



REGENT PACIFIC PROPERTIES

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

The following management discussion and analysis as of April 27, 2018 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, 2017 and 2016, 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 premiere 72,675 sq. ft. three-storey commercial office tower and attached single-storey bays with underground parking facility investment property ("Cassel Centre") and 15 residential apartment style condominiums under agreement for sale in a 119 unit condominium project ("The Silhouette at Carlton units"). Both properties are located in Edmonton, Alberta.

Objectives and Strategy

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

Overall Performance

Cassel Centre has fixed-term leases in place with AAA tenants for 90.7% of its rentable area. The term for two leases from one tenant representing 9.3% of the total rentable area ended November 30, 2017, and the leases became month-to-month at 125% of the prior base rent rate with 90 days notice to vacate. The remaining tenant leases in the building have lease terms remaining of between 0.4 and 4.5 years.

The Silhouette at Carlton units currently have tenants in 13 out of the 15 units. All tenant leases are one-year leases. Over the course of the fiscal year occupancy ranged between 11 and 15 out of 15 units occupied.

Selected Annual Information

	2017	2016	2015
Total Assets	\$30,969,408	\$27,454,191	\$26,309,801
Total Current Liabilities	\$20,831,760*	\$19,191,780	\$20,263,602
Total Long-term Liabilities	\$4,379,569	\$4,347,132	\$2,922,366
Total Liabilities	\$25,211,329	\$23,538,912	\$23,185,968
Revenue	\$2,779,966	\$2,554,230	\$2,500,830
Cost of Sales	\$ -	\$ -	\$ -
Expenses	\$1,946,994	\$1,789,857	\$1,944,954
Income Taxes	\$ -	\$ -	\$ -
Deferred Income Tax Expense	\$125,158	\$147,363	\$156,727
Other Income (expenses)	\$1,134,986	\$39,251	\$ (1,038,900)
Net Income (Loss)	\$1,842,800	\$656,261	\$ (639,751)
Number of Shares Outstanding	40,039,000	40,039,000	40,039,000
Income (Loss) per Share	\$0.05	\$0.02	\$ (0.02)
Diluted Income (Loss) per Share	\$0.05	\$0.02	\$ (0.02)

*2017 Total Current Liabilities included a \$17,599,214 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, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Revenues	\$767,843	\$716,379	\$647,496	\$648,248	\$621,683	\$643,975	\$644,399	\$644,174
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	\$548,730	\$498,568	\$455,869	\$443,827	\$512,222	\$424,901	\$431,013	\$421,722
Income Tax (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Income Tax (Recovery)	\$125,158	\$ -	\$ -	\$ -	\$147,363	\$ -	\$ -	\$ -
Other Income (Expenses)	\$1,099,730	\$530	\$17,014	\$17,712	\$39,251	\$ -	\$ -	\$ -
Net Income (Loss)	\$1,193,685	\$218,341	\$208,641	\$222,133	\$1,349	\$219,074	\$213,386	\$222,452
Earnings (Loss) per Share	\$0.03	\$0.01	\$0.01	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01
Fully Diluted Earnings (Loss) per Share	\$0.03	\$0.01	\$0.01	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01

Discussion of Operations and Financial Condition:

Revenue

Total revenue for the year was \$2,779,966, an increase of 8.8% from 2016 (\$2,554,230). Current year revenue is comprised of \$1,823,758 of commercial rental income from Cassel Centre (2016 - \$1,783,229), \$121,433 of residential rental income (2016 - \$nil) from the Silhouette at Carlton units, and \$834,775 of operating cost recoveries from tenants (2016 - \$771,001). Revenue has increased from the prior year as a result of the addition of residential rental income from the Silhouette at Carlton units, increased commercial rental income and increased recovery of operating cost recoveries from tenants.

Expenses

Total expenses for the year were \$1,946,994, an increase of 8.8% over 2016 (\$1,789,857). Expenses include operating expenses, general and administrative expenses, depreciation and amortization, and finance charges. Overall expenses have increased over the prior year primarily due to higher operating and finance costs from the addition of the Silhouette at Carlton units.

Capital Resources

As at December 31, 2017, the Company had cash of \$23,794 (December 31, 2016 – \$256,611) and a working capital deficiency of \$20,644,661 (December 31, 2016 - \$18,911,830). Working capital is calculated as current assets less current liabilities. Since the \$17,599,214 mortgage payable on Cassel Centre 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. Investing activities involved the purchase of the Silhouette at Carlton units under agreement for sale for \$3,518,150, and a repayment of \$997,945 from a related party. Financing activities included 15 new mortgages for the Silhouette at Carlton units, scheduled repayments on the mortgages, interest payments, repayment of debentures and proceeds from loan payable. Subsequent to the year end, a new credit facility was arranged for Cassel Centre in the amount of \$18,200,000 with a \$310,870 holdback, which paid out the existing mortgage facility of \$17,411,001.

Capital expenditures are generally funded by cash on hand, and/or cash provided by operating activities, or by obtaining new financing. 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. For example there may be direct leasing costs and/or tenant improvement allowances incurred as a result of securing a new lease or acquiring a new tenant for the space held by one tenant in Cassel Centre representing 9.3% of total rentable area which is now on a month-to-month lease. For

the Silhouette at Carlton units which have residential leases typically of one year in duration, the Company anticipates incurring direct leasing costs on an ongoing basis as a part of regular residential tenant turnover.

Another significant use for cash could be the acquisition of or investment in new properties. The Company is actively and continuously seeking new investment opportunities. As of July 1, 2017, 1572587 Alberta Ltd. (a subsidiary of the Company) entered into agreements for sale to acquire the Silhouette at Carlton units for a combined purchase price of \$3,518,150. A total deposit of \$1,055,445 was made on the agreements. Vendor financing was provided at 2.95% interest over a 2-year term. Management expects regular tenant turnover and fluctuating vacancy rates due to the nature of residential tenancies and depending upon local market conditions. Currently 13 out of the 15 units are rented.

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, 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 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, convertible debentures, unsecured debenture, 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, 2017, 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	2017	2016
Financial Assets:			
Cash	Level 1	\$ 23,794	\$ 256,611
Financial Liabilities:			
Loans payable	Level 3	\$ 559,936	\$ 24,725
Debentures payable	Level 3	\$ 2,430,688	\$ 3,111,539
Mortgages payable	Level 3	\$ 19,618,556	\$ 18,322,530
Non-Financial Assets:			
Investment properties	Level 3	\$ 30,717,310	\$ 26,100,000

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 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 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 loans 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 properties at fair value, which is determined by annual appraisal based on the accepted valuation methods of income capitalization, discounted future cash flows and direct comparison.

Off – Balance Sheet Arrangements

As at December 31, 2017, 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, 2017.

Share Structure

The Company has 40,039,000 common shares outstanding at December 31, 2017. There are 2,155,000 stock options exercisable and outstanding as at December 31, 2017 with a weighted average exercise price of \$0.10. The stock options outstanding expire on October 16, 2019.

Transactions with Related Parties

Key management of the Company includes the Chief Executive Officer and Chief Financial Officer. Amounts paid to key management of the Company for the year ended December 31, 2017, consisted of interest expense on loans payable and debentures of \$137,465 (2016 - \$60,430). No remuneration was paid.

During the year, the Company charged a total of \$112,704 (2016 - \$106,978) 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 adjustments, of \$290,880 (2016 - \$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 (2016 - \$29,678) to entities owned or controlled by one of the directors of the Company.

During the year, the Company paid interest of \$nil (2016 - \$40,665) to entities owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest expense of \$3,059 (2016 - \$1,593) to a director of the Company, a member of senior management and an immediate relative of key management.

During the year, the Company accrued interest income of \$35,633 (2016 - \$8,856) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid legal fees of \$14,929 (2016 - \$14,673) 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 (2016 - \$70,902) 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, 2017 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. Management has completed a detailed review and does not expect that the new standard will have a significant impact.

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. Management has completed a detailed review and does not expect that the new standard will have a significant impact.

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. Management has completed a detailed review and does not expect that the new standard will have a significant impact.

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, 2017 and 2016 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.