**

Major events and results relating to the quarter ending September 30, 2017 are covered in the section "Third Quarter 2017 Highlights".

### **Changes in Accounting Policies**

The Company did not adopt any new accounting standards in preparing these condensed financial statements.

### **Financial Instruments**

IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") requires classification of financial instruments into one of the following categories: financial assets and liabilities at fair value through profit and loss, held-to-maturity investments, loans and receivables, available-for-sale and other financial liabilities. The Company determines the classification of its financial assets and liabilities at initial recognition.

All of the Company's financial instruments are initially measured at fair value, with subsequent measurements dependent on the classification of each financial instrument. Financial assets at fair value through profit or loss include cash which is measured at fair value and all gains and losses are included in net loss in the period in which they arise. Other amounts receivable and accrued rent receivable are recorded at amortized cost. The Company has no financial assets classified as available-for-sale or as held-to-maturity. Other financial liabilities at amortized cost include accounts payable and accrued liabilities, mortgages payable, and loans payable.

Financial instruments with substantive characteristics of both a financial liability and equity instrument are accounted for through separate classification of the liability and equity elements. The debt component is recognized at fair value and the residual value is allocated to the conversion feature, classified as equity. The initial liability balance recognized is less than the face value of the debt. Therefore, the liability balance is accreted over the term of the debt. The accretion represents the amortization of the debt discount net of actual interest paid. The accretion of the original debt discount is charged to interest expense over the term of the debt using the effective interest rate method. Transaction costs are allocated to the liability and equity elements in proportion to the allocation of the proceeds.

Long-term debt is initially recognized at fair value less directly attributable transactions costs. After initial recognition, long-term debt is subsequently measured at amortized cost using the effective interest rate method.

The Company finances operations and capital acquisitions through the issuance of common shares, convertible debentures and warrants. The debt component of the convertible debentures is reflected as a financial liability and the equity component of the convertible debenture is included in shareholders' equity.

### **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares without par value. As of September 30, 2017, the Company had issued and outstanding 21,290,685 common shares with a recorded value of \$7,453,322.

The Company is also authorized to issue an unlimited number of preference shares without par value, of which none have been issued.

### **Off-Balance Sheet Arrangements**

The Company had no off-balance sheet transactions for the nine and three months ended September 30, 2017 or the year ended December 31, 2016.

### **Related Party Transactions**

During the nine months ended September 30, 2017, the Company:

- a) Charged rent at 1300 Bay Street to related parties, Plato Gold Corp., \$4,500 and Ceyx Properties Ltd., \$9,000. The companies are related parties of the Company by virtue of the fact that they both have the same President of the Company. As at September 30, 2017, included in accounts receivable is an amount of \$76,500 due from these related parties.
- b) Was charged consulting fees for financial and management services of \$78,879 by Greg K. W. Wong, an officer of the Company. As at September 30, 2017, accounts payable and accrued liabilities included \$12,461 of consulting fees payable to this officer.
- c) Incurred accounting fees for bookkeeping and financial statement preparation of \$70,575 with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at September 30, 2017, accounts payable and accrued liabilities included \$40,965 payable to this accounting firm.
- d) Other related party transactions are disclosed in note 7 and note 10.

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

### **Contractual Obligations and Commitments**

The Company's contractual obligations and commitments consists of loans and mortgages which are disclosed in the notes to the unaudited condensed financial statements ended September 30, 2017 and in the notes to the audited consolidated financial statements ended December 31, 2016. The Company has lease obligations for its offices until 2018.

### **Internal Control over Financial Reporting**

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the audited annual financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited annual financial statements and (ii) the audited annual financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the audited annual financial statements.

In contrast to the certificate required under Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("MI 52-109"), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in MI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer (such as the Company) to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Risk and Uncertainties**

The Company depends on several national retail chains for a significant part of its income. If any of these chains were adversely affected by economic or business conditions, it would have a negative impact on the Company. The Company would also be adversely affected by a long standing large increase in interest rates or a severe economic slow down.

### **OUTLOOK**

The global market is faced with uncertainty and unpredictability due to the protectionist agenda in the US and similar trends emerging in Europe. NAFTA and Brexit negotiations will dominate the economic agenda in the coming year. Approval by the US of the transcontinental pipeline suggest positive outlook for the oil sector and infrastructure sector. In particular, the US has indicated a desire to support the oil pipeline and government investment in infrastructure in the US. As well, indications are that US interest rates will be going up in 2017 and 2018. Looking forward the market is anticipating increases in interest rates and improvements in the oil sector.

Domestically, uncertainty with NAFTA will be a key focus for the Canadian economy in 2017 and 2018. Canada recently reduced their GDP outlook and future infrastructure spending by the government will be dependent on attracting private sector investments from around the world in a growing competitive market for the same capital. A recent increase in the Canadian interest rate was a cautious move by the Canadian central bank and it is likely that the Canadian interest rate will remain low in 2017 and 2018. In Alberta, the positive news in the US for the oil sector and election of a new Conservative leader provincially should help to generate investments in the sector.

Given the close ties between the Canadian and US economies, with the strong performance in the US, it is anticipated that US and Canadian interest rates will be increasing but very slowly in the near future. The low interest rate in Canada will benefit many consumers who are already carrying record credit card debts in spending.

Political uncertainties in the US government and uncertainties with the NDP government in BC will both have economic impact on the future health of the Alberta oil and gas economy. These uncertainties will continue to have a negative impact on the retail sector in the province.

For the Company, our properties in St. Paul Shopping Centre and Tri-City Mall are located in regions with diverse economies and do not solely depend on the oil sector. While it's anticipated that the continuing low oil prices will have an impact on local economies, it will be mitigated somewhat in these two regions due to its diversification.

The low interest rate environment will be an advantage for the Company as it reduces the interest cost for the financing of our investment portfolio. As well, commercial real estate is once again becoming a core holding in major investment portfolios, which should provide for lower cap rates in coming years.

Operationally, our business model has enabled the Company to weather the past economic downturns better than most sectors, as our anchor tenants and national retailers have a positive outlook for the region.

While the Canadian retail market is facing a major reorganization, the Company has been able to renew leases when due and secure new tenants when opportunities arise.

Management is continuing its efforts to fully lease the remaining vacancies at Tri-City Mall.

#### Tri-City Mall, Cold Lake, Alberta

The Tri-City Mall remains the flagship mall in the Company's portfolio and represents a major portion of the revenue generated for the Company.

In the three months ended September 30, 2017, the Company continues to negotiate with new national tenants at the mall and is in ongoing discussions with other local tenants for the remaining space in Tri-City Mall and working to fully leasing the mall. As well, the Company is currently in negotiations to extend the lease of another loyal tenant.

The current tenant profile remains stable with Ardene, ATB Financial, Bentley, Bootlegger, Bross Hair, Dollar Tree, Pet Valu, Pizza Hut, Sobeys, Sportschek, V-Nails & Spa, Value Drug Mart, Warehouse One and Winners. When fully leased, the mall will add substantial value to the Company's investment portfolio.

#### St. Paul Shopping Centre, St. Paul, Alberta

St. Paul Shopping Centre continues to be fully leased in its current configuration.

The current tenant profile consists of Peavey Mart, Ardene, Dollar Tree, Marks, and with Giant Tiger Stores remaining as an anchor tenant at the east end of the mall. The two pad sites are leased by Tim Hortons, and our long-term tenant Petro Canada.

#### Three Hills, Alberta

Our Three Hills property is operating at a reduced rent for the current year and is subject to

renegotiation with Red Apple Stores Inc. for future years.

In Merritt, British Columbia, the Company still holds a vacant lot.

Our long term financing consists of mortgages and unsecured loan with a related party. As of September 30, 2017 the mortgages outstanding for the Cold Lake and St. Paul properties stand at \$19,666,527 for these two properties bearing interest at prime plus 1.5% and maturing on September 1, 2029. The Three Hills property has a mortgage balance of \$382,115 as at September 30, 2017, paying interest at 5.15% and maturing on December 1, 2018.

The Company has access to the loan with Ceyx of up to \$6 million to finance the redevelopment of the two malls and general operation of the Company, of which \$4,042,000 is outstanding as of September 30, 2017 and as of the date of this report.

The Company had cash of \$134,231 as of September 30, 2017 with 21,290,685 shares outstanding. The closing price of the Company's common shares on the TSXV on September 30, 2017 was \$0.25.

Management continues to reduce costs at the corporate level and, when appropriate, to reduce Common Area Maintenance expenses on all properties.

The current economic situation remains challenging for new financing. In particular, financing will be difficult to obtain in the small markets where our properties are located.

We are focused on maintaining a strong relationship with our many quality tenants such as Ardene, ATB Financial, Bentley, Bootlegger, Dollar Tree, Giant Tiger Stores, Mark's Work Warehouse, Peavey Mart, Pet Valu, Petro Canada, Pizza Hut, Sobeys, Sportchek, The Bargain Shop, Tim Hortons, V-Nails & Spa, Value Drug Mart, Warehouse One, and Winners. To view a complete list of our tenants please visit our website at [www.gpequities.com](http://www.gpequities.com).

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

In the last quarter the Company continues to focus on securing new leases based on the current interest by national and local tenants. Looking forward to the balance of 2017 and 2018 management hopes to fully lease Tri-City Mall which will provide a substantial increase in valuation of the investment portfolio based on external appraisals. The Company is pleased to report that St. Paul Shopping Centre continues to be fully leased based on the current configuration.

Yours truly,

(signed) "Anthony J. Cohen"

Anthony J. Cohen  
President & CEO  
November 22, 2017