

**REGENT PACIFIC PROPERTIES INC.**  
Consolidated Financial Statements  
December 31, 2017 and 2016  
(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, 2017 and 2016 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, 2018

## INDEPENDENT AUDITORS' REPORT

### 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, 2017 and 2016, and the consolidated statements of comprehensive income, 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*

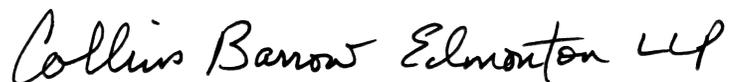
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Alberta  
April 27, 2018

Chartered Professional Accountant

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

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment properties (Note 4)	\$ 30,717,310	\$ 26,100,000
Loan receivable from related party (Note 6)	33,614	1,035,010
Furniture and fixtures (Note 5)	<u>31,385</u>	<u>39,231</u>
	<u>30,782,309</u>	<u>27,174,241</u>
<b>Current Assets</b>		
Accounts receivable (Note 7)	154,527	14,756
Prepaid expenses	8,778	8,583
Cash	<u>23,794</u>	<u>256,611</u>
	<u>187,099</u>	<u>279,950</u>
	<u>\$ 30,969,408</u>	<u>\$ 27,454,191</u>
<b>LIABILITIES</b>		
<b>Non-current Liabilities</b>		
Debentures payable (Note 8)	\$ ---	\$ 2,428,498
Loans payable (Note 9)	---	24,725
Prepaid rents	178,678	178,678
Mortgages payable (Note 12)	2,360,502	---
Deferred income taxes (Note 10)	<u>1,840,389</u>	<u>1,715,231</u>
	<u>4,379,569</u>	<u>4,347,132</u>
<b>Current Liabilities</b>		
Current portion of mortgages payable (Note 12)	17,721,066	18,381,362
Current portion of debentures payable (Note 8)	2,436,608	679,846
Current portion of loans payable (Note 9)	559,936	---
Prepaid rents	26,756	24,660
Accounts payable and accrued liabilities (Note 13)	<u>87,394</u>	<u>105,912</u>
	<u>20,831,760</u>	<u>19,191,780</u>
	<u>25,211,329</u>	<u>23,538,912</u>
<b>EQUITY</b>		
Share capital (Note 14)	4,167,624	4,167,624
Warrants (Note 8)	135,185	135,185
Contributed surplus	274,210	274,210
Retained earnings (Deficit)	<u>1,181,060</u>	<u>(661,740)</u>
	<u>5,758,079</u>	<u>3,915,279</u>
	<u>\$ 30,969,408</u>	<u>\$ 27,454,191</u>

**Contingencies** (Note 21)

**Subsequent event** (Note 22)

Approved on behalf of the Board of Directors:

"Eddie Yu"  
Signed \_\_\_\_\_  
Director

"David Yu"  
Signed \_\_\_\_\_  
Director

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**

Consolidated Statements of Comprehensive Income  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

	2017	2016
Rental revenue (Note 15)	\$ 1,945,191	\$ 1,783,229
Recovery of operating expenses	834,775	771,001
Direct operating expenses	<u>(856,545)</u>	<u>(751,528)</u>
<b>Net rental income</b>	<b><u>1,923,421</u></b>	<b><u>1,802,702</u></b>
<b>Other expenses</b>		
General and administrative	189,765	185,341
Amortization	<u>7,846</u>	<u>9,808</u>
	<b><u>197,611</u></b>	<b><u>195,149</u></b>
<b>Income before fair value adjustments on investment property, interest income and finance costs</b>	<b>1,725,810</b>	1,607,553
Fair value adjustments on investment properties (Note 4)	<u>1,099,160</u>	<u>30,395</u>
<b>Income before interest income and finance costs</b>	<b><u>2,824,970</u></b>	<b><u>1,637,948</u></b>
Interest income	35,826	8,856
Finance costs (Note 16)	<u>(892,838)</u>	<u>(843,180)</u>
	<b><u>(857,012)</u></b>	<b><u>(834,324)</u></b>
<b>Income before income taxes</b>	<b>1,967,958</b>	803,624
Deferred income tax expense (Note 10)	<u>(125,158)</u>	<u>(147,363)</u>
<b>Net income and comprehensive income</b>	<b><u>\$ 1,842,800</u></b>	<b><u>\$ 656,261</u></b>
<b>Net income per share:</b>		
<b>Basic net income per common share (Note 17)</b>	<b><u>\$ 0.05</u></b>	<b><u>\$ 0.02</u></b>
<b>Diluted net income per common share (Note 17)</b>	<b><u>\$ 0.05</u></b>	<b><u>\$ 0.02</u></b>

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**

Consolidated Statements of Changes in Equity  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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	Share Capital (Note 14)		Contributed Surplus	Warrants	Retained Earnings (Deficit)	Total
	Number	Amount				
<b>Balance, December 31, 2015</b>	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
<b>Balance, December 31, 2016</b>	40,039,000	\$ 4,167,624	\$ 274,210	\$ 135,185	\$ (661,740)	\$ 3,915,279
Net income	---	---	---	---	1,842,800	1,842,800
<b>Balance, December 31, 2017</b>	<b><u>40,039,000</u></b>	<b><u>\$ 4,167,624</u></b>	<b><u>\$ 274,210</u></b>	<b><u>\$ 135,185</u></b>	<b><u>\$ 1,181,060</u></b>	<b><u>\$ 5,758,079</u></b>

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

	2017	2016
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net income	\$ 1,842,800	\$ 656,261
Adjustments for:		
Accrued interest income	(32,375)	(8,856)
Finance costs (Note 16)	892,838	843,180
Amortization (Note 5)	7,846	9,808
Fair value adjustments to investment property (Note 4)	(1,099,160)	(30,395)
Straight-line rent adjustment (Note 4)	---	23,699
Deferred income tax expense (Note 10)	125,158	147,363
Net changes in non-cash working capital items (Note 18)	<u>(156,388)</u>	<u>53,927</u>
	<u>1,580,719</u>	<u>1,694,987</u>
<b>Investing Activities</b>		
Advance of loan receivable to related party (Note 6)	---	(1,026,154)
Repayment of loan receivable from related party (Note 6)	997,945	---
Additions to investment properties (Note 4)	<u>(3,518,150)</u>	<u>(33,304)</u>
	<u>(2,520,205)</u>	<u>(1,059,458)</u>
<b>Financing Activities</b>		
Repayments to related parties	---	(2,987,128)
Advances from related party	---	1,350,087
Proceeds from mortgage financing	2,462,705	18,564,130
Repayments of mortgage financing	(761,663)	(18,657,524)
Interest paid	(926,373)	(721,924)
Finance fees paid	---	(1,750)
Proceeds from loan payable	502,000	---
Proceeds from issuance of debentures (Note 8)	---	2,000,000
Repayment of expired debentures (Note 8)	<u>(570,000)</u>	<u>---</u>
	<u>706,669</u>	<u>(454,109)</u>
<b>(Decrease) increase in cash</b>	<b>(232,817)</b>	<b>181,420</b>
<b>Cash, beginning of year</b>	<u><b>256,611</b></u>	<u><b>75,191</b></u>
<b>Cash, end of year</b>	<u><b>\$ 23,794</b></u>	<u><b>\$ 256,611</b></u>

See accompanying notes

## **REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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### **1. Nature of Business**

Regent Pacific Properties Inc. (the "Company") is incorporated and domiciled in Canada and is a real estate development company that invests in residential and commercial properties 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, 2018.

### **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, 2018, 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 properties, 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 subsidiaries 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.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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

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

d) Use of Estimates and Judgements (Continued)

Investment Properties

The determination of the fair value of the investment properties 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 properties are described in Note 4.

Convertible debentures and Unsecured debenture with Warrants

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.

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, 2017 and 2016  
(Expressed in Canadian dollars)

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

#### d) Use of Estimates and Judgements (Continued)

##### Accounting for Acquisitions

The Company assesses whether an acquisition transaction is an asset acquisition or a business combination under IFRS 3, Business Combinations (“IFRS 3”). This assessment requires management to make judgements about whether the assets acquired and liabilities assumed constitute a business combination as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, are capable of being conducted and managed as a business and the Company obtains control of that business. When the acquisition does not meet the definition of a business combination, the Company accounts for the acquisition as an asset acquisition.

##### 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 Properties**

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

The investment properties acquired through asset purchase are initially measured at its cost, including related transaction costs.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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

**Investment Properties** (Continued)

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

**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 debentures, finance fees on mortgages and debentures, and interest on loans payable. Finance costs are recognized in income using the effective interest rate method.

## **REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
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### **3. Significant Accounting Policies (Continued)**

#### **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.

#### **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 include 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.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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

**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.

**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 Per Share**

The Company presents basic and diluted net income 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".

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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### 3. Significant Accounting Policies (Continued)

#### Financial Instruments (Continued)

##### *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, loans payable, 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.

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.

#### Application of New Standards and Standards Issued But Not Yet Effective

##### (a) Application of New and Revised Standards

In the current year, the Company has applied a number of new and revised standards issued by the IASB. The following highlights these changes and the effect, if any, on the Company's consolidated financial statements. IAS 7 Statement of Cash Flows was amended by the IASB in January 2016. Amendments 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. The application of this amendment has not resulted in any material impact on the consolidated financial statements of the Company.

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 application of this amendment has not resulted in any material impact on the consolidated financial statements of the Company.

##### (b) Future Accounting Standards 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.

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

### 3. Significant Accounting Policies (Continued)

#### Application of New Standards and Standards Issued But Not Yet Effective (Continued)

##### (b) Future Accounting Standards Not Yet Effective (Continued)

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.

### 4. Investment Properties

	<u>Residential</u>	<u>Commercial</u>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ ---	\$ 26,100,000	\$ 26,100,000	\$ 26,060,000
Acquisition	3,518,150	---	3,518,150	---
Additions to existing property:				
Capital expenditures	---	---	---	33,304
Straight-line rent adjustment	---	---	---	(23,699)
Fair value adjustment	<u>399,160</u>	<u>700,000</u>	<u>1,099,160</u>	<u>30,395</u>
Balance, end of year	<u>\$ 3,917,310</u>	<u>\$ 26,800,000</u>	<u>\$ 30,717,310</u>	<u>\$ 26,100,000</u>

On July 1, 2017, the Company entered into agreements for sale and purchased 15 residential condominium units in the same condominium plan, from a company controlled 50% by a director of the Company.

## **REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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### **4. Investment Properties (Continued)**

The agreements for sale are agreements between the Company, as buyer and a related party, as seller, whereby the Company paid 30% of the purchase price, with the balance paid over a period of time on terms as negotiated and agreed between the parties. The agreements for sale provide for vendor financing matching the vendor's financing on the units for a 2-year term with monthly blended payments of principal and interest, with interest of 2.95% per annum based on a 25-year amortization and a final payment date on June 30th, 2019. The Company has the right to pre-pay all or any part of the amount outstanding at any time during the 2-year term without notice, bonus or penalty.

The 15 condominium units ranged in price from \$198,475 to \$301,750 for total consideration of \$3,518,150. A payment of 30% was made on each unit, with the balance of the purchase paid by related party vendor financing.

The Company values its investment properties using Level 3 inputs. The investment properties were appraised by third party accredited valuation professionals. For the commercial property a combination of income approach via overall income capitalization, income approach via discounted cash flow and direct comparison approach were used. For the residential properties a combination of the income approach via overall income capitalization and the direct comparison approach were used.

#### **Residential Properties**

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 5.250% and 5.750% was determined and the mid-rate of 5.500% was applied to the stabilized net operating income of \$190,860 to arrive at a value estimate of \$3,470,168.

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 \$215 and \$315 per square foot was selected and the mid-point value of \$265 was applied to the leasable area of 13,876 square feet to arrive at a value of \$3,677,140.

The two approaches were reconciled with the overall income capitalization method given significant emphasis, and direct comparison approach given minor emphasis to arrive at an overall reconciled current market value of the investment property as at December 31, 2017 of \$3,917,310 which resulted in a capitalization rate of 5.500%.

Fair values determined by the direct capitalization of income method are most sensitive to changes in capitalization rate. At December 31, 2017, a 0.250% increase in the weighted average capitalization rate would decrease the fair value of the investment property by \$150,870 and a 0.250% decrease in the weighted average capitalization rate would increase the fair value of the investment property by \$165,253.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

---

4. **Investment Properties** (Continued)

**Commercial Property**

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 6.250% and 6.750% (2016 – 6.500% and 6.740%) was determined and the mid-rate of 6.500% (2016 – 6.625%) was applied to the stabilized net operating income of \$1,741,992 (2016 - \$1,736,316) to arrive at a value estimate of \$26,799,887 (2016 - \$26,208,541).

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 7.250% and 7.750% (2016 – 7.500% and 7.750%) and a reversionary capitalization rate range of between 6.500% to 7.000% (2016 – 6.750% and 7.000%) were used to arrive at a mid-point value of \$25,772,959 (2016 - \$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 \$370 and \$380 (2016 - \$355 and \$365) per square foot was selected and the mid-point value of \$375 (2016 - \$360) was applied to the leasable building area of 71,320 square feet to arrive at a value of \$26,745,000 (2016 - \$25,675,200).

The three approaches were reconciled with the overall income capitalization method given significant emphasis, and the discounted cash flow analysis was included due to the multi-tenant nature of the building and the duration and escalation of the leases to arrive at an overall reconciled current market value of the investment property as at December 31, 2017 of \$26,800,000 (2016 - \$26,100,000) which resulted in a capitalization rate of 6.500% (2016 – 6.650%). The direct comparison approach was given secondary emphasis.

Fair values determined by the direct capitalization of income method are most sensitive to changes in capitalization rate. At December 31, 2017, a 0.250% increase in the weighted average capitalization rate would decrease the fair value of the investment property by \$992,711 (2016 - \$936,000) and a 0.250% decrease in the weighted average capitalization rate would increase the fair value of the investment property by \$1,071,872 (2016 - \$1,029,938).

The Company leases space in its investment property to tenants under non-cancellable operating leases. The leases have various terms. As at December 31, 2017, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

One year or less	\$ 1,495,444
2 – 5 years	3,573,405
Greater than 5 years	<u>---</u>
	<u>\$ 5,068,849</u>

**REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
 For the Years Ended December 31, 2017 and 2016  
 (Expressed in Canadian dollars)

**5. Furniture and Fixtures**

	<b>Cost</b>						<b>Balance at December 31, 2017</b>
	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016	Additions	Disposals	
Furniture and fixtures	\$ 73,588	\$ ---	\$ ---	\$ 73,588	\$ ---	\$ ---	<b>\$ 73,588</b>

	<b>Accumulated Depreciation</b>						<b>Balance at December 31, 2017</b>
	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016	Additions	Disposals	
Furniture and fixtures	\$ 24,549	\$ 9,808	\$ ---	\$ 34,357	\$ 7,846	\$ ---	<b>\$ 42,203</b>

	<b>Net Book Value</b>	
	<b>Balance at December 31, 2017</b>	Balance at December 31, 2016
Furniture and fixtures	<b>\$ 31,385</b>	\$ 39,231

**6. Loan Receivable from Related Party**

	<b>2017</b>	2016
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	<b>\$ 28,208</b>	\$ 1,026,154
Interest accrued	<b>5,406</b>	8,856
	<b>\$ 33,614</b>	\$ 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:

	<b>2017</b>	2016
Accrued recovery of operating expenses	<b>\$ 50,358</b>	\$ ---
Rents receivable	<b>90,880</b>	7,199
Other receivable	<b>4,089</b>	1,057
Goods and Services Tax receivable	<b>9,200</b>	6,500
	<b>\$ 154,527</b>	\$ 14,756

Included in accounts receivable is an amount of \$84,398 (2016 - \$1,303) which is rents receivable from entities owned or controlled by one of the directors of the Company.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

**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 \$nil (2016 - \$109,847) interest payable included in the balance at year-end and \$13,529 (2016 - \$38,211) of interest expense included in finance costs. These convertible debentures matured on February 4, 2017 and were repaid to the debenture holder.

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 \$31,261 (2016 - \$38,532) of interest payable included in the balance at year-end and \$32,432 (2016 - \$30,596) 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>2017</u>	<u>2016</u>
Convertible debentures:		
7.00% debentures maturing February 4, 2017	\$ ---	\$ 679,846
6.00% debentures maturing October 30, 2018	<u>571,793</u>	<u>540,532</u>
	<b>571,793</b>	1,220,378
Unsecured debenture:		
6.50% debenture maturing November 10, 2018	<u>1,864,815</u>	<u>1,887,966</u>
	<b>2,436,608</b>	3,108,344
Less current portion	<u>(2,436,608)</u>	<u>(679,846)</u>
	<u>\$ ---</u>	<u>\$ 2,428,498</u>
Portion issued and outstanding to related parties at year-end	<b>\$ 1,915,901</b>	\$ 2,080,362

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

**REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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**9. Loans Payable**

	<u>2017</u>	<u>2016</u>
Loan payable is unsecured, bears interest at 6%, and matures on October 30, 2018	\$ 26,165	\$ 24,725
Loans payable are unsecured, bears interest at 7%, and matures on February 4, 2018	<u>533,771</u>	---
	559,936	24,725
Less current portion of loans payable	<u>559,936</u>	---
	<u>\$ ---</u>	<u>\$ 24,725</u>

Included in loans payable is an amount of \$85,063 (\$2016 - \$nil) which is payable to one of the directors of the Company.

**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>2017</u>	<u>2016</u>
Deferred tax assets (liabilities):		
Tax loss carry-forward	\$ 372,211	\$ 266,626
Tax basis of share issuance cost, finance costs and eligible capital property	7,210	14,345
Tax basis of investment property in excess of carrying value	<u>(1,847,599)</u>	<u>(1,729,576)</u>
	(1,468,178)	(1,448,605)
Less valuation allowance	<u>(372,211)</u>	<u>(266,626)</u>
Net deferred income tax liability	<u>\$ (1,840,389)</u>	<u>\$ (1,715,231)</u>

**REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

---

**10. Income Taxes (Continued)**

As at December 31, 2017, the Company has non-capital loss carry forwards of \$1,378,557, which will expire as follows:

2027	\$ 7,815
2028	71,328
2029	60,706
2030	72,470
2031	90,260
2032	80,556
2033	40,503
2034	52,597
2035	329,466
2036	185,923
2037	386,933

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

	<u>2017</u>	<u>2016</u>
Income before income taxes	<b>\$ 1,967,958</b>	\$ 803,624
Statutory tax rate	<b>27.00%</b>	27.00%
Expected tax expense (recovery)	<b>531,349</b>	216,978
Temporary differences	<b>(494,938)</b>	(104,988)
Net effect of unrecognized non-capital losses	<b>88,747</b>	35,373
Income tax expense	<b><u>\$ 125,158</u></b>	<b><u>\$ 147,363</u></b>

## **REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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### **11. Amount Due to Related Party**

#### **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. 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.

**REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

**12. Mortgages Payable**

	<u>2017</u>	<u>2016</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 August 1, 2020, secured by the investment property with a carrying amount of \$26,800,000, general assignment of rent and a general security agreement	<b>\$ 17,599,214</b>	\$ 18,327,315
15 mortgages payable, to an entity owned or controlled by one of the directors of the Company, due June 30, 2019, with monthly blended payments of \$655 to \$996, interest at 2.95%, secured by 15 investment properties under agreements for sale (see Note 4) with a carrying value of \$3,917,310	<b>2,429,142</b>	---
Accrued interest	<u>53,212</u>	<u>54,047</u>
	<b>20,081,568</b>	18,381,362
Less current portion of mortgages payable	<u>17,721,066</u>	<u>18,381,362</u>
	<b><u>\$ 2,360,502</u></b>	<b><u>\$ ---</u></b>

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, 2017, the minimum contractual principal payments due are as follows:

2018	\$ 823,152
2019	3,142,316
2020	<u>16,062,888</u>
	<b><u>\$ 20,028,356</u></b>

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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### 13. Accounts Payable and Accrued Liabilities

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

	<u>2017</u>	<u>2016</u>
Trade payables	\$ 38,211	\$ 61,863
Accrued liabilities	48,171	44,049
Goods and Services Tax payable	<u>1,012</u>	<u>---</u>
	<u>\$ 87,394</u>	<u>\$ 105,912</u>

Included in accounts payable and accrued liabilities is an amount of \$10,482 (2016 - \$11,356) owing to entities owned or controlled by one of the directors of the Company.

### 14. Share Capital

#### 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 employees to the Company, non-transferable options to purchase common shares.

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.

**REGENT PACIFIC PROPERTIES INC.**

Notes to the Consolidated Financial Statements  
 For the Years Ended December 31, 2017 and 2016  
 (Expressed in Canadian dollars)

**14. Share Capital (Continued)****Stock Options (Continued)**

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

	2017		2016	
	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	(1,311,000)	---	---	--
Exercised	---	---	---	---
Outstanding, end of year	<u>2,155,000</u>	<u>\$ 0.10</u>	<u>3,466,000</u>	<u>\$ 0.10</u>
Exercisable, end of year	<u>2,155,000</u>	<u>\$ 0.10</u>	<u>3,466,000</u>	<u>\$ 0.10</u>

The following table summarizes information on stock options outstanding and exercisable as at December 31, 2017:

	Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
October 17, 2014	\$ 0.10	2,155,000	2,155,000	October 16, 2019

**15. Rental Revenue**

	2017	2016
Commercial tenant leases	\$ 1,715,313	\$ 1,679,176
Residential tenant leases	121,433	---
Parking and storage	<u>108,445</u>	104,053
	<u>\$ 1,945,191</u>	<u>\$ 1,783,229</u>

**16. Finance Costs**

	2017	2016
Interest on mortgages	\$ 683,449	\$ 650,858
Interest on amount due to related parties	---	68,711
Interest on debentures	176,179	91,958
Amortization of deferred financing fees on mortgages	---	30,315
Interest on loans payable	<u>33,210</u>	1,338
	<u>\$ 892,838</u>	<u>\$ 843,180</u>

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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### 17. Net Income per Common Share

The basic and diluted net income per common share is based on the weighted average number of common shares outstanding as at December 31, 2017 of 40,039,000 (2016 - 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.

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

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ (139,771)	\$ 101,402
Prepaid expenses	(195)	830
Prepaid rents	2,096	152
Accounts payable and accrued liabilities	<u>(18,518)</u>	<u>(48,457)</u>
	<u>\$ (156,388)</u>	<u>\$ 53,927</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, 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.

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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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	2017	2016
<b>Financial Assets:</b>			
Cash	Level 1	\$ 23,794	\$ 256,611
<b>Financial Liabilities:</b>			
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

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

- The carrying amounts of cash, accounts receivable, loan receivable from related party, 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 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).

#### 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.

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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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 mortgages payable, convertible debentures and loans payable 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>2017</u>	<u>2016</u>
Current	\$ 109,535	\$ 9,668
31-90 days	41,434	2,938
91 + days	<u>3,558</u>	<u>2,150</u>
	<u>\$ 154,527</u>	<u>\$ 14,756</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the year ended December 31, 2017, rent earned from four key tenants represents 83% (2016 – 84%) of total revenues. At December 31, 2017 receivables from these tenants total 80% of total accounts receivable (2016 – 20%).

#### 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 \$87,394 (2016 - \$105,912) that have a current contractual maturity. The mortgage payable of \$17,599,214 (2016 - \$18,327,315) is due on demand and has terms which expire in fiscal 2020 and the mortgage payable of \$2,429,142 (2016 - \$nil) has terms which expire in fiscal 2019 (Note 12). The loans payable of \$559,936 (2016 - \$24,725) have terms which expires in fiscal 2018.

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016  
(Expressed in Canadian dollars)

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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, 2017:

	<u>2017</u>	<u>2016</u>
Mortgages payable	<b>\$ 20,081,568</b>	\$ 18,381,362
Debentures	<b>2,436,608</b>	3,108,344
Loans payable	<b>559,936</b>	24,725
Equity	<b><u>5,758,079</u></b>	<u>3,915,279</u>
	<b><u>\$ 28,836,191</u></b>	<b><u>\$ 25,429,710</u></b>

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, 2017 and 2016, the Company was in compliance with its bank covenants.

### 21. Contingencies

An entity (the "Trustee") owned or controlled by one of the directors of the Company acts as the trustee of the 15 condominiums acquired by the Company on July 1, 2017. Under the terms of the trust agreement, the Company is the beneficial title holder of the 15 condominium units and has full rights and obligations of the related rental revenue and operating expenses. The Trustee, prior to sale of the units, entered into a loan agreement with a financial institution and pledged title to these 15 condominium units. This encumbrance was not removed on the date of sale and is still in effect as of year-end.

### 22. Subsequent Event

On March 6, 2018, the Company refinanced a portion of its credit facility with a financial institution. \$18,200,000 with a holdback of \$310,870 was used to pay out the existing mortgage facility of \$17,411,001. Repayment terms are due on demand with monthly blended instalments of \$117,380, interest at 3.60% per annum, with term expiring August 1, 2020. The Company must meet certain financial covenants measured annually.