

REGENT PACIFIC PROPERTIES INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Three and Nine Months Ended
September 30, 2019
(Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, RSM Alberta LLP, have not performed a review of these interim condensed consolidated financial statements.

"Eddie Yu"
Signed
Eddie Yu
Chief Executive Officer

"David Yu"
Signed
David Yu
Chief Financial Officer

November 27, 2019

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September 30, 2019	December 31, 2018
ASSETS		
Non-current Assets		
Investment properties (Note 4)	\$ 31,242,676	\$ 31,147,930
Loan receivable from related party (Note 6)	37,451	35,588
Furniture and fixtures (Note 5)	<u>27,976</u>	<u>32,912</u>
	<u>31,308,103</u>	<u>31,216,430</u>
Current Assets		
Accounts receivable (Note 7)	101,996	110,880
Prepaid expenses	<u>---</u>	<u>10,030</u>
	<u>101,996</u>	<u>120,910</u>
	<u>\$ 31,410,099</u>	<u>\$ 31,337,340</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 153,654	\$ 178,678
Deferred income taxes	<u>2,192,388</u>	<u>2,192,388</u>
	<u>2,346,042</u>	<u>2,371,066</u>
Current Liabilities		
Current portion of mortgages payable (Note 8)	19,049,275	19,685,546
Loan payable (Note 9)	145,924	138,261
Loan payable to related party (Note 10)	1,990,935	1,948,745
Prepaid rents	49,573	31,737
Accounts payable and accrued liabilities (Note 11)	159,320	106,523
Overdraft facility (Note 12)	<u>269,528</u>	<u>264,980</u>
	<u>21,664,555</u>	<u>22,175,792</u>
	<u>24,010,597</u>	<u>24,546,858</u>
EQUITY		
Share capital (Note 13)	4,167,624	4,167,624
Contributed surplus	451,658	451,658
Retained earnings	<u>2,780,220</u>	<u>2,171,200</u>
	<u>7,399,502</u>	<u>6,790,482</u>
	<u>\$ 31,410,099</u>	<u>\$ 31,337,340</u>

Contingencies (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.

(Unaudited)

Interim Condensed Consolidated Statements of Comprehensive Income

For the Three and Nine-Month Period Ended September 30, 2019

(Expressed in Canadian dollars)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Rental revenue (Note 14)	\$ 482,986	\$ 522,814	\$ 1,507,008	\$ 1,554,848
Recovery of operating expenses	217,637	209,962	688,078	630,584
Direct operating expenses	<u>(255,821)</u>	<u>(262,692)</u>	<u>(770,898)</u>	<u>(758,675)</u>
Net rental income	<u>444,802</u>	<u>470,084</u>	<u>1,424,188</u>	<u>1,426,757</u>
Other expenses				
General and administrative	37,138	32,762	111,106	100,041
Amortization (Note 5)	<u>1,645</u>	<u>1,570</u>	<u>4,936</u>	<u>4,708</u>
	<u>38,783</u>	<u>34,332</u>	<u>116,042</u>	<u>104,749</u>
Income before interest income and finance costs	<u>406,019</u>	<u>435,752</u>	<u>1,308,146</u>	<u>1,322,008</u>
Interest income	692	498	1,927	1,477
Finance costs (Note 15)	<u>(235,262)</u>	<u>(220,677)</u>	<u>(701,053)</u>	<u>(662,488)</u>
	<u>(234,570)</u>	<u>(220,179)</u>	<u>(699,126)</u>	<u>(661,011)</u>
Net income and comprehensive income	<u>\$ 171,449</u>	<u>\$ 215,573</u>	<u>\$ 609,020</u>	<u>\$ 660,997</u>
Net income per share:				
Basic net income per common share (Note 16)	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Diluted net income per common share (Note 16)	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Changes in Equity

For the Nine-Month Period Ended September 30, 2019

(Expressed in Canadian dollars)

	Share Capital (Note 13)		Contributed Surplus	Warrants	Retained Earnings	Total
	Number	Amount				
Balance, January 1, 2019	40,039,000	\$ 4,167,624	\$ 451,658	\$ ---	\$ 2,171,200	\$ 6,790,482
Net income	---	---	---	---	609,020	609,020
Balance, September 30, 2019	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 451,658</u>	<u>\$ ---</u>	<u>\$ 2,780,220</u>	<u>\$ 7,399,502</u>

	Share Capital (Note 13)		Contributed Surplus	Warrants	Retained Earnings	Total
	Number	Amount				
Balance, January 1, 2018	40,039,000	\$ 4,167,624	\$ 274,210	\$ 135,185	\$ 1,181,060	\$ 5,758,079
Net income	---	---	---	---	660,997	660,997
Balance, September 30, 2018	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 274,210</u>	<u>\$ 135,185</u>	<u>\$ 1,842,057</u>	<u>\$ 6,419,076</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Cash Flows

For the Nine-Month Period Ended September 30, 2019

(Expressed in Canadian dollars)

	September 30, 2019	September 30, 2018
Cash provided by (used in):		
Operating Activities		
Net income	\$ 609,020	\$ 660,997
Adjustments for:		
Accrued interest income	(1,863)	(1,477)
Finance costs (Note 15)	701,053	662,488
Amortization (Note 5)	4,936	4,708
Straight-line rent adjustment (Note 4)	27,654	48,840
Net changes in non-cash working capital items (Note 17)	<u>64,523</u>	<u>101,831</u>
	<u>1,405,323</u>	<u>1,477,387</u>
Investing Activity		
Addition to investment properties (Note 4)	<u>(122,400)</u>	<u>---</u>
Financing Activities		
Proceeds from mortgage financing	16,717,202	17,877,237
Repayments of mortgage financing	(17,351,174)	(18,045,555)
Interest paid	(635,335)	(623,135)
Repayment to related party	(18,164)	---
Repayment of debentures	---	(171,144)
Repayment of loan payable	<u>---</u>	<u>(430,215)</u>
	<u>(1,287,471)</u>	<u>(1,392,812)</u>
Increase (decrease) in cash	(4,548)	84,575
Cash (bank indebtedness), beginning of period	<u>(264,980)</u>	<u>23,794</u>
Cash (bank indebtedness), end of period	<u>\$ (269,528)</u>	<u>\$ 108,369</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

1. Nature of Business

Regent Pacific Properties Inc. (the "Company") is incorporated and domiciled in Canada and is a real estate development and investment 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 interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on November 27, 2019.

2. Basis of Presentation

a) Statement of Compliance

These interim condensed 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").

These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2018.

b) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on a going concern and historical cost basis except for the measurement of investment properties, which are stated at fair value.

c) Functional Currency

The interim condensed 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 interim condensed 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.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

3. Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are consistent with those applied by the Company in its audited consolidated financial statements for the year end December 31, 2018, except as described below.

Accounting Standards Changes

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 and Amendments 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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

4. Investment Properties

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Balance, January 1, 2019	\$ 3,847,930	\$ 27,300,000	\$ 31,147,930
Additions	---	122,400	122,400
Straight-line rent adjustment	---	<u>(27,654)</u>	<u>(27,654)</u>
Balance, September 30, 2019	<u>\$ 3,847,930</u>	<u>\$ 27,394,746</u>	<u>\$ 31,242,676</u>

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Balance, January 1, 2018	\$ 3,917,310	\$ 26,800,000	\$ 30,717,310
Straight-line rent adjustment	---	(9,541)	(9,541)
Fair value adjustment	<u>(69,380)</u>	<u>509,541</u>	<u>440,161</u>
Balance, December 31, 2018	<u>\$ 3,847,930</u>	<u>\$ 27,300,000</u>	<u>\$ 31,147,930</u>

The Company values its investment properties using Level 3 inputs. The investment properties were appraised by third party accredited valuation professionals as at December 31, 2018. For the residential properties the entire building in which the units are located was evaluated using the direct comparison approach. 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.

5. Furniture and Fixtures

	Cost						
	<u>Balance at January 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2019</u>
Furniture and fixtures	\$ 73,588	\$ 8,671	\$ ---	\$ 82,259	\$ ---	\$ ---	<u>\$ 82,259</u>

	Accumulated Depreciation						
	<u>Balance at January 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2019</u>
Furniture and fixtures	\$ 42,203	\$ 7,144	\$ ---	\$ 49,347	\$ 4,936	\$ ---	<u>\$ 54,283</u>

	Net Book Value	
	<u>Balance at September 30, 2019</u>	<u>Balance at December 31, 2018</u>
Furniture and fixtures	<u>\$ 27,976</u>	<u>\$ 32,912</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

6. Loan Receivable from Related Party

	September 30, 2019	December 31, 2018
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	\$ 35,588	\$ 28,208
Interest accrued	<u>1,863</u>	<u>7,380</u>
	<u>\$ 37,451</u>	<u>\$ 35,588</u>

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:

	September 30, 2019	December 31, 2018
Rents and recovery of operating expenses - Commercial	\$ 66,234	\$ 66,587
Rents and deposits - Residential	31,225	37,709
Goods and Services Tax receivable	<u>4,537</u>	<u>6,584</u>
	<u>\$ 101,996</u>	<u>\$ 110,880</u>

Included in accounts receivable is an amount of \$50,786 (December 31, 2018 - \$3,389) which is rents receivable from entities owned or controlled by one of the directors of the Company.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

8. Mortgages Payable

	September 30, 2019	December 31, 2018
<u>Commercial Investment Property – Cassel Centre</u>		
Mortgage payable with a maximum borrowing limit of \$18,201,679, due on demand with monthly blended instalments of \$115,500, interest at 3.64% per annum, with term expiring August 1, 2020, secured by the commercial investment property with a carrying amount of \$27,394,746 general assignment of rent and a general security agreement	\$ 16,717,202	\$ ---
Mortgage payable with a maximum borrowing limit of \$18,200,000, due on demand with monthly blended instalments of \$117,380, interest at 3.60% per annum, with term expiring August 1, 2020, secured by the commercial investment property with a carrying amount of \$27,300,000 general assignment of rent and a general security agreement	---	17,298,360
<u>Residential Investment Properties – Silhouette at Carlton Units</u>		
15 mortgages payable, to an entity owned or controlled by one of the directors of the Company, due June 30, 2020, with monthly blended payments of \$655 to \$996, interest at 2.95%, secured by 15 residential investment properties with a carrying value of \$3,847,930	2,307,701	---
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 residential investment properties with a carrying value of \$3,847,930	---	2,360,515
Debt modification	(16,441)	(31,108)
Finance fee	---	(933)
Accrued interest	40,813	58,712
	19,049,275	19,685,546
Less current portion of mortgages payable	<u>(19,049,275)</u>	<u>(19,685,546)</u>
	\$ ---	\$ ---

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

8. Mortgages Payable (Continued)

On March 8, 2018, the Cassel Centre mortgage was refinanced to obtain additional capital for debt retirement and other working capital purposes. The refinancing was recorded as a debt modification, resulting in a gain on debt of \$31,108.

On June 28, 2019 the Cassel Centre mortgage was refinanced to obtain additional capital for debt retirement and other working capital purposes, however, no changes were made until September 10, 2019. At that time, the interest rate changed to 3.64%, and the monthly payments decreased to \$115,500. The additional capital will be available to draw once Cassel Centre is fully leased.

The 15 mortgages payable on the residential investment properties were extended until June 30, 2020, with similar terms as the previous mortgages.

As at September 30, 2019, the minimum contractual principal payments due are as follows:

2019	\$ 147,363
2020	<u>18,877,540</u>
	<u>\$ 19,024,903</u>

9. Loan Payable

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
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Loan payable is unsecured, bears interest at 7%,
and has no fixed terms of repayment

<u>\$ 145,924</u>	<u>\$ 138,261</u>
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10. Loan payable to related party

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
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Loan payable is unsecured, bears interest at 6.5%,
no regular payments, principal repayment due
November 10, 2019

<u>\$ 1,990,935</u>	<u>\$ 1,930,581</u>
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Interest accrued

<u>---</u>	<u>18,164</u>
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<u>\$ 1,990,935</u>	<u>\$ 1,948,745</u>
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The loan payable to related party is repayable to an entity owned or controlled by one of the directors of the Company.

The loan payable to related party was renewed for one year, due November 10, 2020, with interest payable at 8%.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

11. Accounts Payable and Accrued Liabilities

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

	September 30, 2019	December 31, 2018
Trade payables	\$ 132,715	\$ 29,694
Accrued liabilities	---	48,000
Goods and Services Tax payable	<u>26,515</u>	<u>28,829</u>
	<u>\$ 159,230</u>	<u>\$ 106,523</u>

Included in accounts payable and accrued liabilities is an amount of \$32,569 (December 31, 2018 - \$2,195) owing to entities owned or controlled by one of the directors of the Company.

12. Overdraft Facility

The Company has an overdraft facility of up to \$300,000 (December 31, 2018 – \$300,000) with a Canadian financial institution bearing an annual rate of interest equal to the financial institution's Prime Lending Rate plus 1.00%, floating, calculated daily and payable monthly in arrears.

13. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value

Unlimited number of preferred shares without nominal or par value

The preferred shares may be issued in one or more series and the board of directors are authorized to fix the number of shares in each series and determine the rights, privileges and conditions of the preferred shares.

	Number of Common Shares	Amount
Balance, January 1, 2019 and 2018	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	---	---
	<u>40,039,000</u>	<u>\$ 4,167,624</u>

Stock Options

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

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

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

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

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

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

	September 30, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,955,000	\$ 0.10	2,155,000	\$ 0.10
Granted	---	---	800,000	0.10
Expired	---	---	---	---
Exercised	---	---	---	---
Outstanding, end of period	<u>2,955,000</u>	<u>\$ 0.10</u>	<u>2,955,000</u>	<u>\$ 0.10</u>
Exercisable, end of period	<u>2,955,000</u>	<u>\$ 0.10</u>	<u>2,955,000</u>	<u>\$ 0.10</u>

The following table summarizes information on stock options outstanding and exercisable as at September 30, 2019:

	Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
October 17, 2014	\$ 0.10	2,155,000	2,155,000	October 16, 2019
August 28, 2018	\$ 0.10	800,000	800,000	August 27, 2023

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

14. Rental Revenue

	September 30, 2019	September 30, 2018
Commercial tenant leases	\$ 1,243,320	\$ 1,293,550
Residential tenant leases	178,435	170,620
Parking and storage	85,253	90,678
	<u>\$ 1,507,008</u>	<u>\$ 1,554,848</u>

15. Finance Costs

	September 30, 2019	September 30, 2018
Interest on mortgages	\$ 523,746	\$ 526,769
Interest on loans payable	104,896	12,902
Accretion of debt modification	60,354	---
Interest on overdraft facility	9,624	---
Amortization of deferred financing fees on mortgages	2,433	327
Interest on amount due to related parties	---	---
Interest on debentures	---	122,490
	<u>\$ 701,053</u>	<u>\$ 662,488</u>

16. 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 September 30, 2019 of 40,039,000 (September 30, 2018 - 40,039,000). The inclusion of the Company's stock options in the computation of the diluted net income per share would be anti-dilutive and are excluded from the computation.

17. Net changes in Non-Cash Working Capital Items

	September 30, 2019	September 30, 2018
Accounts receivable	\$ 8,884	\$ 93,528
Prepaid expenses	10,030	(5,264)
Prepaid rents	(7,188)	(558)
Accounts payable and accrued liabilities	52,797	14,125
	<u>\$ 64,523</u>	<u>\$ 101,831</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

18. 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 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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

19. Financial Instruments

Fair Value Measurement

All financial instruments are initially measured at fair value with transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities that are measured at amortized cost, added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial instruments recognized in the statements of financial position include cash, accounts receivable, loan receivable from related party, mortgages payable, loan payable to related party, loan payable, accounts payable and accrued liabilities and overdraft facility.

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
Financial Liabilities:			
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

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

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19. Financial Instruments (Continued)

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, loan payable, and loan payable to related party approximate their fair value due to the relatively short periods to maturity of these financial instruments.

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.

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, loan payable, and loan payable to related party that bear a fixed interest rate. There is the risk of interest rates increasing when renewing fixed rate liabilities at the end of their terms. The Company mitigates this risk by monitoring interest rates, negotiating renewals, and obtaining quotes from multiple lenders. The Company's overdraft facility bears interest at a variable 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, taking rental deposits from tenants, and by limiting exposure to any one tenant.

The aging of accounts receivable is as follows:

	September 30, 2019	December 31, 2018
Current	\$ 45,778	\$ 93,084
31-90 days	237	7,959
91 + days	<u>55,981</u>	<u>9,837</u>
	<u>\$ 101,996</u>	<u>\$ 110,880</u>

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19. Financial Instruments (Continued)

Credit and concentration risk (Continued)

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the period ended September 30, 2019, rent earned from four key tenants represents 80% (December 31, 2018 – 72%) of total revenues. At September 30, 2019 receivables from these tenants total 62% of total accounts receivable (December 31, 2018 – 13%).

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 \$159,320 (December 31, 2018 - \$106,523) that have a current contractual maturity. The mortgage payable of \$16,717,202 (December 31, 2018 - \$17,298,360) is due on demand and has terms which expire in fiscal 2020, and the mortgages payable of \$2,307,701 (December 31, 2018 - \$2,360,515) have terms which expire in fiscal 2020 (Note 8). The loan payable of \$145,924 (December 31, 2018 - \$138,261) has no fixed terms of repayment. The loan payable to related party of \$1,990,935 (December 31, 2018 – \$1,948,745) has terms which expire in fiscal 2019, but was renewed subsequent to the quarter end under similar terms, expiring in fiscal 2020. The overdraft facility of \$269,528 (December 31, 2018 – \$264,980) is due on demand with revolving terms (Note 12).

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:

	September 30, 2019	December 31, 2018
Mortgages payable	\$ 19,049,275	\$ 19,685,546
Loans payable	145,924	138,261
Loan payable to related party	1,990,935	1,948,745
Overdraft facility	269,528	264,980
Equity	<u>7,399,502</u>	<u>6,790,482</u>
	<u>\$ 28,855,164</u>	<u>\$ 28,828,014</u>

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

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21. Segment Information

Management has determined that the Company has one reportable segment that being the rental of commercial and residential real estate properties located in Canada. All the properties are located in one region, Edmonton, and although they are different property types, they have reasonably similar risks and returns.

22. 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.