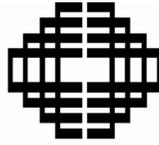

Financial Statements

Gulf & Pacific Equities Corp.

**For the Years Ended December 31, 2019 and 2018
(Stated in Canadian Dollars)**

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GULF & PACIFIC EQUITIES CORP.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements were prepared by the management of Gulf & Pacific Equities Corp., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgments, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

"Anthony J. Cohen"
President and CEO

"Greg K. W. Wong"
CFO

Toronto, Ontario
April 23, 2020

Independent Auditor's Report

To the Shareholders of Gulf & Pacific Equities Corp.:

Opinion

We have audited the financial statements of Gulf & Pacific Equities Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018 and the statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the report date. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Matt Pilloud.

Winnipeg, Manitoba
April 23, 2020

MNP LLP
Chartered Professional Accountants

MNP LLP

Gulf & Pacific Equities Corp.

Statements of Financial Position
(Stated in Canadian Dollars)

	December 31, 2019	December 31, 2018
Assets		
Cash	\$ 283,625	\$ 355,638
Other amounts receivable (note 3)	196,679	11,723
Prepaid expenses	38,469	37,182
Right-of-use asset (note 6)	60,854	-
Investment properties (note 4)	39,600,000	40,500,000
Investments (note 8)	48,816	24,408
	<u>\$ 40,228,443</u>	<u>\$ 40,928,951</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 1,961,124	\$ 1,463,934
Mortgages (note 5)	17,836,171	18,602,645
Lease liability (note 6)	63,874	-
Loan payable (note 9)	4,347,000	4,547,000
Purchase price payable (note 7)	658,776	658,776
Deferred income taxes (note 13)	1,069,000	1,165,000
	<u>25,935,945</u>	<u>26,437,355</u>
Shareholders' Equity		
Share Capital (note 11a)	7,453,322	7,453,322
Contributed Surplus	2,812,409	2,812,409
Retained Earnings	4,026,767	4,225,865
	<u>14,292,498</u>	<u>14,491,596</u>
	<u>\$ 40,228,443</u>	<u>\$ 40,928,951</u>

Subsequent Events (note 20)

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

Approved on behalf of the Board

_____"Anthony J. Cohen"_____, Director

_____"Greg K. W. Wong"_____, Director

Gulf & Pacific Equities Corp.

Statements of Income (Loss) and Comprehensive Income (Loss)
For the Year Ended December 31

	2019	2018
Revenue		
Rental	\$ 2,782,871	\$ 2,837,602
Step rent	(173,083)	68,929
Common area and realty tax recoveries	1,224,225	1,085,775
Interest and other	4,047	301
	<u>3,838,060</u>	<u>3,992,607</u>
Expenses		
Interest (note 5)	1,271,868	1,289,594
Operating costs and realty taxes	1,568,915	1,496,318
Administration (note 19)	761,825	779,222
Amortization (note 6)	19,736	-
	<u>3,622,344</u>	<u>3,565,134</u>
Net Income before fair value adjustment and income taxes	215,716	427,473
Unrealized gain (loss) from investments	24,408	(48,816)
Fair value adjustment (note 4)	(533,342)	113,635
Net Income (Loss) before income taxes	(293,218)	492,292
Deferred income tax recovery (expense) (note 13)	96,000	(125,000)
Net Income (Loss) and Comprehensive Income (Loss)	<u>\$ (197,218)</u>	<u>\$ 367,292</u>
Income (Loss) per Share - Basic (note 11b)	<u>\$ (0.01)</u>	<u>\$ 0.02</u>
Income (Loss) per Share - Diluted (note 11b)	<u>\$ (0.01)</u>	<u>\$ 0.02</u>
Weighted Average Number of Common Shares Outstanding - Basic (note 11b)	<u>21,290,685</u>	<u>21,290,685</u>
Weighted Average Number of Common Shares Outstanding - Diluted (note 11b)	<u>21,290,685</u>	<u>21,686,685</u>

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

Gulf & Pacific Equities Corp.

Statements of Changes in Shareholders' Equity

For the Year Ended December 31

Stated in Canadian dollars

	Share Capital		Contributed Surplus	Retained Earnings	Total
	Shares	Amount			
Balance - January 1, 2018	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 3,858,573	\$ 14,124,304
Net income and comprehensive income	-	-	-	367,292	367,292
Balance - December 31, 2018	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,225,865	\$ 14,491,596

	Share Capital		Contributed Surplus	Retained Earnings	Total
	Shares	Amount			
Balance - January 1, 2019	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,225,865	\$ 14,491,596
Impact on adoption of IFRS 16 (note 2)	-	-	-	(1,880)	(1,880)
Net loss and comprehensive loss	-	-	-	(197,218)	(197,218)
Balance - December 31, 2019	21,290,685	\$ 7,453,322	\$ 2,812,409	\$ 4,026,767	\$ 14,292,498

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

Gulf & Pacific Equities Corp.

Statements of Cash Flow

For the Year Ended December 31

(Stated in Canadian Dollars)

	2019	2018
Cash Provided By (Used In):		
Operating Activities		
Comprehensive income (loss)	\$ (197,218)	\$ 367,292
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	32,260	40,082
Amortization	19,736	-
Deferred income tax expense (recovery)	(96,000)	125,000
Amortization of deferred leasing costs	193,575	182,564
Accrued rent payable (receivable)	173,083	(68,929)
Interest expense	1,239,608	1,245,335
Fair value adjustment	508,934	(64,819)
	<u>1,873,978</u>	<u>1,826,525</u>
Changes in non-cash balances related to operations:		
Prepaid expenses	(1,287)	9,801
Other amounts receivable	(184,956)	123,253
Accounts payable and accrued liabilities	225,291	(51,858)
	<u>1,913,026</u>	<u>1,907,721</u>
Financing Activities		
Repayment of mortgages payable	(793,734)	(983,852)
Receipt of mortgage and loan proceeds	-	305,000
Repayment of loan payable	(200,000)	-
Interest paid	(963,921)	(981,440)
Payment of lease liability	(22,384)	-
Financing costs paid	(5,000)	(500)
	<u>(1,985,039)</u>	<u>(1,660,792)</u>
Increase (decrease) in cash	(72,013)	246,929
Cash - beginning of year	<u>355,638</u>	<u>108,709</u>
Cash - end of year	<u>\$ 283,625</u>	<u>\$ 355,638</u>

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

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company follows accounting policies under IFRS as disclosed in note 2.

The policies applied in the Company's financial statements are in accordance with International Financial Reporting Standards ("IFRS") effective as of December 31, 2019 as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Directors on April 23, 2020.

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.

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:

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

1. Basis of Presentation and Going Concern (continued)

d) 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.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

a) Fair value of investment property

Significant portions of the Company's operating assets are considered investment properties under IAS 40, Investment Property ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. The Company's revenue producing properties are classified as investment properties. Investment properties are initially measured at cost including transaction costs under IAS 40. However, subsequent to initial recognition, investment properties are recorded at fair value, which reflects an orderly transaction between market participants and current market conditions, at each financial position statement date. Gains and losses from changes in fair values are recorded in net income in the period in which they arise.

Leasing costs and lease incentives, which include costs incurred to make leasehold improvements to tenants' space, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction of investment properties revenue.

b) Deferred financing fees

Financing fees incurred in connection with long-term debt financing are included with the related debt and are amortized using the effective interest rate basis.

c) Financial instruments

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL. IFRS 9 permits entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

Classification and measurement of financial assets is dependent on the Company's business model for managing the financial assets and related contractual cash flows.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

c) Financial instruments (continued)

The following table summarizes the classification of the Company's financial assets and liabilities:

Asset/Liability	Classification under IFRS 9
Investments	FVTPL
Other amounts receivable	Amortized cost
Cash	Amortized cost
Mortgages	Amortized cost
Purchase price payable	Amortized cost
Loan payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

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, consisting of mortgages payable and loan payable, 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.

IFRS 9 has a three-stage expected credit loss ("ECL") model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires the Company to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

d) Share-based payments

Share-based compensation granted to directors, officers and employees is measured at the fair value of the grants on the grant date. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using an accepted option pricing model. IFRS requires an initial estimate of the number of equity settled instruments that are expected to vest based on expected forfeitures, and subsequently adjustments are made to the estimate to reflect the actual number of equity settled instruments that vest, unless forfeitures are due to market based vesting conditions. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The fair value of options granted to consultants is determined using fair value of the goods or services received. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Company cannot be reliably measured, they are measured at fair value of the equity instruments issued. The resulting value is charged to operations over the service period. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

e) Issue costs

The Company accounts for costs related to issuing equity as a charge against share capital in the period incurred.

f) Revenue recognition

Rental income from tenants under leases include components within the scope of IFRS 16, Leases. The Company uses the straight-line method of recognizing rental revenue whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. Step rent recorded on the statement of comprehensive income represents the difference between rental revenue recognized on a straight-line basis and the amount of rent contractually due under the lease agreements. Realty tax recoveries are recognized as revenue in the period in which they are earned.

Common area recoveries are considered non-lease components and within the scope of IFRS 15, Revenue from Contracts with Customers. The performance obligation for the recovery of common area recoveries is satisfied over time. The Company receives variable consideration for the common area recoveries under the lease to the extent costs have been incurred, and revenue is recognized on this basis as the best estimate of amounts earned over the period these services are performed. At the end of the period, revenue is constrained by actual costs incurred and any restrictions in the lease agreement with each tenant.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

f) Revenue recognition (continued)

Interest income is recognized in earnings on an accrual basis and to the extent not received at year end, recorded as a receivable.

A property is regarded as sold and the gain or loss on sale is recognized when the significant risks and returns have been transferred to the buyer, which is normally upon closing on unconditional contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

g) Income taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and tax loss carryforwards, and are measured using the enacted or substantively enacted tax rates and laws expected to apply when these differences reverse.

Income tax assets are recognized to the extent that management believes that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the beginning and ending balances of the deferred income tax assets and liabilities. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

h) Income (loss) per share

Income (loss) per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted income (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive.

The number of additional shares included in the calculation is based on the weighted average number of shares that would be issued on the conversion of all potentially dilutive options and warrants into common shares.

If the number of shares increases or decreases as a result of capitalization, bonus issue, share splits or share consolidation, earnings per share is accounted for retrospectively. If these transactions occur after the reporting period but prior to the issuance of the financial statements, income (loss) per share is calculated based on the new number of shares.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

i) Related party transactions

All transactions with related parties are in the normal course of business and are measured at the amount agreed to by the parties involved in the transactions.

j) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

k) Contributed surplus

Contributed surplus consists of the recorded value of options granted to directors, officers, employees and consultants as well as transfers from the equity component of convertible debentures that have matured and whose equity option was not converted.

l) 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. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is a lessor.

The Company adopted IFRS 16 on the required effective date of January 1, 2019 using the modified retrospective method. The cumulative effects of application of IFRS 16 resulted in \$1,880 decrease in opening retained earnings, recognition of a right-of-use asset of \$80,590 and corresponding lease liability of \$82,470 as at January 1, 2019. The right of use asset is a lease for its corporate office where the Company is a lessee.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

l) Changes in accounting standards effective January 1, 2019 (continued)

The Company measures the lease liability and right-of-use asset at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) and variable lease payments that depend on an index or a rate. The variable lease payments that do not depend on an index or a rate, such as property tax and common area maintenance recoveries, are recognized as expense in the period in which they are incurred. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow funds over a similar term to obtain an asset of similar value to the right-of-use asset. After the lease commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments. The right-of-use asset is depreciated on straight-line basis over the lease term and is subject to impairment.

3. Other Amounts Receivable

Other amounts receivable includes trade accounts receivable of \$196,679 (2018 - \$10,248) and taxes receivable of \$Nil (2018 - \$1,475).

4. Investment Properties

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Balance - Opening	\$ 40,500,000	\$ 40,500,000
Additions	-	10,831
Leasing costs	-	171
Leasing costs amortization	(193,575)	(193,566)
Accrued rent receivable	(173,083)	68,929
Fair value adjustment	(533,342)	113,635
Balance - Ending	<u>\$ 39,600,000</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, 2019, internal fair value for the three properties of \$39,600,000 (2018 - \$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 December 31, 2019 (2018 - 7.00% to 7.25%) were used to determine the fair value of the properties. The weighted average capitalization rate for December 31, 2019 was 7.15% (2018 - 7.00%).

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

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 increase 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

	<u>December 31, 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	\$ 323,479	\$ 349,729
Mortgage payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$111,240, due September 1, 2023	13,672,658	14,271,207
Mortgage payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$29,210, due September 1, 2023	3,590,295	3,747,468
Loan payable, bearing interest at 5.26%, repayable monthly in fixed payments of \$2,186, due September 1, 2023	268,679	280,441
	<u>17,855,111</u>	<u>18,648,845</u>
Unamortized mortgage financing costs	<u>(18,940)</u>	<u>(46,200)</u>
	<u>\$ 17,836,171</u>	<u>\$ 18,602,645</u>

The mortgage is 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.

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For the Year Ended December 31, 2019 and 2018

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5. Mortgages (continued)

The unamortized mortgage financing costs consist of fees and costs incurred to obtain the mortgage financing less accumulated amortization. For the year ended December 31, 2019, interest expense on the statement of income (loss) and comprehensive income (loss) includes amortized mortgage financing costs of \$32,260 (2018 - \$39,582).

Principal repayments required under the terms of the mortgages are as follows:

2020	834,067
2021	881,793
2022	929,494
2023	15,209,757
	<u>\$17,855,111</u>

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 year ended December 31, 2019:

Cost	
Balance, beginning of year	\$ 80,590
Lease additions	-
Balance, end of year	<u>\$ 80,590</u>
Accumulated amortization	
Balance, beginning of year	\$ -
Amortization	19,736
Balance, end of year	<u>\$ 19,736</u>
Carrying amount	<u><u>\$ 60,854</u></u>

b) Lease liability

The following is the continuity of the lease liability as at and for the year ended December 31, 2019:

Balance, beginning of year	\$ 82,470
Lease additions	-
Lease payments	(22,384)
Interest expense on lease liability	3,788
Balance, end of year	<u><u>\$ 63,874</u></u>

The Company used its incremental borrowing rate of 5.25% to measure the lease liability.

Gulf & Pacific Equities Corp.

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For the Year Ended December 31, 2019 and 2018

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

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

2020	\$	22,385
2021		22,385
2022		22,385
2022		1,865
Total minimum lease payments		69,020
Less: future interest expense		(5,146)
Present value of minimum lease payments	\$	63,874

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 December 31, 2019 and 2018, 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 December 31, 2019, the Company holds 1,627,200 (2018 - 1,627,200) common shares of a related company at a fair value of \$48,816 (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.

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9. Loan Payable

The loan payable is due to a related corporation, Ceyx Properties Ltd. During the year ended December 31, 2019, the Company repaid \$200,000 of loan principal. The balance outstanding as at December 31, 2019 is \$4,347,000 (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.

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

	Mortgages Payable	Loan Payable	Interest payable
Balance - January 1, 2019	\$ 18,602,645	\$ 4,547,000	\$ 1,096,089
Payment of principal	(793,734)	(200,000)	-
Addition of deferred financing costs	(5,000)	-	-
Amortized deferred financing costs	32,260	-	-
Interest expense	963,921	-	271,899
Interest paid	(963,921)	-	-
Balance - December 31, 2019	<u>\$ 17,836,171</u>	<u>\$ 4,347,000</u>	<u>\$ 1,367,988</u>

As at December 31, 2019, interest payable of \$1,367,988 (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 December 31, 2019 follows:

Common shares	Number	Amount
Shares outstanding - January 1, 2019 and 2018	<u>21,290,685</u>	<u>\$ 7,453,322</u>
Shares outstanding - December 31, 2019 and 2018	<u>21,290,685</u>	<u>\$ 7,453,322</u>

Gulf & Pacific Equities Corp.

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For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

11. Share capital and earnings per share (continued)

b) Earnings (loss) per share

Basic earnings (loss) per share has been calculated using the weighted average number of shares outstanding of 21,290,685 (2018 - 21,290,685). As at December 31, 2019, diluted shares total 21,290,685 and do not include dilutive options as the impact on loss per share would be anti-dilutive.

	<u>2019</u>	<u>2018</u>
Net income (loss)	\$ (197,218)	\$ 367,292
Basic weighted average common shares outstanding	<u>21,290,685</u>	<u>21,290,685</u>
Basic earnings (loss) per share	<u>\$ (0.01)</u>	<u>\$ 0.02</u>
Basic weighted average common shares outstanding	21,290,685	21,290,685
Effect of unexercised dilutive options	<u>-</u>	<u>396,000</u>
Diluted weighted average common shares outstanding	<u>21,290,685</u>	<u>21,686,685</u>
Diluted earning (loss) per share	<u>\$ (0.01)</u>	<u>\$ 0.02</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 December 31, 2019 and 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 year ended December 31, 2019.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

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12. Share-based compensation (continued)

- b) At December 31, 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. Income Taxes

- a) Income tax expense (recovery) attributable to the income (loss) differs from the amounts computed by applying the combined federal and provincial income tax rates of 26.5% (2018 - 26.8%) to the pretax loss as a result of the following:

	2019	2018
Net income (loss) before income taxes	<u>\$ (293,218)</u>	<u>\$ 492,292</u>
Income taxes computed at statutory rates	(78,000)	132,000
Non-deductible expense	-	1,000
Difference in tax rates for capital gains	67,000	(8,000)
Change in income tax rate	<u>(85,000)</u>	<u>-</u>
Deferred income tax expense (recovery)	<u>\$ (96,000)</u>	<u>\$ 125,000</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

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13. Income Taxes (continued)

- b) The continuity of deferred tax assets and liabilities recorded in the financial statements is as follows:

	January 1, 2019	Recognized in income (loss)	December 31, 2019
Deferred tax assets			
Unused tax losses	\$ 180,000	\$ (112,000)	\$ 68,000
Investments	8,000	(4,000)	4,000
	<u>188,000</u>	<u>(116,000)</u>	<u>72,000</u>
Deferred tax liabilities			
Investment properties	(1,344,000)	205,000	(1,139,000)
Financing costs	(9,000)	7,000	(2,000)
	<u>(1,353,000)</u>	<u>212,000</u>	<u>(1,141,000)</u>
Net	<u>\$ (1,165,000)</u>	<u>\$ 96,000</u>	<u>\$ (1,069,000)</u>
	January 1, 2018	Recognized in income (loss)	December 31, 2018
Deferred tax assets			
Unused tax losses	\$ 277,000	\$ (97,000)	\$ 180,000
Investments	1,000	7,000	8,000
	<u>278,000</u>	<u>(90,000)</u>	<u>188,000</u>
Deferred tax liabilities			
Investment properties	(1,310,000)	(34,000)	(1,344,000)
Financing costs	(8,000)	(1,000)	(9,000)
	<u>(1,318,000)</u>	<u>(35,000)</u>	<u>(1,353,000)</u>
Net	<u>\$ (1,040,000)</u>	<u>\$ (125,000)</u>	<u>\$ (1,165,000)</u>

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

(Stated in Canadian Dollars)

14. Financial Instruments and Risk Management

Fair Value

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

Management has determined that the fair value of mortgages payable does not differ from its carrying value as underlying interest rates are not materially different than current market conditions. The valuation method is classified as level 2 on the fair value hierarchy. The Company has no financial instruments at level 3.

The Company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair values of financial instruments); credit risk; and liquidity risk.

The following is a description of these risks and how they are managed:

Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates such as changes in equity prices, commodity prices or credit spreads.

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 December 31, 2019 and 2018. The Company is subject to fair value risk on its fixed rate mortgages.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. The Company believes that the credit risk of trade accounts receivable is minimal as the balance receivable is limited to the amount receivable as at December 31, 2019 of \$196,679 (2018 - \$11,723).

Rent is past due when a tenant has failed to make a payment when contractually due. Rent past due amounts to \$10,622 (2018 - \$10,400), which is due from related parties as described in note 16.

Gulf & Pacific Equities Corp.

Notes to the Financial Statements

For the Year Ended December 31, 2019 and 2018

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14. Financial Instruments and Risk Management (continued)

Equity Risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company's investment in the common shares of a related company, Plato Gold Corp., is subject to fair value fluctuations arising from changes in the equity market. At December 31, 2019, should the equity prices of the Company's holdings increase or decrease by 5%, the impact on net loss would be approximately \$2,441 (2018 - \$1,220).

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 15. 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 December 31, 2019, the Company's financial liabilities include accounts payable and accrued liabilities, purchase price payable, loan payable and mortgages payable.

The following are contractual maturities of the Company's financial liabilities at December 31, 2019:

	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities	\$ 1,961,124	\$ -	\$ -	\$ -	\$ 1,961,124
Loan payable	4,347,000	-	-	-	4,347,000
Mortgages payable	834,067	881,793	929,494	15,209,757	17,855,111
Purchase price payable	658,776	-	-	-	658,776
	<u>\$ 7,800,967</u>	<u>\$ 881,793</u>	<u>\$ 929,494</u>	<u>\$ 15,209,757</u>	<u>\$ 24,822,011</u>

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15. 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.

Debt Covenants

The Company has certain financial covenants associated with their debt. Covenants are tested regularly, and the Company is in compliance with covenant requirements as at December 31, 2019. The Company's significant covenant is listed below:

	<u>Financial Covenant</u>	<u>Requirement</u>	<u>As at December 31, 2019</u>	<u>As at December 31, 2018</u>
Mortgage payable	Debt service coverage ratio	Not Less than 1.10x	1.28	1.22

16. Related Party Transactions

During the year ended December 31, 2019, the Company:

a) Charged rent to related parties, Plato Gold Corp., \$2,400 (2018 - \$3,000) and Ceyx Properties Ltd., \$3,600 (2018 - \$5,000). The companies are related by virtue of the fact that they have the same President. As at December 31, 2019, included in accounts receivable is an amount of \$11,300 (2018 - \$9,000) due from these related parties.

b) Was charged consulting fees of \$114,376 (2018 - \$114,376) by Greg K. W. Wong, an officer of the Company.

c) Incurred accounting fees of \$105,283 (2018 - \$80,000) with an accounting firm, Forbes Andersen LLP, in which Paul Andersen, one of the Company's officers, is a partner. As at December 31, 2019, accounts payable and accrued liabilities included \$42,396 (2018 - \$33,800) owing to this accounting firm.

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16. Related Party Transactions (continued)

d) Other related party balances are disclosed in notes 8 and 9.

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.

17. Management Compensation

Key management includes all directors (management and non-management directors) and the Chief Financial Officer. The Chief Executive Officer is a management director. The compensation paid or payable to key management for services is shown below:

	December 31, 2019	December 31, 2018
Salaries	\$ 239,258	\$ 229,038
Consulting	114,376	114,376
Directors fees	52,864	47,801
	<u>\$ 406,498</u>	<u>\$ 391,215</u>

18. Minimum Lease Payments Receivable

The Company enters into leases with tenants for space in its properties. Initial lease terms are generally between 5 and 10 years. Leases generally provide for the tenant to pay the Company base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating cost and realty tax recoveries. Minimum rent payments under non-cancelable operating leases are as follows:

Not later than 1 year	\$ 2,576,226
Later than 1 year and not later than 5 years	6,808,858
Later than 5 years	<u>185,183</u>
	<u>\$ 9,570,267</u>

19. Administration

The administration account is broken down as follows:

	2019	2018
Bank and service charges	\$ 2,090	\$ 3,283
Bad debts	11,547	-
Gain on write-off accounts payable	(28,397)	-
Office & general	115,520	103,438
Interest and other	1,175	-
Professional fees	320,522	315,425
Occupancy costs	27,940	59,272
Transfer and filing fees	19,306	20,965
Wages and benefits	292,122	276,839
	<u>\$ 761,825</u>	<u>\$ 779,222</u>

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20. Subsequent Events

- a) In March 2020, the World Health Organization declared a global pandemic related to the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures which include the implementation of travel bans, self-imposed quarantine periods, and social distancing have caused material disruption to businesses resulting in a global economic disruption. At the same time, global equity markets have experienced historic volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize domestic economic conditions. The duration and eventual impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

COVID-19 has no physical impact on the three properties located in northern Alberta. However, COVID-19 does significantly impact the daily operations of the company, the operations of the tenants, the rental payments from tenants, the cost of operations at each property and the Company’s ability to access funds in the capital markets for financing all of which is difficult to determine at this time.

- b) On April 1, 2020, the Company completed a \$3,000,000 non-revolving loan financing from Canadian Western Bank. The non-revolving loan is repayable in monthly payments of principal and interest, at a fixed rate of 4.48% for the first 5 years, starting August 1, 2020 and maturing on December 1, 2034. The proceeds from the new loan were used to repay the principal on the existing loan payable disclosed in note 9.