

REGENT PACIFIC PROPERTIES INC.
Consolidated Financial Statements
December 31, 2016 and 2015
(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Regent Pacific Properties Inc. for the years ended December 31, 2016 and 2015 have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded and financial records are properly maintained to facilitate the preparation of the consolidated financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Collins Barrow Edmonton LLP, an independent firm of Chartered Professional Accountants, appointed as external auditors by the shareholders upon the recommendation of the Board of Directors, have audited the consolidated financial statements and their report is included herein.

"Eddie Yu"
Signed
Eddie Yu
Chief Executive Officer

"David Yu"
Signed
David Yu
Chief Financial Officer

April 27, 2017

INDEPENDENT AUDITORS' REPORT

www.collinsbarrow.com

To the Shareholders of Regent Pacific Properties Inc.

We have audited the accompanying consolidated financial statements of Regent Pacific Properties Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Regent Pacific Properties Inc. and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.



Edmonton, Alberta
April 27, 2017

Chartered Professional Accountants

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2016	December 31, 2015
ASSETS		
Non-current Assets		
Investment property (Note 4)	\$ 26,100,000	\$ 26,060,000
Loan receivable from related party (Note 6)	1,035,010	---
Furniture and fixtures (Note 5)	<u>39,231</u>	<u>49,039</u>
	<u>27,174,241</u>	<u>26,109,039</u>
Current Assets		
Accounts receivable (Note 7)	14,756	116,158
Prepaid expenses	8,583	9,413
Cash	<u>256,611</u>	<u>75,191</u>
	<u>279,950</u>	<u>200,762</u>
	<u>\$ 27,454,191</u>	<u>\$ 26,309,801</u>
LIABILITIES		
Non-current Liabilities		
Debentures payable (Note 8)	\$ 2,428,498	\$ 1,151,571
Loan payable (Note 9)	24,725	24,249
Prepaid rents	178,678	178,678
Deferred income taxes (Note 10)	<u>1,715,231</u>	<u>1,567,868</u>
	<u>4,347,132</u>	<u>2,922,366</u>
Current Liabilities		
Amount due to related party (Note 11)	---	1,637,041
Mortgages payable (Note 12)	18,381,362	18,447,684
Current portion of debentures payable (Note 8)	679,846	---
Prepaid rents	24,660	24,508
Accounts payable and accrued liabilities (Note 13)	<u>105,912</u>	<u>154,369</u>
	<u>19,191,780</u>	<u>20,263,602</u>
	<u>23,538,912</u>	<u>23,185,968</u>
EQUITY		
Share capital (Note 14)	4,167,624	4,167,624
Warrants (Note 8)	135,185	---
Contributed surplus	274,210	274,210
Deficit	<u>(661,740)</u>	<u>(1,318,001)</u>
	<u>3,915,279</u>	<u>3,123,833</u>
	<u>\$ 27,454,191</u>	<u>\$ 26,309,801</u>

Approved on behalf of the Board of Directors:

“Eddie Yu” Signed _____ Director	“David Yu” Signed _____ Director
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See accompanying notes

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

	2016	2015
Rental revenue (Note 15)	\$ 1,783,229	\$ 1,762,141
Recovery of operating expenses	771,001	738,689
Direct operating expenses	<u>(751,528)</u>	<u>(728,271)</u>
Net rental income	<u>1,802,702</u>	<u>1,772,559</u>
Other expenses		
General and administrative	185,341	261,438
Amortization	<u>9,808</u>	<u>12,260</u>
	<u>195,149</u>	<u>273,698</u>
Income before fair value adjustments on investment property, interest income and finance costs	1,607,553	1,498,861
Fair value adjustments on investment property (Note 4)	<u>30,395</u>	<u>(1,038,900)</u>
Income before interest income and finance costs	<u>1,637,948</u>	<u>459,961</u>
Interest income	8,856	---
Finance costs (Note 16)	<u>(843,180)</u>	<u>(942,985)</u>
	<u>(834,324)</u>	<u>(942,985)</u>
Income (loss) before income taxes	803,624	(483,024)
Deferred income tax expense (Note 10)	<u>(147,363)</u>	<u>(156,727)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 656,261</u>	<u>\$ (639,751)</u>
Net income (loss) per share:		
Basic net income (loss) per common share (Note 17)	<u>\$ 0.02</u>	<u>\$ (0.02)</u>
Diluted net income (loss) per common share (Note 17)	<u>\$ 0.02</u>	<u>\$ (0.02)</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

	Share Capital (Note 14)		Contributed Surplus	Warrants	Deficit	Total
	Number	Amount				
Balance, December 31, 2014	40,039,000	\$ 4,167,624	\$ 165,704	\$ ---	\$ (678,250)	\$ 3,655,078
Share-based compensation	---	---	108,506	---	---	108,506
Net loss	---	---	---	---	(639,751)	(639,751)
Balance, December 31, 2015	40,039,000	\$ 4,167,624	\$ 274,210	\$ ---	\$ (1,318,001)	\$ 3,123,833
Warrant	---	---	---	135,185	---	135,185
Net income	---	---	---	---	656,261	656,261
Balance, December 31, 2016	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 274,210</u>	<u>\$ 135,185</u>	<u>\$ (661,740)</u>	<u>\$ 3,915,279</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

	2016	2015
Cash provided by (used in):		
Operating Activities		
Net income (loss)	\$ 656,261	\$ (639,751)
Adjustments for:		
Accrued interest income	(8,856)	---
Finance costs (Note 16)	843,180	942,985
Amortization (Note 5)	9,808	12,260
Fair value adjustments to investment property (Note 4)	(30,395)	1,038,900
Straight-line rent adjustment	23,699	(48,900)
Share-based compensation	---	108,506
Deferred income tax expense (Note 10)	147,363	156,727
Net changes in non-cash working capital items (Note 18)	<u>53,927</u>	<u>(67,237)</u>
	<u>1,694,987</u>	<u>1,503,490</u>
Investing Activities		
Advance of loan receivable from related party (Note 6)	(1,026,154)	---
Additions to investment property (Note 4)	<u>(33,304)</u>	<u>---</u>
	<u>(1,059,458)</u>	<u>---</u>
Financing Activities		
Repayments to related parties	(2,987,128)	(2,701,021)
Proceeds of advance from related party	1,350,087	---
Proceeds from mortgage financing	18,564,130	18,654,161
Repayments of mortgage financing	(18,657,524)	(17,214,040)
Interest paid	(721,924)	(697,082)
Finance fees paid	(1,750)	(30,605)
Proceeds from loan payable	---	24,000
Proceeds from issuance of debentures (Note 8)	<u>2,000,000</u>	<u>502,000</u>
	<u>(454,109)</u>	<u>(1,462,587)</u>
Increase in cash	181,420	40,903
Cash, beginning of year	<u>75,191</u>	<u>34,288</u>
Cash, end of year	<u><u>\$ 256,611</u></u>	<u><u>\$ 75,191</u></u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

1. Nature of Business

Regent Pacific Properties Inc. (the "Company") is incorporated and domiciled in Canada and is a real estate development company with an investment property located in Edmonton, Alberta. The address of the Company's registered head office is 2607 Ellwood Dr SW, Edmonton, AB, T6X 0P7. The Company trades on the TSX Venture Exchange under the symbol "RPP".

These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 27, 2017.

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies in these consolidated financial statements are based on IFRS issued and outstanding as of April 27, 2017, the date the Board of Directors approved the consolidated financial statements.

b) Basis of Measurement

The consolidated financial statements have been prepared on a going concern and historical cost basis except for financial instruments classified as fair value through profit or loss and investment property, which are stated at fair value.

c) Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiary's functional currency.

d) Use of Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The estimates and judgments that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

2. **Basis of Presentation** (Continued)

d) Use of Estimates and Judgements (Continued)

Investment Property

The determination of the fair value of the investment property requires the use of estimates such as net operating income based on market lease rates per square feet, vacancy rates and capitalization rates and available comparable transactions. These estimates are based on market conditions existing at the reporting date. The critical estimates and assumptions underlying the valuation of the investment property are described in Note 4.

Convertible debentures

The allocation of convertible debentures between liability and equity components is based on the market interest rate available to the Company on non-convertible, unsecured debt instruments with similar terms. The critical estimates and assumptions underlying the allocation of convertible debentures are described in Note 8.

Unsecured debenture with Warrants

The allocation of unsecured debentures between liability and equity components is based on the market interest rate available to the Company on non-convertible, unsecured debt instruments with similar terms. The critical estimates and assumptions underlying the allocation of the unsecured debenture is described in Note 8.

Leases

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

Financial Instruments

The Company estimates and discloses the fair value of financial instruments. When fair value cannot be derived from an active market, it is determined using valuation techniques, namely the discounted cash flow method. If possible, data is derived from observable markets and, if not, judgment is required to determine fair value.

Deferred Income Taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing losses carried forward. To the extent assumptions regarding future probability change, there can be a change in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

2. **Basis of Presentation** (Continued)

d) Use of Estimates and Judgements (Continued)

Share Based Compensation

The valuation of stock options and warrants issued is based on management's best estimate of the future volatility of the Company's share price, estimated market price of the Company's shares at grant date, expected lives of the options and warrants, expected dividends and other relevant assumptions. Future volatility of the Company's share price is estimated based on the historical volatility of the Company's share price.

3. **Significant Accounting Policies**

The following is a summary of the significant accounting policies applied in the preparation of these consolidated financial statements. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of Consolidation

These consolidated financial statements consist of Regent Pacific Properties Inc. and its wholly-owned subsidiaries Cassel Centre Ltd. and 1572587 Alberta Ltd. All intercompany balances and transactions have been eliminated upon consolidation.

Investment Property

A property that is held to earn rental income, for capital appreciation or both is classified as an investment property.

The investment property is initially measured at its cost, including related transaction costs.

All direct development costs, insurance, realty taxes and borrowing costs incurred in connection to the construction or development are capitalized during the development period. This period extends from the date that activities commence to prepare the property for its intended use and ends when such activities are substantially complete.

Where the Company has pre-leased space at or prior to the investment property being substantially ready for its intended use, and the lease requires tenant improvements, which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

After the initial recognition, the investment property is measured using the fair value model. The investment is recorded at fair value, determined based on available market evidence at each reporting date. Changes in fair value are recognized in net income in the period in which it arises. The fair value is determined by a third party valuation professional using a combination of income approach via overall income capitalization, income approach via discounted cash flow and direct comparison approach.

Lease incentives, which include costs incurred to make leasehold improvements to tenants' space, straight-line rents included in revenue and cash allowances provided to tenants, are added to the carrying amount of the investment property.

Capital additions to investment property are capitalized to the carrying amount of investment property when incurred and then considered in the fair value adjustment of the investment property at the next reporting date.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

3. **Significant Accounting Policies** (Continued)

Furniture and Fixtures

Furniture and fixtures are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at the following annual rate commencing on the date the furniture and fixtures are available for use:

Furniture and fixtures - 20%

Leasing Costs

Leasing commissions are fees paid in connection with negotiating lease contracts with lessees. Such fees are included in the carrying amount of the investment property.

Finance Costs

Finance costs are comprised of interest on mortgages, interest on amount due to related party, interest on debentures, finance fees on mortgages and debentures, and interest on loan payable. Finance costs are recognized in income using the effective interest rate method.

Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Impairment of Non-Financial Assets

Non-financial assets are comprised of furniture and fixtures.

The Company reviews the carrying value of its non-financial assets with finite lives annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

3. **Significant Accounting Policies** (Continued)

Impairment of Non-Financial Assets (Continued)

An impairment loss is recognized if the carrying amount of a cash-generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Impairment losses are recognized in net income.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Recognition of Revenue

Rental revenue from the investment property is recognized on a straight-line basis over the term of the related lease agreements. When incentives are provided to the tenants, the cost of the incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue.

Revenues includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

Income Taxes

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits and tax loss carry forwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Share-based Payments

The Company uses the Black-Scholes option pricing model to fair value options granted during the year to directors, officers and employees. The estimated fair value of options on the date of grant is recognized as compensation expense over the vesting period. The number of expected forfeitures is estimated at the grant date and adjustments for actual forfeitures are made as they occur.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

3. **Significant Accounting Policies** (Continued)

Convertible Debentures

A convertible debenture is a compound financial instrument that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial liability is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized as the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component.

Basic and Diluted Net Income (Loss) Per Share

The Company presents basic and diluted net income (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential common shares.

Financial Instruments

At initial recognition, all financial instruments are measured at fair value with subsequent measurement dependent on the classification of the financial instruments. Financial instruments are classified in the following categories depending on the purpose for which the instruments were acquired:

Fair value through profit and loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or re-purchasing in the short-term or if designated to be in this category at inception. Financial instruments in this category are measured at fair value upon initial recognition, with changes in fair value recognized in net income. Cash is classified as "fair value through profit and loss".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at fair value upon initial recognition plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary. Accounts receivable and loan receivable from related party are classified as "loans and receivables".

Financial liabilities measured at amortized cost

Financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial liabilities measured at amortized cost include mortgages payable, loan payable, amount due to related party, debentures payable and accounts payable and accrued liabilities.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015
(Expressed in Canadian dollars)

3. **Significant Accounting Policies** (Continued)

Provisions (Continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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, 2018. 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. A detailed review will be completed in the future in order to determine if this standard will have significant impacts.

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3. **Significant Accounting Policies** (Continued)

Standards Issued But Not Yet Effective (Continued)

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.

IAS 7 Statement of Cash Flows was amended by the IASB in January 2016. Amendments will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2017. A detailed review will be completed in the future in order to determine if this standard will have significant impacts.

IAS 12 Income Taxes was amended by the IASB in January 2016. Amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The new standard will be effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. A detailed review will be completed in the future in order to determine if this standard will have significant impacts.

4. **Investment Property**

	<u>2016</u>	<u>2015</u>
Opening balance, beginning of year	\$ 26,060,000	\$ 27,050,000
Additions to existing investment property:		
Capital expenditures	33,304	---
Straight-line rents included in revenue	(23,699)	48,900
Fair value adjustment	<u>30,395</u>	<u>(1,038,900)</u>
	<u>\$ 26,100,000</u>	<u>\$ 26,060,000</u>

The Company values its investment property using Level 3 inputs. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets. Level 2 inputs are inputs other than quoted prices that are observable for the asset either directly or indirectly. Valuations that require the significant use of unobservable inputs are considered Level 3. There have been no transfers during the period between levels.

The investment property was appraised by third party accredited valuation professionals using a combination of income approach via overall income capitalization, income approach via discounted cash flow and direct comparison approach, whereas in the prior year a combination of the direct capitalization of income method and the direct comparison approach were used.

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4. Investment Property (Continued)

In applying the income approach via overall income capitalization, the stabilized net operating income is capitalized at an overall capitalization rate. An overall capitalization rate range of between 6.500% and 6.750% (2015 – 5.130% - 7.500%) was determined to be appropriate and the mid-rate of 6.625% (2015 – 6.740%) was applied to the stabilized net operating income of \$1,736,316 (2015 - \$1,759,334) to arrive at a value estimate of \$26,208,541 (2015 - \$25,985,000).

In applying the income approach via discounted cash flow a discount rate is selected and applied to the expected stream of future cash flows, and then a reversionary capitalization rate is applied to the discounted value to determine a value. A discount rate range of between 7.500% and 7.750% and a reversionary capitalization rate range of between 6.750% and 7.000% were used to arrive at a mid-point value of \$25,567,097.

In applying the direct comparison method, the property was compared to properties that have sold recently or are currently listed and considered to be relatively similar to the property. A unit of comparison, i.e. the sale price per square foot of leasable area is then used to facilitate the analysis. An estimated value range of between \$355 and \$365 (2015 - \$345 - \$415) per square foot was selected and the mid-point value of \$360 (2015 - \$380) was applied to the leasable building area of 71,320 square feet to arrive at a value of \$25,675,200 (2015 - \$25,675,000).

The three approaches were reconciled with the overall income capitalization method given significant emphasis, and the discounted cash flow analysis and direct comparison approach given minor emphasis to arrive at an overall reconciled current market value of the investment property as at December 31, 2016 of \$26,100,000 (2015 - \$26,060,000) which resulted in a capitalization rate of 6.650% (2015 – 6.740%).

Fair values determined by the direct capitalization of income method are most sensitive to changes in capitalization rate. At December 31, 2016, a 0.250% increase in the weighted average capitalization rate would decrease the fair value of the investment property by \$936,000 (2015 - \$759,315) and a 0.250% decrease in the weighted average capitalization rate would increase the fair value of the investment property by \$1,029,938 (2015 - \$817,800).

The Company leases space in its investment property to tenants under non-cancellable operating leases. The leases have various terms. As at December 31, 2016, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

One year or less	\$ 1,698,300
2 – 5 years	4,358,708
Greater than 5 years	<u>710,141</u>
	<u>\$ 6,767,149</u>

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5. **Furniture and Fixtures**

	Cost						Balance at December 31, 2016
	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015	Additions	Disposals	
	Furniture and fixtures	\$ 73,588	\$ ---	\$ ---	\$ 73,588	\$ ---	

	Accumulated Depreciation						Balance at December 31, 2016
	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015	Additions	Disposals	
	Furniture and fixtures	\$ 12,289	\$ 12,260	\$ ---	\$ 24,549	\$ 9,808	

	Net Book Value	
	Balance at December 31, 2016	Balance at December 31, 2015
	Furniture and fixtures	\$ 39,231

6. **Loan Receivable from Related Party**

	2016	2015
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	\$ 1,026,154	\$ ---
Interest accrued	8,856	---
	\$ 1,035,010	\$ ---

The loan receivable is repayable from an entity owned or controlled by one of the directors of the Company.

7. **Accounts Receivable**

Accounts receivable is comprised of the following items:

	2016	2015
Accrued recoveries	\$ ---	\$ 41,653
Rents receivable	7,199	49,831
Other receivable	1,057	20,000
Goods and Services Tax receivable	6,500	4,674
	\$ 14,756	\$ 116,158

Included in accounts receivable is an amount of \$1,303 (2015 - \$42,904) which is rents receivable from entities owned or controlled by one of the directors of the Company.

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8. Debentures Payable

Convertible debentures in the amount of \$570,000 were issued on February 4, 2014. The convertible debentures bear interest at 7.00% compounded annually, maturing in three years from the date of issue. The principal amount of each debenture may, at the option of the debenture holder, be convertible, in whole or in part, during the term, into common shares of the Company at a conversion price of \$0.25 per common share before February 4, 2017. There was no equity component determined for this convertible debenture. There was \$109,847 (2015 - \$71,635) of interest payable included in the balance at year-end and \$38,211 (2015 - \$38,072) of interest expense included in finance costs.

Convertible debentures in the amount of \$502,000 were issued on October 30, 2015. These debentures bear interest at 6.00% compounded annually, maturing in three years from the date of issue. The principal amount and interest earned on each debenture may, at the option of the debenture holder, be convertible, in whole or in part, during the term, into common shares of the Company at a conversion price of \$0.30 per common share before October 30, 2018. There was no equity component determined for this convertible debenture. There was \$38,532 (2015 - \$7,936) of interest payable included in the balance at year-end and \$30,596 (2015 - \$7,936) of interest expense included in finance costs.

A redeemable unsecured debenture and a warrant certificate in the amount of 6,666,667 warrants was issued on November 10, 2016 for proceeds of \$2,000,000. This debenture bears interest at 6.50% compounded annually, maturing in two years from the date of issue. The principal amount and interest earned on the debenture may, upon mutual agreement of both the Company and the debenture holder, be redeemed in whole or in part during the term without penalty or bonus. Each of the share purchase warrants is exercisable into one common share of the Company at \$0.30 per common share for a period of two years from the date of issuance. The common share purchase warrants are subject to a four-month resale restriction. There was \$23,151 of interest payable included in the balance at year-end and \$23,151 of interest expense included in finance costs.

	<u>2016</u>	<u>2015</u>
Convertible debentures:		
7.00% debentures maturing February 4, 2017	\$ 679,846	\$ 641,635
6.00% debentures maturing October 30, 2018	<u>540,532</u>	<u>509,936</u>
	1,220,378	1,151,571
Unsecured debenture:		
6.50% debenture maturing November 10, 2018	<u>1,887,966</u>	---
	3,108,344	1,151,571
Less current portion	<u>(679,846)</u>	---
	\$ 2,428,498	\$ 1,151,571
Portion issued and outstanding to related parties at year-end	\$ 2,080,362	\$ 181,992

Related parties consist of directors and family members of the directors.

The fair value of each convertible debenture was estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. Since the fair value of the liability component was equal to the fair value of the financial instruments as a whole, no equity component has been recognized.

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8. **Debentures Payable** (Continued)

The fair value of the unsecured non-convertible debenture with a warrant certificate was estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without attached warrants. The fair value of the liability component was determined to be \$1,864,815 resulting in a residual value of \$135,185 being allocated to the equity component and recognized as warrants.

9. **Loan Payable**

	<u>2016</u>	<u>2015</u>
Loan payable is unsecured, bears interest at 6%, and matures on October 30, 2018	<u>\$ 24,725</u>	<u>\$ 24,249</u>

10. **Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax assets (liabilities):		
Tax loss carry-forward	\$ 266,626	\$ 231,252
Tax basis of share issuance cost, finance costs and cumulative eligible capital	14,345	4,179
Tax basis of investment property in excess of carrying value	<u>(1,729,576)</u>	<u>(1,572,047)</u>
	(1,448,605)	(1,336,616)
Less valuation allowance	<u>(266,626)</u>	<u>(231,252)</u>
Net deferred income tax liability	<u>\$ (1,715,231)</u>	<u>\$ (1,567,868)</u>

As at December 31, 2016, the Company has non-capital loss carry forwards of \$987,502, which will expire as follows:

2027	\$ 7,815
2028	71,328
2029	60,706
2030	72,470
2031	90,260
2032	114,182
2033	40,503
2034	69,759
2035	329,466
2036	131,013

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10. **Income Taxes** (Continued)

A reconciliation of income taxes at statutory rates is as follows:

	<u>2016</u>	<u>2015</u>
Income (loss) before income taxes	\$ 803,624	\$ (483,024)
Statutory tax rate	<u>27.00%</u>	<u>26.01%</u>
Expected tax expense (recovery)	216,978	(125,635)
Permanent differences	---	28,222
Temporary differences	(104,988)	52,307
Net effect of unrecognized non-capital losses	35,373	85,694
Tax impact of changes in tax rate	<u>---</u>	<u>116,139</u>
Income tax expense	<u>\$ 147,363</u>	<u>\$ 156,727</u>

11. **Amount Due to Related Party**

	<u>2016</u>	<u>2015</u>
Loan payable to a director of the Company, is unsecured, bears interest at 7% and has no specific terms of repayment	<u>\$ ---</u>	<u>\$ 1,637,041</u>

Related Party Transactions

Related party transactions not disclosed elsewhere in the financial statements:

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 entities 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.

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11. **Amount Due to Related Party** (Continued)

Related Party Transactions (Continued)

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.

12. **Mortgages Payable**

	<u>2016</u>	<u>2015</u>
Mortgage payable with a maximum borrowing limit of \$18,875,000, due on demand with monthly blended instalments of \$114,065, interest at 3.56% per annum, with term expiring September 1, 2020, secured by the investment property with a carrying amount of \$26,100,000, general assignment of rent and a general security agreement	\$ 18,327,315	\$ ---
Mortgage payable with a maximum borrowing limit of \$19,000,000, due on demand with monthly blended instalments of \$110,715, interest at 3.55% per annum, with term expiring September 1, 2020, secured by the investment property with a carrying amount of \$26,060,000, general assignment of rent and a general security agreement	---	\$ 18,420,709
Accrued interest	54,047	55,540
Unamortized finance costs	---	(28,565)
	18,381,362	18,447,684
Less current portion of mortgages payable	<u>18,381,362</u>	<u>18,447,684</u>
	<u>\$ ---</u>	<u>\$ ---</u>

The Company's mortgage of \$18,875,000 contains a holdback of \$345,839 which is dependent on the completion of tenant improvements. The holdback is to be funded based on the confirmation of paid invoices against the construction budget of one of the Company's existing tenants.

As at December 31, 2016, the minimum contractual principal payments due are as follows:

2017	\$ 674,114
2018	754,511
2019	781,814
2020	<u>16,116,876</u>
	<u>\$ 18,327,315</u>

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13. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following items:

	<u>2016</u>	<u>2015</u>
Trade payables	\$ 61,863	\$ 76,939
Accrued liabilities	44,049	50,100
Goods and Services Tax payable	---	27,330
	<u>\$ 105,912</u>	<u>\$ 154,369</u>

Included in accounts payable and accrued liabilities is an amount of \$11,356 (2015 - \$8,112) owing to entities owned or controlled by one of the directors of the Company.

14. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value
Unlimited number of preferred shares without nominal or par value
The preferred shares may be issued in one or more series and the board of directors are authorized to fix the number of shares in each series and determine the rights, privileges and conditions of the preferred shares.

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, January 1, 2015	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	---	---
Balance, December 31, 2015 and 2016	<u>40,039,000</u>	<u>\$ 4,167,624</u>

Stock Options

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time-to-time, in its discretion, and in accordance with securities exchange requirements, grant to directors, officers, and technical consultants to the Company, non-transferable options to purchase common shares.

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14. **Share Capital** (Continued)

Stock Options (Continued)

The maximum number of shares reserved for issue under the Stock Option Plan shall not exceed 10% of the issued and outstanding shares of the Company as at the date of the grant. The maximum number of shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of shares at the date of the grant, unless the Company has obtained disinterested shareholder approval. The maximum number of shares reserved for issue to a consultant or a person engaged in investor relations activities in any 12 month period cannot exceed 2% of the issued and outstanding shares at the date of the grant. The aggregate number of options available for issuance under the Stock Option Plan in any 12-month period to an employee conducting investor relations activities shall not exceed 2% of all issued shares calculated at the date of the grant.

The exercise price of each option granted under the Stock Option Plan shall be determined from time to time by the Board of Directors of the Company, but in any event, shall not be lower than the lowest exercise price permitted by the Exchange. Options may be granted for a maximum term of 10 years. Options shall have such equitable vesting provisions as determined by the Board of Directors of the Company from time to time, provided that any such options granted to individuals who perform investor relations activities must vest in stages over 12 months with no more than ¼ of the options vesting in any 3 month period. Options are non-assignable and expire immediately upon termination of employment or holding office as a director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representatives or designated beneficiaries of the holder of the option.

The following table summarizes the activity of the stock options as follows:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,466,000	\$ 0.10	3,466,000	\$ 0.10
Granted	---	---	---	--
Expired	---	---	---	--
Exercised	---	---	---	---
	3,466,000	\$ 0.10	3,466,000	\$ 0.10
Outstanding, end of year				
Exercisable, end of year	3,466,000	\$ 0.10	3,466,000	\$ 0.10

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14. **Share Capital** (Continued)

Stock Options (Continued)

The following table summarizes information on stock options outstanding and exercisable as at December 31, 2016:

	<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry Date</u>
February 14, 2012	\$ 0.10	1,311,000	1,311,000	February 14, 2017
October 17, 2014	\$ 0.10	2,155,000	2,155,000	October 16, 2019

The 1,311,000 stock options issued February 14, 2012 expired subsequent to year-end without being exercised.

15. **Rental Revenue**

	<u>2016</u>	<u>2015</u>
Tenant leases	\$ 1,702,875	\$ 1,617,346
Parking and storage	104,053	95,995
Straight-line adjustment	<u>(23,699)</u>	<u>48,800</u>
	<u>\$ 1,783,229</u>	<u>\$ 1,762,141</u>

16. **Finance Costs**

	<u>2016</u>	<u>2015</u>
Interest on mortgages	\$ 650,858	\$ 665,377
Interest on amount due to related parties	68,711	185,129
Interest on debentures	91,958	45,395
Amortization of deferred financing fees on mortgages	30,315	46,598
Interest on loan payable	1,338	249
Other interest expenses	<u>---</u>	<u>237</u>
	<u>\$ 843,180</u>	<u>\$ 942,985</u>

17. **Net Income (Loss) per Common Share**

The basic and diluted net income (loss) per common share is based on the weighted average number of common shares outstanding as at December 31, 2016 of 40,039,000 (2015 - 40,039,000). The inclusion of the Company's stock options and convertible debentures in the computation of the diluted net income per share would be anti-dilutive and are excluded from the computation.

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18. **Net changes in Non-Cash Working Capital Items**

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ 101,402	\$ (55,558)
Prepaid expenses	830	249
Prepaid rents	152	1,248
Accounts payable and accrued liabilities	<u>(48,457)</u>	<u>(13,176)</u>
	<u>\$ 53,927</u>	<u>\$ (67,237)</u>

19. **Financial Instruments**

Fair Value Measurement

Financial instruments include cash, accounts receivable, loan receivable from related party, mortgages payable, amounts due to related party, debentures payable, 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.

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19. **Financial Instruments** (Continued)

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	<u>2016</u>	<u>2015</u>
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

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 debentures 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 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).

Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

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19. **Financial Instruments** (Continued)

Market risk

Market risk includes currency risk and interest rate risk. The Company is not susceptible to any currency risk as all financial instruments are denominated in Canadian dollars.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is susceptible to interest rate fair value risk on its mortgage payable, convertible debentures and amounts due to related parties that bear a fixed interest rate.

Credit and concentration risk

The Company is exposed to credit risk due to unexpected losses that could occur if a tenant fails to satisfy its lease obligations. Credit risk for the Company arises from the accounts receivable from tenants. The Company's maximum exposure to credit risk is equal to the carrying value of the financial asset. The Company mitigates its credit risk by attracting tenants with good credit and by limiting exposure to any one tenant.

The aging of accounts receivable is as follows:

	<u>2016</u>	<u>2015</u>
Current	\$ 9,668	\$ 79,550
31-90 days	2,938	6,127
91 + days	<u>2,150</u>	<u>30,481</u>
	<u>\$ 14,756</u>	<u>\$ 116,158</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the year ended December 31, 2016, rent earned from four key tenants represents 84% (2015 – 86%) of total revenues. At December 31, 2016 receivables from these tenants total 20% of total accounts receivable (2015 – 54%).

Liquidity risk

The Company's exposure to liquidity risk is dependent on generating rental revenue to sustain operations. The Company controls liquidity risk by management of working capital and cash flows. The Company's contractual obligation consists of accounts payable and accrued liabilities of \$105,912 (2015 - \$154,369) that have a current contractual maturity. There is no contractual maturity for the amount due to related party as there are no terms of repayment. The mortgages payable of \$18,381,362 (2015 - \$18,447,684) is due on demand and has terms which expire in fiscal 2020 (Note 12). The loan payable of \$24,725 (2015 - \$24,249) has a term which expires in fiscal 2018.

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20. **Capital Management**

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include administrative costs and general expenditures.

The capital structure consists of the following components as at December 31, 2016:

	<u>2016</u>	<u>2015</u>
Mortgages payable	\$ 18,381,362	\$ 18,447,684
Debentures	3,108,344	1,151,571
Amount due to related party	---	1,637,041
Loan payable	24,725	24,249
Equity	<u>3,915,279</u>	<u>3,123,833</u>
	<u>\$ 25,429,710</u>	<u>\$ 24,384,378</u>

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities. Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required.

The Company is subject to bank covenants which must be maintained for their mortgage payable. As at and during the years ended December 31, 2016 and 2015, the Company was in compliance with its bank covenants.