
Condensed Interim Financial Statements

Gulf & Pacific Equities Corp.

**For the Nine Months Ended September 30, 2019 and 2018
(Stated in Canadian Dollars)**

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NOTICE TO READER

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Financial Position

Unaudited - See Notice to Reader

(Stated in Canadian Dollars)

	September 30, 2019	December 31, 2018
Assets		
Cash	\$ 327,004	\$ 355,638
Other amounts receivable (note 3)	-	11,723
Prepaid expenses	38,469	37,182
Right-of-use asset (note 6)	65,788	-
Investment properties (note 4)	40,500,000	40,500,000
Investments (note 8)	32,544	24,408
	<u>\$ 40,963,805</u>	<u>\$ 40,928,951</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 1,620,607	\$ 1,463,934
Mortgages (note 5)	18,037,056	18,602,645
Lease liability (note 6)	68,615	-
Loan payable (note 9)	4,547,000	4,547,000
Purchase price payable (note 7)	658,776	658,776
Deferred income taxes	1,311,047	1,165,000
	<u>26,243,101</u>	<u>26,437,355</u>
Commitments		
Shareholders' Equity		
Share Capital (note 11a)	7,453,322	7,453,322
Contributed Surplus	2,812,409	2,812,409
Retained Earnings	4,454,973	4,225,865
	<u>14,720,704</u>	<u>14,491,596</u>
	<u>\$ 40,963,805</u>	<u>\$ 40,928,951</u>

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

Approved on behalf of the Board

"Anthony J. Cohen", Director

"Greg K. W. Wong", Director

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Income and Comprehensive Income

For the Nine Months Ended September 30

Unaudited - See Notice to Reader

	Nine months ended		Three months ended	
	2019	2018	2019	2018
Revenue				
Rental	\$ 2,199,628	\$ 2,067,142	\$ 788,391	\$ 700,882
Step rent	(76,664)	64,393	(4,010)	8,573
Common area and realty tax recoveries	773,425	859,982	318,802	295,596
Interest and other	-	301	-	-
	<u>2,896,389</u>	<u>2,991,818</u>	<u>1,103,183</u>	<u>1,005,051</u>
Expenses				
Interest (note 5)	964,639	960,467	321,428	330,095
Operating costs and realty taxes	1,187,365	1,255,951	519,514	424,936
Administration	610,926	562,196	210,564	167,742
Amortization (note 6)	14,802	-	4,934	-
Unrealized loss (gain) from investments	(8,136)	24,408	16,272	24,408
	<u>2,769,596</u>	<u>2,803,022</u>	<u>1,072,712</u>	<u>947,181</u>
Net Income before fair value adjustment and income taxes	126,793	188,796	30,471	57,870
Gain on write-off of accounts payable	28,397	-	431	-
Fair value adjustment (note 4)	221,845	80,608	52,403	39,650
Net Income before income taxes	377,035	269,404	83,305	97,520
Deferred income tax expense	(146,047)	(201,000)	(17,370)	(164,000)
Net Income and Comprehensive Income	<u>\$ 230,988</u>	<u>\$ 68,404</u>	<u>\$ 65,935</u>	<u>\$ (66,480)</u>
Income per Share - Basic (note 11b)	<u>\$ 0.01</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income per Share - Diluted (note 11b)	<u>\$ 0.01</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Weighted Average Number of Common Shares Outstanding - Basic (note 11b)	<u>21,290,685</u>	<u>21,290,685</u>	<u>21,290,685</u>	<u>21,290,685</u>
Weighted Average Number of Common Shares Outstanding - Diluted (note 11b)	<u>21,786,685</u>	<u>22,331,685</u>	<u>21,786,685</u>	<u>21,290,685</u>

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

Gulf & Pacific Equities Corp.

Condensed Interim Statements of Changes in Shareholders' Equity

For the Nine Months Ended September 30

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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, 2018	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 3,858,573	\$ 14,124,304
Net income and comprehensive loss	-	-	-	68,404	68,404
Balance - September 30, 2018	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,812,409</u>	<u>\$ 3,926,977</u>	<u>\$ 14,192,708</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, 2019	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,225,865	\$ 14,491,596
Impact on adopting IFRS 16 (note 2a)	-	-	-	(1,880)	(1,880)
Net income and comprehensive income	-	-	-	230,988	230,988
Balance - September 30, 2019	<u>21,290,685</u>	<u>\$ 7,453,322</u>	<u>\$ 2,812,409</u>	<u>\$ 4,454,973</u>	<u>\$ 14,720,704</u>

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)

	2019	2018
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income	\$ 230,988	\$ 68,404
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	30,145	30,061
Amortization	14,802	-
Deferred income tax expense	146,047	201,000
Amortization of deferred leasing costs	145,181	145,001
Accrued rent receivable	76,664	(64,393)
Interest expense	797,710	930,405
Fair value adjustment	(229,981)	(56,200)
	<u>1,211,556</u>	<u>1,254,278</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	(1,287)	9,801
Other amounts receivable	11,723	92,081
Accounts payable and accrued liabilities	89,401	(62,265)
	<u>1,311,393</u>	<u>1,293,895</u>
Financing Activities		
Repayment of mortgages payable	(590,733)	(790,903)
Interest paid	(727,506)	(735,275)
Payment of lease liability	(16,788)	-
Financing costs paid	(5,000)	(500)
Advance from related parties	-	305,000
	<u>(1,340,027)</u>	<u>(1,221,678)</u>
Increase in cash	(28,634)	72,216
Cash - beginning of period	<u>355,638</u>	<u>108,709</u>
Cash - end of period	<u>\$ 327,004</u>	<u>\$ 180,925</u>

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

Gulf & Pacific Equities Corp.

Notes to the Condensed Interim Financial Statements
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Gulf & Pacific Equities Corp. (“the Company”) was incorporated under the Business Corporations Act (Alberta) on April 8, 1998 and on June 17, 1998 filed Articles of Amendment to remove certain private corporation restrictions. The registered address and records office of the Company is located at 18104 102 Avenue N.W., Edmonton, AB. The Company is listed on the TSX Venture Exchange as “TSX-V: GUF”. The Company commenced active operations during the 1999 fiscal year. The Company owns and operates commercial rental properties in Western Canada. The Company does not have any affiliates nor is it the subsidiary of any entity.

1. Basis of Presentation

a) Statement of Compliance

The Company's condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 condensed interim financial statements do not include all of the information required for annual financial statements.

These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018.

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, 2019 as issued by the International Accounting Standards Board.

The date that the Board of Directors approved the statements is November 21, 2019.

b) 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:

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1. Basis of Presentation and Going Concern (continued)

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

i) Investment properties (continued)

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.

ii) Leases

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

Additional critical accounting estimates and assumptions include those used for estimating current and deferred taxes and purchase price payable, assessing the allowance for doubtful accounts on trade receivables, estimating the fair value of share-based compensation 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 financial statements for the year ended at December 31, 2018. 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, 2018.

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2. Summary of Significant Accounting Policies (continued)

a) Changes in accounting standards effective January 1, 2019:

IFRS 16 Leases ("IFRS 16") was issued by the IASB in January 2016 and replaced IAS 17, Leases for annual periods beginning on or after January 1, 2019. IFRS 16 specifies the methodology to recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying IFRS 16 being recognized at the date of initial application. The Company adopted IFRS 16 on the required effective date of January 1, 2019 without restatement of comparative information. The cumulative effects of application of IFRS 16 resulted in \$1,880 decrease in opening retained earnings as at January 1, 2019 and resulted in a \$80,590 increase in total assets and \$82,470 increase in total liabilities as at January 1, 2019.

The Company's only lease is an operating lease for its corporate office.

3. Other Amounts Receivable

Other amounts receivable includes trade accounts receivable of \$Nil (December 31, 2018 - \$10,248) and taxes receivable of \$Nil (December 31, 2018 - \$1,475).

4. Investment Properties

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Balance - Opening	\$ 40,500,000	\$ 40,500,000
Additions	-	10,831
Leasing costs	-	171
Leasing costs amortization	(145,181)	(193,566)
Accrued rent receivable	(76,664)	68,929
Fair value adjustment	221,845	113,635
	<hr/>	<hr/>
Balance - Ending	<u>\$ 40,500,000</u>	<u>\$ 40,500,000</u>

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

External appraisals for the three properties, totaling \$41,400,000, were obtained for the year ended December 31, 2016. As at December 31, 2018 and 2017, internal fair value for the three properties of \$40,500,000 was determined based on the direct capitalization income approach as defined below. Capitalization rates of 7.00% to 7.25% as at September 30, 2019 (December 31, 2018 - 7.00% to 7.25%) were used to determine the fair value of the properties. The weighted average capitalization rate for September 30, 2019 was 7.00% (December 31, 2018 - 7.00%).

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4. Investment Properties (continued)

As at December 31, 2018, management performed an assessment of the underlying inputs and principles of the December 31, 2016 appraisals and noted a decrease in revenue on one of the properties; thus an internal review was completed for December 31, 2018. As a result, management recorded an aggregate fair value adjustment of \$113,635 to increase the carrying value of the properties as at December 31, 2018.

The internal fair values were based on the direct capitalization income approach with reference to the direct comparison approach and external appraisers for additional support. The fair value is determined by applying a capitalization rate to stabilized net operating income which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the investment property. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the income and non-recoverable capital expenditures.

Management will obtain new external appraisals if the conditions disclosed change materially. The Company has classified the three investment properties as level 3 based on the fair value hierarchy.

5. Mortgages and Loan Payable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Mortgage payable, bearing interest at 5.85%, repayable monthly in blended principal and interest payments of \$3,835, due December 1, 2023	\$ 330,198	\$ 349,729
Mortgage payable, bearing 5 years fixed interest rate at 5.26%, repayable monthly in fixed payments of \$111,240, due September 1, 2023	13,825,735	14,271,207
Mortgage payable, bearing 5 years fixed interest rate at 5.26%, repayable monthly in fixed payments of \$29,210, due September 1, 2023	3,630,492	3,747,468
Loan payable, bearing 5 years fixed interest rate at 5.26%, repayable monthly in fixed payments of \$2,186, due September 1, 2023	271,687	280,441
	<hr/>	<hr/>
	18,058,112	18,648,845
Unamortized mortgage financing costs	(21,056)	(46,200)
	<hr/>	<hr/>
	\$ 18,037,056	\$ 18,602,645

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

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5. Mortgages and Loan Payable (continued)

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, 2019, interest expense on the statement of income and comprehensive income includes amortized mortgage financing costs of \$30,145 (September 30, 2018 - \$30,061).

6. Right-of-Use Asset and Lease Liability

a) Right-of-use asset

The following is the continuity of the cost and accumulated amortization of right-of-use asset as at and for the period ended September 30, 2019:

	<u>September 30, 2019</u>
Cost	
Balance, beginning of period	\$ 80,590
Lease additions	-
Balance, end of period	<u>\$ 80,590</u>
Accumulated amortization	
Balance, beginning of period	\$ -
Amortization	14,802
Balance, end of period	<u>\$ 14,802</u>
Carrying amount	<u>\$ 65,788</u>

b) Lease liability

The following is the continuity of the lease liabilities as at and for the period ended September 30, 2019:

	<u>September 30, 2019</u>
Balance, beginning of period	\$ 82,470
Lease additions	-
Lease payments	(16,788)
Interest expense on lease liabilities	2,933
Balance, end of period	<u>\$ 68,615</u>

The Company used its incremental borrowing rate of 5.25% as at September 30, 2019 to measure the lease liability.

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7. Purchase Price Payable

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

8. Financial instruments hierarchy and investments at fair value

Fair value measurements are based on a three-level fair value hierarchy based on inputs used in determining fair value of financial assets and liabilities. The hierarchy of inputs is summarized as follows:

Level 1 - inputs used to value financial assets and liabilities are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs used to value financial assets and liabilities are other than quoted prices included in Level 1 that are observable either directly or indirectly for the asset or liability.

Level 3 - inputs used to value financial assets and liabilities are not based on observable market data.

As at September 30, 2019, the Company holds 1,627,200 (December 31, 2018 - 1,627,200) common shares of a related company at a fair value of \$32,544 (December 31, 2018 - \$24,408). The companies are related by virtue of the fact that they have the same President and CFO. Original cost of the investment was \$81,360. The aforementioned investment is classified as level 1 in the fair value hierarchy.

The Company did not record any transfers between fair value levels during the year.

9. Loan Payable

During the year ended December 31, 2013, the Company received loan proceeds of \$2,500,000 from a related corporation, Ceyx Properties Ltd. During the year ended December 31, 2014, the Company received further proceeds of \$7,750,000 and also repaid \$4,500,000 of the balance outstanding. During the year ended December 31, 2015 the Company received further proceeds of \$2,250,000 and repaid \$5,000,000 of the balance. During the year ended December 31, 2016 the Company received further proceeds of \$492,000. During the year ended December 31, 2017, the Company received further proceeds of \$750,000. During the year ended December 31, 2018, the Company received further proceeds of \$305,000.

The balance outstanding as at September 30, 2019 is \$4,547,000 (December 31, 2018 - \$4,547,000).

The loan is unsecured, has no fixed terms of repayment, with access to a maximum value of up to \$6,000,000, with interest payable at 6% per annum. Interest is accrued but not compounded. The loan is to be used for financing of the leasing and development of the investment properties, along with general working capital purposes. The companies are related by virtue of the fact that they have the same President. The related corporation is not a subsidiary.

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

	<u>Mortgage and Loan Payable</u>	<u>Loan Payable</u>	<u>Interest payable</u>
Balance - January 1, 2019	\$ 18,602,645	\$ 4,547,000	\$ 1,096,089
Proceeds	-	-	-
Payment of principal	(590,734)	-	-
Addition on deferred financing costs	(5,000)	-	-
Amortized deferred financing costs	30,145	-	-
Interest expense	727,506	-	204,504
Interest paid	(727,506)	-	-
Balance - September 30, 2019	<u>\$ 18,037,056</u>	<u>\$ 4,547,000</u>	<u>\$ 1,300,593</u>

The interest payable at September 30, 2019 of \$1,300,593 (December 31, 2018 - \$1,096,089) is included in accounts payable and accrued liabilities.

11. Share capital and earnings per share

a) Share Capital

The Company is authorized to issue unlimited preference shares and unlimited common shares. The number of issued and outstanding common shares and unexercised options at September 30, 2019 follows:

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

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11. Share-based compensation (continued)

b) Earnings per share

Basic earnings per share has been calculated using the weighted average number of shares outstanding 21,290,685 (September 30, 2018 - 21,290,685). As at September 30, 2019, diluted shares total 21,786,685 and includes 496,000 of unexercised dilutive options.

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Net income	\$ 230,988	\$ 68,404
Basic weighted average common shares outstanding	<u>21,290,685</u>	<u>21,290,685</u>
Basic earnings per share	<u>\$ 0.01</u>	<u>\$ -</u>
Basic weighted average common shares outstanding	21,290,685	21,290,685
Effect of unexercised dilutive options	<u>496,000</u>	<u>1,041,000</u>
Diluted weighted average common shares outstanding	<u>21,786,685</u>	<u>22,331,685</u>
Diluted earnings per share	<u>\$ 0.01</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, 2019 and December 31, 2018 and the changes during the years is presented below:

	<u>2019</u>		<u>2018</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	<u>1,041,000</u>	<u>\$ 0.257</u>	<u>1,041,000</u>	<u>\$ 0.257</u>

No stock options were granted during the nine months ended September 30, 2019.

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12. Share-based compensation

- b) At September 30, 2019, 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
150,000	150,000	2010	\$ 0.200	June 21, 2020
96,000	96,000	2011	\$ 0.215	April 20, 2021
100,000	100,000	2011	\$ 0.230	June 23, 2021
345,000	345,000	2012	\$ 0.260	April 30, 2022
200,000	200,000	2014	\$ 0.370	April 25, 2024
150,000	150,000	2017	\$ 0.205	April 26, 2027
<u>1,041,000</u>	<u>1,041,000</u>			

13. Financial Instruments and Risk Management

Fair Value

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

Cash, other amounts receivable and accrued rent receivable approximate their carrying amounts due to the short-term maturities of these instruments. The valuation method is classified as level 1 on the fair value hierarchy.

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:

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13. Financial Instruments and Risk Management (continued)

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.

During the year ended December 31, 2018, the Company converted its variable mortgages to a 5 year fixed rate of 5.26% maturing on September 1, 2023. As a result, fluctuations in interest rates does not have a significant impact on the Company as at September 30, 2019 and December 31, 2018.

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, 2019 of \$Nil (December 31, 2018 - \$11,723).

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$10,800 (December 31, 2018 - \$10,400), which is due from related parties as described in note 15.

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, 2019, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net loss would be approximately \$1,627 (December 31, 2018 - \$1,220).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall 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.

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13. Financial Instruments and Risk Management (continued)

Liquidity Risk (continued)

As at September 30, 2019, the Company's financial liabilities include accounts payable and accrued liabilities, lease liability, purchase price payable, loan payable and mortgages payable.

14. Capital Management

The Company's objectives when managing capital are:

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

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

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

15. Related Party Transactions

During the nine months ended September 30, 2019, the Company:

- a) Charged rent to related parties, Plato Gold Corp., \$1,800 (September 30, 2018 - \$2,400) and Ceyx Properties Ltd., \$2,700 (September 30, 2018 - \$4,100). The companies are related by virtue of the fact that they have the same President. As at September 30, 2019, included in accounts receivable is an amount of \$10,800 (December 31, 2018 - \$9,000) due from these related parties.
- b) Was charged consulting fees of \$85,782 (September 30, 2018 - \$85,782) by Greg K. W. Wong, an officer of the Company. As at September 30, 2019, accounts payable and accrued liabilities included \$Nil (December 31, 2018 - \$Nil) of consulting fees payable to this officer.
- c) Incurred accounting fees of \$55,915 (September 30, 2018 - \$45,000) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at September 30, 2019, accounts payable and accrued liabilities included \$6,000 (December 31, 2018 - \$33,800) owing to this accounting firm.
- d) Other related party transactions information is disclosed in notes 9 & 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 related parties.