



REGENT PACIFIC PROPERTIES

Management's Discussion and Analysis ("MD&A")

The following management discussion and analysis as of April 27, 2017 is provided to enhance the reader's understanding of, and should be read in conjunction with, Regent Pacific Properties Inc.'s (the "Company") annual audited consolidated financial statements for the years ended December 31, 2016 and 2015 and accompanying notes thereto. All dollar amounts are expressed in Canadian funds unless otherwise stated. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information relating to the Company, including its financial statements, is available on SEDAR at www.sedar.com.

Core Business

The Company is a real estate development and investment company with a 72,675 sq. ft. premiere three-storey office tower and single-storey bays with underground parking facility investment property (the "Property") located in Edmonton, Alberta.

Objectives and Strategy

The Company seeks to acquire a portfolio of high-quality, income producing properties.

Overall Performance

The Company's Property is fully leased with AAA tenants on long-term leases. Two leases for one tenant representing 9.3% of total rentable area come up for renewal in December 2017. The remaining tenant leases in the building have lease terms remaining of between 1.75 and 5.5 years.

The economic outlook in Alberta remains uncertain. In 2017, economic forecasts are pointing to modest growth with ATB Financial forecasting GDP growth of 2.2 percent in 2017 (compared to a 2.7 percent contraction in 2016) and the Conference Board of Canada predicting 2.8 percent GDP growth.

Selected Annual Information

	2016	2015	2014
Total Assets	\$27,454,191	\$26,309,801	\$27,215,723
Total Current Liabilities	\$19,191,780*	\$20,263,602*	\$21,368,013
Total Long-term Liabilities	\$4,347,132	\$2,922,366	\$2,192,632
Total Liabilities	\$23,538,912	\$23,185,968	\$23,560,645
Revenue	\$2,554,230	\$2,500,830	\$ 2,214,086
Cost of Sales	\$ -	\$ -	\$ -
Expenses	\$1,789,857	\$1,944,954	\$ 1,545,913
Income Taxes	\$ -	\$ -	\$ -
Deferred Income Tax Expense	\$147,363	\$156,727	\$ 488,189
Other Income (expenses)	\$39,251	\$ (1,038,900)	\$ 145,511
Net Income (Loss)	\$656,261	\$ (639,751)	\$ 325,495
Number of Shares Outstanding	40,039,000	40,039,000	40,039,000
Income (Loss) per Share	\$0.02	\$ (0.02)	\$ 0.00
Diluted Income (Loss) per Share	\$0.02	\$ (0.02)	\$ 0.00

*2016 Total Current Liabilities included a \$18,381,362 mortgage payable which is due on demand on a 5 year term, and an interest rate of 3.56%.

Summary of Quarterly Results

	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Revenues	\$621,683	\$643,975	\$644,399	\$644,174	\$717,341	\$623,566	\$601,420	\$558,503
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses (Recovery)	\$512,222	\$424,901	\$431,013	\$421,722	\$433,218	\$551,931	\$481,291	\$478,514
Income Tax (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Income Tax (Recovery)	\$ 147,363	\$ -	\$ -	\$ -	\$156,727	\$ -	\$ -	\$ -
Other Income (Expenses)	\$ 39,251	\$ -	\$ -	\$ -	\$(1,038,900)	\$ -	\$ -	\$ -
Net Income (Loss)	\$1,349	\$219,074	\$213,386	\$222,452	\$(911,503)	\$71,634	\$120,129	\$79,989
Earnings (Loss) per Share	\$0.00	\$0.01	\$0.01	\$0.01	\$(0.02)	\$0.00	\$0.00	\$0.00
Fully Diluted Earnings (Loss) per Share	\$0.00	\$0.01	\$0.01	\$0.01	\$(0.02)	\$0.00	\$0.00	\$0.00

Discussion of Operations and Financial Condition:

Revenue

Total revenue for the year was \$2,554,230, an increase of 2.1% from 2015 (\$2,500,830). Current year revenue is comprised of \$1,783,229 of rental income (2015 - \$1,762,141) and \$771,001 of operating cost recoveries from tenants (2015 - \$738,689). Revenue has increased over the prior year due to rent rate increases as per the terms in existing lease agreements, and higher expense recoveries.

As of December 31, 2016, there are long-term lease agreements signed for 100% of the total leasable space in the building with terms ranging from 1.75 to 5.5 years remaining.

Expenses

Total expenses for the year \$1,789,857, a decrease of 7.8% over 2015 (\$1,944,954). Expenses include operating expenses, general and administrative expenses, depreciation and amortization, and finance charges. Overall expenses have decreased over the prior year primarily due to lower finance costs on the mortgage and related party financing, and lower general and administration costs. These decreases were partially offset by increased operating expenses.

Capital Resources

As at December 31, 2016, the Company had cash of \$256,611 (December 31, 2015 – \$75,191) and a working capital deficiency of \$17,876,820 (December 31, 2015 - \$20,062,840). Working capital is calculated as current assets less current liabilities. Since the \$18,381,362 mortgage payable is due on demand the entire amount of the mortgage is included in current liabilities and as such significantly contributes to the working capital deficiency. Cash from operations was positive due to full occupancy of the property. Financing activities included scheduled repayments on the mortgage, a repayment on amounts due to related parties, and proceeds from the issuance of convertible debentures.

Capital expenditures are generally funded by cash provided by operating activities and/or cash. It is the Company's objective to maintain its properties at a high level. Consequently, capital expenditures may be regularly required, however the timing of such expenditures is often discretionary and may be deferred, for example with a repair rather than replacement.

From time to time the Company anticipates incurring direct leasing costs and/or tenant improvement allowances related to acquiring new tenants or maintaining existing tenants. In December 2017 two leases held by one tenant representing 9.3% of total rentable area comes up for renewal, and there may be direct leasing costs and/or tenant improvement allowances incurred as a result of signing a new lease with the tenant. The remaining tenant leases in the building have lease terms remaining of between 1.75 and 5.5 years.

Another significant use for cash could be the acquisition of or investment in new properties. The Company is actively looking for new investment opportunities, however the Company does not have any commitment for capital expenditures to note at this time.

Risk and Uncertainty

The Company is exposed to a variety of business and other risks and uncertainties including the following:

Economic Risk

The performance of real estate investments is impacted by local market conditions, which in turn can be affected by national or global economic conditions. Economic trends can also be exacerbated in smaller markets, resulting in greater risk. The Company mitigates economic risk by focusing on larger markets, maintaining tenants from various industries, and maintaining high-quality properties.

Fair value risk

Real estate markets are in a constant state of flux and prices and values can vary in a short timeframe due to such factors as economic conditions, the general desirability of real estate investments, the number and nature of potential purchasers in the market, the availability of comparable investment opportunities and the motivation of vendors, the availability and cost of financing, etc. Changes in fair value will result in gains or losses in earnings being recorded in the financial statements, although these would be non-cash gains or losses until such time as a property is sold. Upon sale, there is a risk that the Company may realize sale proceeds of less, or even significantly less, than the fair value recorded in its real estate investments. In addition, transaction costs are not included in the fair value of investment properties which will reduce fair value gain (or increase the loss) on disposal of investment properties. Lower property value may also make refinancing of maturing mortgages more difficult, although with low leverage, this is less likely to occur.

Credit risk

Tenant default can occur because of economic conditions or tenant specific circumstances. The Company manages this risk by having multiple tenants, by staggering lease expiry dates, and by screening tenants for longevity and credit worthiness.

Interest rate risk

Future interest rates can significantly positively or negatively affect net returns.

Financing risk

There is the risk that the Company will be unable to obtain satisfactory financing when required, particularly to refinance maturing debt. This risk is mitigated by actively managing the Company's capacity to service debt, and by maintaining good borrowing relations with a number of sound lenders.

Environmental risk

Environmental liability is a risk for any owner in the real-estate industry, and primarily stems from the possibility of inheriting an existing unknown liability through the acquisition of a property or from environmental liability caused by a tenant. The Company manages the former risk by obtaining professional environmental assessments of potential acquisition properties as a condition of acquisition, which assessments, among other things, investigate the historical use and current condition of the property. The risk of potential environmental liability caused by a tenant is mitigated by screening tenants, by obliging tenants to be responsible for any environmental contamination or other issues caused by them, and by monitoring properties for any apparent environmental threats.

Property Loss Risk

The Company contracts with an insurance agency that specializes in commercial insurance. Insurance coverage is reviewed annually for each property.

Financial Instruments and Other Instruments

Financial instruments of the Company include cash, accounts receivable, loan receivable from related party, mortgages payable, amounts due to related party, convertible debentures, unsecured debenture, loan payable and accounts payable and accrued liabilities.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

As at December 31, 2016, the Company had only cash classified as “fair value through profit and loss”, measured at fair value – Level 1. There were no transfers between levels of the fair value hierarchy during the year.

The following table summarizes the Company's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value:

	Fair Value Hierarchy	2016	2015
Financial Assets:			
Cash	Level 1	\$ 256,611	\$ 75,191
Financial Liabilities:			
Loan payable	Level 3	\$ 24,725	\$ 24,249
Debentures payable	Level 3	\$ 3,111,539	\$ 1,142,669
Mortgages payable	Level 3	\$ 18,322,530	\$ 18,626,945
Non-Financial Assets:			
Investment property	Level 3	\$ 26,100,000	\$ 26,060,000

The fair value of the Company's financial instruments were determined as follows:

- The carrying amounts of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments.
- The fair value of convertible debentures and unsecured debenture are determined by discounting the future contractual cash flow under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debt instruments with similar terms to maturity (Level 3).
- The fair value of amount due to related party and loan receivable from related party cannot be determined as there is no market for financial instruments which have no terms of repayment.
- The fair value of mortgages payable and loan payable are determined by discounting the future contractual cash flow under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debts with similar terms to maturity (Level 3).

The Company carries its investment property at fair value, which is determined based on the accepted valuation methods of income capitalization, discounted future cash flows and direct comparison.

Off – Balance Sheet Arrangements

As at December 31, 2016, the Company did not enter into any off-balance sheet arrangements.

Contingencies

Management of the Company is aware of no contingent liabilities as at December 31, 2016.

Share Structure

The Company has 40,039,000 common shares outstanding at December 31, 2016. There are 3,466,000 stock options exercisable and outstanding as at December 31, 2016 with a weighted average exercise price of \$0.10. The stock options outstanding expire on February 14, 2017 and October 16, 2019.

Transactions with Related Parties

Key management of the Company includes the Chief Executive Officer and Chief Financial Officer. Remuneration being paid to key management of the Company for the year ended December 31, 2016, consisted of a bonus payment of \$nil (2015 - \$28,000), stock-based compensation of \$nil (2015 - \$49,913) and interest expense on loan payable and debenture of \$60,430 (2015 - \$151,471).

During the year, the Company received a total of \$106,978 (2015 - \$94,738) from two entities owned or controlled by one of the directors of the Company for recovery of operating expenses.

During the year, the Company received rental income, before straight-line adjustment, of \$290,880 (2015 - \$290,880) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid rent expense of \$29,678 (2015 - \$29,678) to an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid interest of \$40,665 (2015 - \$41,101) to an entity owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest expense of \$1,593 (2015 - \$1,489) to one of the directors of the Company.

During the year, the Company accrued interest income of \$8,856 (2015 - \$nil) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid legal fees of \$14,673 (2015 - \$13,218) to a law firm where one of the directors of the Company is a Partner.

During the year, the Company paid administration fees of \$70,902 (2015 - \$nil) to an entity owned or controlled by one of the directors of the Company.

IFRS Accounting Policies

The Company's significant accounting policies under IFRS are disclosed in its December 31, 2016 annual consolidated financial statements.

Standards Issued But Not Yet Effective

Effective January 1, 2018, the Company will be required to adopt IFRS 9 "Financial Instruments" ("IFRS 9"). IFRS 9 was issued by the IASB in final form in July 2014 and will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A detailed review will be completed in the future in order to determine if this standard will have significant impacts.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014 and applies to an entity's first annual IFRS Financial Statements for a period beginning on or after January 1, 2017. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services. The Company does not expect the application of this pronouncement to have a significant impact on its consolidated financial statements.

IFRS 16 Leases outlines requirements for lessees to recognize assets and liabilities for most leases. Lessees are required to recognize the lease liability for the obligations to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lease liability is measured at the present value of lease payments to be made over the term of the lease. The right-of-use asset is initially measured at the amount of the lease liability and adjusted for prepayments, direct costs and incentives received. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with

Customers, has been applied, or is applied at the same date as IFRS 16. A detailed review will be completed in the future in order to determine if this standard will have significant impacts.

Critical Accounting Policies and Estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes.

There is a full discussion and description of the Company's critical accounting policies and estimates and judgments used in the December 31, 2016 and 2015 annual consolidated financial statements.

Forward Looking Information

This management discussion and analysis may contain forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. These statements are not historical acts and are subject to risks and uncertainties which could cause actual results and the timing of certain events to differ materially from those set forth in or implied herein including, without limitation, risks associated with the Company's proposed activities.