



## **Management’s Discussion and Analysis (“MD&A”)**

The following management discussion and analysis as of November 27, 2019 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 year ended December 31, 2018 and the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019, 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](http://www.sedar.com).

### **Core Business**

The Company is a real estate development and investment company with a portfolio consisting of a premiere 72,675 sq. ft. three-storey commercial office tower and attached single-storey bays with underground parking facility (“Cassel Centre”) and 15 residential apartment-style condominium units in a 119 unit luxury condominium project (“The Silhouette at Carlton units”). Both properties are located in Edmonton, Alberta.

### **Objectives and Strategy**

The Company seeks to expand its 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 tenant provided notice to vacate on April 1, 2019, and vacated on July 15, 2019. The remaining tenant leases in the building have lease terms remaining of between 0.8 and 4.5 years.

The Silhouette at Carlton units currently have tenants in 15 out of the 15 units. All tenant leases are one-year leases. Over the course of the fiscal year occupancy has ranged between 12 and 15 out of 15 units occupied.

## Selected Annual Information

	2018	2017	2016
Total Assets	\$31,337,340	\$30,969,408	\$27,454,191
Total Current Liabilities	\$22,175,792*	\$20,831,760	\$19,191,780
Total Long-term Liabilities	\$2,371,066	\$4,379,569	\$4,347,132
Total Liabilities	\$24,546,858	\$25,211,329	\$23,538,912
Revenue	\$3,036,624	\$2,779,966	\$2,554,230
Cost of Sales	\$ -	\$ -	\$ -
Expenses	\$2,237,147	\$1,946,994	\$1,789,857
Income Taxes	\$ -	\$ -	\$ -
Deferred Income Tax Expense	\$351,999	\$125,158	\$147,363
Other Income	\$442,135	\$1,134,986	\$39,251
Net Income	\$990,140	\$1,842,800	\$656,261
Number of Shares Outstanding	40,039,000	40,039,000	40,039,000
Income per Share	\$0.02	\$0.05	\$0.02
Diluted Income per Share	\$0.02	\$0.05	\$0.02

\*2018 Total Current Liabilities included a \$17,298,360 mortgage payable which is due on demand on a 5 year term, and an interest rate of 3.60%.

## Summary of Quarterly Results

	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Revenues	\$700,623	\$765,508	\$728,955	\$851,192	\$732,776	\$748,951	\$703,705	\$767,843
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	\$529,866	\$532,564	\$525,563	\$711,234	\$517,701	\$521,894	\$486,318	\$548,730
Income Tax (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Income Tax (Recovery)	\$ -	\$ -	\$ -	\$351,999	\$ -	\$ -	\$ -	\$125,158
Other Income (Expenses)	\$692	\$621	\$614	\$440,658	\$498	\$492	\$487	\$1,099,730
Net Income (Loss)	\$171,449	\$233,565	\$204,006	\$329,144	\$215,573	\$227,549	\$217,874	\$1,193,685
Earnings per Share*	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.03
Fully Diluted Earnings per Share*	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.03

\*Earnings per Share figures shown are rounded to two decimal places. For example, the September 30, 2019 Earnings per Share rounded to four decimal places is \$0.0043.

## Discussion of Operations and Financial Condition

### Revenue

Total revenue for the quarter was \$700,623, a decrease of 4.4% from 2018 (\$732,776). Total revenue is comprised of \$398,473 of commercial rental income from Cassel Centre (2018 - \$431,091), \$64,145 of residential rental income (2018 - \$62,280) from the Silhouette at Carlton units, \$20,368 of parking and storage income (2018 - \$29,443) and \$217,637 of operating cost recoveries from tenants (2018 - \$209,962). Revenue has decreased from the prior year primarily as a result of decreased commercial rental income and parking and storage income due to vacancy.

### Expenses

Total expenses for the quarter were \$529,866, an increase of 2.3% from 2018 (\$517,701). Expenses include operating expenses, general and administrative expenses, depreciation and amortization, and finance costs. Overall expenses have increased slightly over the prior year period due to higher general and administrative expenses, depreciation and amortization and finance costs.

## Capital Resources

As at September 30, 2019, the Company had bank indebtedness of \$269,528 through its overdraft facility (December 31, 2018 – \$264,980), and a working capital deficiency of \$21,562,559 (December 31, 2018 - \$22,054,882). Working capital is calculated as current assets less current liabilities. Since the \$16,717,202 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 operating activities was positive. Investing activity included additions to the commercial property. Financing activities included repayments and proceeds from mortgage financing, scheduled repayments on the mortgages, interest payments, and repayment to related party.

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 new leases or acquiring new tenants for space in Cassel Centre representing 9.3% of total rentable area which became vacant on July 15, 2019. 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.

Management expects regular tenant turnover and fluctuating vacancy rates due to the nature of residential tenancies and depending upon local market conditions.

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.

## **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, retaining security deposits on leases, staggering lease expiry dates, and 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 recognized in the statements of financial position include cash, accounts receivable, loan receivable from related party, overdraft facility, accounts payable and accrued liabilities, loan payable to related party, loan payable, and mortgages payable.

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.

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	September 30, 2019	December 31, 2018
<b>Financial Liabilities:</b>			
Loan payable	Level 3	\$ 145,924	\$ 138,261
Loan payable to related party	Level 3	\$ 1,990,935	\$ 1,948,745
Mortgages payable	Level 3	\$ 19,049,275	\$ 19,685,546

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

- The carrying amounts of accounts receivable, loan receivable from related party, accounts payable and accrued liabilities, overdraft facility, mortgages payable, loan payable, and loan payable to related party approximate their fair value due to the relatively short periods to maturity of these financial instruments.

## Off – Balance Sheet Arrangements

As at September 30, 2019, the Company did not enter into any off-balance sheet arrangements.

## 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 period-end.

## Share Structure

The Company has 40,039,000 common shares outstanding at September 30, 2019. There are 2,955,000 stock options exercisable and outstanding as at September 30, 2019 with a weighted average exercise price of \$0.10. 2,155,000 of the stock options outstanding expire on October 16, 2019. 800,000 of the stock options expire on August 27, 2023.

## 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 period ended September 30, 2019, consisted of interest expense on loans payable and debentures of \$nil (September 30, 2018 - \$798). No remuneration was paid.

During the period, the Company charged a total of \$89,872 (September 30, 2018 - \$84,915) from two entities owned or controlled by one of the directors of the Company for recovery of operating expenses.

During the period, the Company received rental income, before straight-line adjustments, of \$205,200 (September 30, 2018 - \$220,635) from an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid rent expense of \$22,459 (September 30, 2018 - \$22,258) to entities owned or controlled by one of the directors of the Company.

During the period, the Company paid interest of \$97,233 (September 30, 2018 - \$nil) to an entity owned or controlled by one of the directors of the Company.

During the period, the Company accrued interest income of \$1,836 (September 30, 2018 - \$1,477) from an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid legal fees of \$5,840 (September 30, 2018 - \$7,168) to a law firm where one of the directors of the Company is a partner.

During the period, the Company paid administration fees of \$56,477 (September 30, 2018 - \$53,177) to an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid \$122,400 (September 30, 2018 - \$nil) for tenant improvements for a tenant 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, 2018 annual consolidated financial statements.

### **Application of New and Revised Accounting Standards**

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 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 is effective for annual periods beginning on or after January 1, 2019. Early recognition was permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or was applied at the same date as IFRS 16. The Company adopted the standard on January 1, 2019 using the modified retrospective approach. The adoption of IFRS 16 did not have a significant impact on the Company's financial statements as at January 1, 2019.

In June 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, to clarify the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with early application permitted. The Company adopted the interpretation on January 1, 2019 using the modified retrospective approach. The adoption of IFRIC 23 did not have a significant impact on the Company's financial statements as at January 1, 2019.

### **Accounting Standards Issued but not yet Effective**

In October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company will conduct an assessment of the effect of the amendments, if any, when contemplating any future potential acquisitions.

## **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, 2018 and 2017 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.