

REGENT PACIFIC PROPERTIES INC.
Consolidated Financial Statements
December 31, 2018 and 2017
(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, 2018 and 2017 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. RSM Alberta 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 30, 2019



RSM Alberta LLP

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Regent Pacific Properties Inc.

Opinion

We have audited the consolidated financial statements of Regent Pacific Properties Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2018 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter – Comparative Information

The consolidated financial statements of the Company as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 27, 2018.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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INDEPENDENT AUDITOR'S REPORT (continued)

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Curtis Dorfman.

Edmonton, Alberta
April 30, 2019

RSM Alberta LLP

Chartered Professional Accountants

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Financial Position
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Non-current Assets		
Investment properties (Note 4)	\$ 31,147,930	\$ 30,717,310
Loan receivable from related party (Note 6)	35,588	33,614
Furniture and fixtures (Note 5)	<u>32,912</u>	<u>31,385</u>
	<u>31,216,430</u>	<u>30,782,309</u>
Current Assets		
Accounts receivable (Note 7)	110,880	154,527
Prepaid expenses	10,030	8,778
Cash	---	23,794
	<u>120,910</u>	<u>187,099</u>
	<u>\$ 31,337,340</u>	<u>\$ 30,969,408</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 178,678	\$ 178,678
Mortgages payable (Note 13)	---	2,360,502
Deferred income taxes (Note 11)	<u>2,192,388</u>	<u>1,840,389</u>
	<u>2,371,066</u>	<u>4,379,569</u>
Current Liabilities		
Current portion of mortgages payable (Note 13)	19,685,546	17,721,066
Debentures payable (Note 8)	---	2,436,608
Loans payable (Note 9)	138,261	559,936
Loan payable to related party (Note 10)	1,948,745	---
Prepaid rents	31,737	26,756
Accounts payable and accrued liabilities (Note 14)	106,523	87,394
Overdraft facility (Note 15)	<u>264,980</u>	<u>---</u>
	<u>22,175,792</u>	<u>20,831,760</u>
	<u>24,546,858</u>	<u>25,211,329</u>
EQUITY		
Share capital (Note 16)	4,167,624	4,167,624
Warrants (Note 8)	---	135,185
Contributed surplus	451,658	274,210
Retained earnings	<u>2,171,200</u>	<u>1,181,060</u>
	<u>6,790,482</u>	<u>5,758,079</u>
	<u>\$ 31,337,340</u>	<u>\$ 30,969,408</u>
Contingencies (Note 26)		

Approved on behalf of the Board of Directors:

“Eddie Yu”
Signed _____
Director
See accompanying notes

“David Yu”
Signed _____
Director

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	2018	2017
Rental revenue (Note 17)	\$ 2,129,494	\$ 1,945,191
Recovery of operating expenses	907,130	834,775
Direct operating expenses	<u>(1,004,190)</u>	<u>(856,545)</u>
Net rental income	<u>2,032,434</u>	<u>1,923,421</u>
Other expenses		
General and administrative	218,209	189,765
Amortization	<u>7,144</u>	<u>7,846</u>
	<u>225,353</u>	<u>197,611</u>
Income before fair value adjustments on investment properties, interest income and finance costs	1,807,081	1,725,810
Fair value adjustments on investment properties (Note 4)	<u>440,161</u>	<u>1,099,160</u>
Income before interest income, finance costs, and debt modification	<u>2,247,242</u>	<u>2,824,970</u>
Interest income	1,974	35,826
Finance costs (Note 18)	(1,007,604)	(892,838)
Debt modification (Note 22)	<u>100,527</u>	<u>---</u>
	<u>(905,103)</u>	<u>(857,012)</u>
Income before income taxes	1,342,139	1,967,958
Deferred income tax expense (Note 11)	<u>(351,999)</u>	<u>(125,158)</u>
Net income and comprehensive income	<u>\$ 990,140</u>	<u>\$ 1,842,800</u>
Net income per share:		
Basic net income per common share (Note 19)	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Diluted net income per common share (Note 19)	<u>\$ 0.02</u>	<u>\$ 0.05</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	Share Capital (Note 16)		Contributed Surplus	Warrants	Retained Earnings (Deficit)	Total
	Number	Amount				
Balance, December 31, 2016	40,039,000	\$ 4,167,624	\$ 274,210	\$ 135,185	\$ (661,740)	\$ 3,915,279
Net income	---	---	---	---	<u>1,842,800</u>	<u>1,842,800</u>
Balance, December 31, 2017	40,039,000	4,167,624	274,210	135,185	1,181,060	5,758,079
Expiry of warrants	---	---	135,185	(135,185)	---	---
Share-based compensation	---	---	42,263	---	---	42,263
Net income	---	---	---	---	<u>990,140</u>	<u>990,140</u>
Balance, December 31, 2018	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 451,658</u>	<u>\$ ---</u>	<u>\$ 2,171,200</u>	<u>\$ 6,790,482</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	2018	2017
Cash provided by (used in):		
Operating Activities		
Net income	\$ 990,140	\$ 1,842,800
Adjustments for:		
Accrued interest income	(1,974)	(32,375)
Finance costs (Note 18)	1,007,604	892,838
Debt modification (Note 22)	(100,527)	---
Amortization (Note 5)	7,144	7,846
Fair value adjustments to investment property (Note 4)	(440,161)	(1,099,160)
Straight-line rent adjustment (Note 4)	9,541	---
Share-based compensation	42,263	---
Deferred income tax expense (Note 11)	351,999	125,158
Net changes in non-cash working capital items (Note 20)	<u>72,318</u>	<u>(156,388)</u>
	<u>1,938,348</u>	<u>1,580,719</u>
Investing Activities		
Repayment of loan receivable from related party (Note 6)	---	997,945
Additions to furniture and fixtures (Note 5)	(8,671)	---
Additions to investment properties (Note 4)	<u>---</u>	<u>(3,518,150)</u>
	<u>(8,671)</u>	<u>(2,520,205)</u>
Financing Activities		
Advances from related party	2,000,000	---
Proceeds from mortgage financing	17,877,237	2,462,705
Repayments of mortgage financing	(18,258,611)	(761,663)
Interest paid	(835,069)	(926,373)
Proceeds from loan payable	---	502,000
Repayment of loan payable	(430,215)	---
Repayment of expired debentures (Note 8)	<u>(2,571,793)</u>	<u>(570,000)</u>
	<u>(2,218,451)</u>	<u>706,669</u>
Decrease in cash	(288,774)	(232,817)
Cash, beginning of year	<u>23,794</u>	<u>256,611</u>
Cash (bank indebtedness), end of year	<u>\$ (264,980)</u>	<u>\$ 23,794</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
(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 consolidated financial statements were authorized for issue by the Company's Board of Directors on April 30, 2019.

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”).

b) Basis of Measurement

The 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 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.

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

i) 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.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
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2. **Basis of Presentation** (Continued)

d) Use of Estimates and Judgements (Continued)

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) 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.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
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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.

Cash (Overdraft Facility)

Cash includes cash held in a Canadian financial institution. Overdraft facility represents an overdraft drawn on account held with the same institution.

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.

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.

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

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

Furniture and Fixtures

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

Furniture and fixtures - 20%

Leasing Costs

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

Finance Costs

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

Recognition of Revenue

Revenue includes lease revenue from investment properties including base rents, and parking revenue. The Company has determined that all of its leases are operating leases. Rental revenue from operating leases 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 also 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 performance obligations are completed.

Income Taxes

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

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

Share-based Payments

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

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
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3. **Significant Accounting Policies** (Continued)

Convertible Debentures

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

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

Basic and Diluted Net Income 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.

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.

Accounting Standard Changes

On January 1, 2018, the Company implemented IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" using the modified retrospective approach. The impact on implementation of IFRS 9 and IFRS 15 is described below.

IFRS 9, Financial Instruments

i) Classification of Financial Assets

Under IAS 39 the Company has classified cash as fair value through profit and loss (FVTPL). Accounts receivable and loan receivable from related party are classified as "loans and receivables". Under IAS 39, 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.

IFRS 9 uses a business model test to classify financial assets among three classifications: amortized cost, fair value through other comprehensive income (FVTOCI) and FVTPL. There are two possible business models, the first business model has the objective of holding and collecting the financial asset's contractual cash flows. These financial assets are to be measured at amortized cost. The effective interest rate method is used to recognize interest.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

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

Accounting Standard Changes (Continued)

IFRS 9, Financial Instruments (Continued)

i) Classification of Financial Assets (Continued)

IFRS 9 includes clarification on the accounting for modifications of financial liabilities. The Company has accounted for modifications in accordance with the clarifications when IAS 39 was applied in the prior periods, to calculate effective interest rate on financial liabilities using the original effective interest rate and recognize any gain or loss through profit and loss.

The second business model is to have contractual cash flows with an objective of both collecting contractual cash flows and for sale. These financial assets are to be classified as FVTOCI. Under FVTOCI, the financial asset would be accounted for at amortized cost, with the interest, premium, discount, etc. being recognized in profit and loss. The difference between the fair value and amortized cost would be recognized in other comprehensive income (OCI). The amounts accumulated in OCI for these financial assets would be recycled to profit and loss on derecognition of the financial asset.

In addition financial assets that do not have contractual cash flows that are solely principal and interest are to be measured at FVTPL.

Under IFRS 9, cash will be measured at amortized cost using the effective interest rate method. The Company's accounts receivable would primarily be outstanding rents receivable or outstanding recoveries of operating expenses which are to be held to collect contractual cash flows until such time as the rents or recoveries are collected, and as such will continue to be measured at amortized cost using the effective interest rate method. The loan receivable from related party is to be held to collect contractual cash flows until such time as the loan is repaid, as such it will continue to be measured at amortized cost using the effective interest rate method.

ii) Classification of Financial Liabilities

The Company has the following liability financial instruments on its statement of financial position which are measured at amortized cost using the effective interest rate method:

- Mortgages payable
- Loans payable
- Loan payable to related party
- Accounts payable and accrued liabilities
- Overdraft facility

Under IFRS 9 there are two main classifications for financial liabilities: other liabilities measured at amortized cost and FVTPL measured at fair value. Most financial liabilities will be accounted for using amortized cost. The fair value model is to be applied if:

- The financial liability meets the definition of held-for-trading (HFT) or
- The entity has elected, under the irrevocable option, to classify a financial liability at fair value as it eliminates an accounting mismatch, or a group of financial instruments is managed, and its performance evaluated based on fair value.

None of the financial liabilities on the Company's statement of financial position meet either of the two above-noted criteria, so under IFRS 9 they will continue to be measured at amortized cost using the effective interest rate method.

REGENT PACIFIC PROPERTIES INC.
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3. **Significant Accounting Policies** (Continued)

Accounting Standard Changes (Continued)

IFRS 9, Financial Instruments (Continued)

iii) 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.

Under IAS 39 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.

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company records the expected credit loss to comply with IFRS 9's simplified approach for accounts receivable where its loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit losses (ECL).

In determining lifetime ECLs for accounts receivables without a significant financing component, the time value of money does not need to be considered as it is insignificant. As such the ECL's are not discounted, or if they were to be discounted, it would be at a rate of 0%. The identified loss for accounts receivable was immaterial.

The Company's loan receivable from related party is considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses. These financial assets are considered by management to be "low credit risk" when the financial assets have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

An assessment has determined that there was no material impact to financial assets in connection with the change from the incurred loss model to the ECL model.

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

IFRS 15, Revenue from Contracts with Customers

The Company's revenue is derived primarily in the form of rental revenue from lease agreements. Leases are currently dealt with under IAS 17 and for accounting periods beginning on or after January 1, 2019 under IFRS 16 Leases. The Company also receives non-lease component revenue primarily in the form of recovery of costs relating to common area maintenance recoveries recorded as "Recovery of operating expenses", and these revenues are recognized as services are provided. The implementation of IFRS 15 did not have a significant impact on the Company's financial statements.

Accounting Standards and Amendments Issued but not yet Effective

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 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 on its consolidated financial statements.

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 is currently assessing the impact of this interpretation on its consolidated financial statements.

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.

4. **Investment Properties**

	<u>Residential</u>	<u>Commercial</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 3,917,310	\$ 26,800,000	\$ 30,717,310	\$ 26,100,000
Acquisition	---	---	---	3,518,150
Straight-line rent adjustment	---	(9,541)	(9,541)	---
Fair value adjustment	<u>(69,380)</u>	<u>509,541</u>	<u>440,161</u>	<u>1,099,160</u>
Balance, end of year	<u>\$ 3,847,930</u>	<u>\$ 27,300,000</u>	<u>\$ 31,147,930</u>	<u>\$ 30,717,310</u>

The Company values its investment properties using Level 3 inputs. The investment properties were appraised by third party accredited valuation professionals. 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.

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4. **Investment Properties** (Continued)

Residential Properties

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.

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 direct comparison approach was used to determine individual retail values for each of the units. The direct comparison approach compares the subject property to sales of other similar properties to establish their value. Use of the approach determined that one-bedroom units would be able to achieve a sale price of \$290 (2017 - \$295) per square foot, one-bedroom plus den and two bedroom units up to and including 1,000 square feet would be able to achieve \$275 (2017 - \$280) per square foot, two-bedroom units above 1,000 square feet would be able to achieve \$265 (2017 - \$270) per square foot, and two-bedroom plus den units would be able to achieve \$240 (2017 - \$245) per square foot. It was also determined that main floor and fourth floor units would likely be more desirable and were given a premium of \$4000 (2017 - \$4000) per unit.

Commercial Property

In applying the income approach via overall income capitalization, the stabilized net operating income is capitalized at an overall capitalization rate. The most appropriate income year to measure the value of the property is the forthcoming twelve-month period, the "year one" income, as this year requires the fewest assumptions and provides the most certain net operating income over the investment horizon. An overall capitalization rate range of between 6.25% and 6.75% (2017 - 6.25% and 6.75%) was determined and the mid-rate of 6.50% (2017 - 6.50%) was applied to the year one net operating income of \$1,819,873 (2017 - \$1,741,992) to arrive at a final value (rounded) estimate of \$28,000,000 (2017 - \$26,799,887).

Values determined by the capitalization of income are most sensitive to changes in capitalization rate. A 0.50% increase in the capitalization rate would decrease the value arrived at by \$1,999,860, and a 0.50% decrease in the capitalization rate would increase the value arrived at by \$2,333,170.

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 7.25% and 7.75% (2017 - 7.25% and 7.75%) and a reversionary capitalization rate range of between 6.50% to 7.00% (2017 - 6.50% and 7.00%) were used to arrive at a mid-point value (rounded) of \$26,180,000 (2017 - \$25,772,959).

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4. **Investment Properties** (Continued)

Commercial Property (Continued)

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 unit value of \$370 per square foot for the main floor bays, and \$385 per square foot for the office tower was considered achievable (2017 - \$370 and \$380 per square foot value range). \$370 per square foot applied to the leasable building area of the main floor bays of 17,220 square feet arrives at a final value (rounded) of \$6,370,000. \$385 per square foot applied to the leasable building area of the tower of 54,100 square feet arrives at a final value (rounded) of \$20,830,000. The combined total value (rounded) arrived at is \$27,200,000 (2017 - \$26,745,000).

The three approaches were reconciled with the overall income capitalization method given primary emphasis. The discounted cash flow analysis was included due to the multi-tenant nature of the building, and the duration and escalation of the leases. The direct comparison approach was given secondary emphasis. The overall reconciled market value of the investment property as at December 31, 2018 was determined to be \$27,300,000 (2017 - \$26,800,000).

The Company leases space in its commercial investment property to tenants under non-cancellable operating leases. The leases have various terms. As at December 31, 2018, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

One year or less	\$ 1,350,570
2 – 5 years	3,660,999
Greater than 5 years	<u>nil</u>
	<u>\$ 5,011,569</u>

5. **Furniture and Fixtures**

	Cost						
	Balance at January 1, 2017			Balance at December 31, 2017			Balance at December 31, 2018
	Additions	Disposals	Additions	Disposals	Additions	Disposals	
Furniture and fixtures	<u>\$ 73,588</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 73,588</u>	<u>\$ 8,671</u>	<u>\$ ---</u>	<u>\$ 82,259</u>

	Accumulated Depreciation						
	Balance at January 1, 2017			Balance at December 31, 2017			Balance at December 31, 2018
	Additions	Disposals	Additions	Disposals	Additions	Disposals	
Furniture and fixtures	<u>\$ 34,357</u>	<u>\$ 7,846</u>	<u>\$ ---</u>	<u>\$ 42,203</u>	<u>\$ 7,144</u>	<u>\$ ---</u>	<u>\$ 49,347</u>

	Net Book Value	
	Balance at December 31, 2018	Balance at December 31, 2017
	Furniture and fixtures	<u>\$ 32,912</u>

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6. **Loan Receivable from Related Party**

	<u>2018</u>	<u>2017</u>
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	\$ 28,208	\$ 28,208
Interest accrued	<u>7,380</u>	<u>5,406</u>
	<u>\$ 35,588</u>	<u>\$ 33,614</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:

	<u>2018</u>	<u>2017</u>
Accrued recovery of operating expenses	\$ 66,587	\$ 50,358
Rents receivable	37,709	90,880
Other receivable	---	4,089
Goods and Services Tax receivable	<u>6,584</u>	<u>9,200</u>
	<u>\$ 110,880</u>	<u>\$ 154,527</u>

Included in accounts receivable is an amount of \$3,389 (2017 - \$84,398) which is rents receivable from entities owned or controlled by one of the directors of the Company.

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8. Debentures Payable

Convertible debentures in the amount of \$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 \$nil (2017 - \$31,261) of interest payable included in the balance at year-end and \$26,081 (2017 - \$32,432) of interest expense included in finance costs. These debentures matured October 30, 2018 and were repaid to the debenture holders.

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 \$nil (2017 - \$23,151) of interest payable included in the balance at year-end and \$111,836 (2017 - \$23,151) of interest expense included in finance costs. This debenture matured November 10, 2018 and was advanced by the lender as a loan payable (Note 10). The advance was recorded as a debt modification resulting in a gain of \$69,419.

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

	<u>2018</u>	<u>2017</u>
Convertible debentures:		
6.00% debentures matured October 30, 2018	\$ ---	\$ 571,793
		571,793
Unsecured debenture:		
6.50% debenture matured November 10, 2018	---	<u>1,864,815</u>
	<u>\$ ---</u>	<u>\$ 2,436,608</u>

The total repayment of \$2,571,793 of the debentures payable in 2018 included all the convertible debentures of \$571,793, and the unsecured debenture of \$2,000,000.

Portion issued and outstanding to related parties at year-end	\$	---	\$ 1,915,901
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Related parties consist of directors and family members of the directors.

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9. **Loans Payable**

	<u>2018</u>	<u>2017</u>
Loan payable is unsecured, bears interest at 6%, and matures on October 30, 2018	\$ ---	\$ 26,165
Loans payable are unsecured, bears interest at 7%, and matures on February 4, 2018	---	533,771
Loans payable are unsecured, bears interest at 7%, and have no fixed terms of repayment	<u>138,261</u>	<u>---</u>
	<u>\$ 138,261</u>	<u>\$ 559,936</u>

Included in loans payable is an amount of \$nil (\$2017 - \$85,063) which is payable to one of the directors of the Company.

10. **Loan payable to related party**

	<u>2018</u>	<u>2017</u>
Loan payable is unsecured, bears interest at 6.5%, no regular payments, principal repayment due November 10, 2019	\$ 1,930,581	\$ ---
Interest accrued	<u>18,164</u>	<u>5,406</u>
	<u>\$ 1,948,745</u>	<u>\$ 33,614</u>

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

11. **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>2018</u>	<u>2017</u>
Deferred tax assets (liabilities):		
Tax loss carry-forward	\$ 275,344	\$ 372,211
Tax basis of share issuance cost, finance costs and eligible capital property	2,574	7,210
Tax basis of investment property in excess of carrying value	<u>(2,194,962)</u>	<u>(1,847,599)</u>
	(1,917,044)	(1,468,178)
Less valuation allowance	<u>(274,344)</u>	<u>(372,211)</u>
Net deferred income tax liability	<u>\$ (2,192,388)</u>	<u>\$ (1,840,389)</u>

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11. **Income Taxes** (Continued)

As at December 31, 2018, the Company has non-capital loss carry forwards of \$1,019,791, which will expire as follows:

2030	\$ 8,162
2031	90,260
2032	80,556
2033	40,503
2034	52,596
2035	329,466
2036	130,407
2037	281,249
2038	6,592

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

	<u>2018</u>	<u>2017</u>
Income before income taxes	\$ 1,412,312	\$ 1,967,958
Statutory tax rate	<u>27.00%</u>	<u>27.00%</u>
Expected tax expense (recovery)	381,324	531,349
Permanent differences	114	---
Temporary differences	26,937	(494,938)
Net effect of unrecognized non-capital losses	<u>(56,376)</u>	<u>88,747</u>
Income tax expense	<u>\$ 351,999</u>	<u>\$ 125,158</u>

12. **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, 2018, consisted of interest expense on loans payable and debentures of \$112,633 (2017 - \$137,465). No remuneration was paid.

During the year, the Company charged a total of \$117,898 (2017 - \$112,704) 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 \$294,180 (2017 - \$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 (2017 - \$29,678) to entities owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest of \$18,164 (2017 - \$nil) to an entity owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest expense of \$3,065 (2017 - \$3,059) to a member of management and an immediate relative of key management.

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12. **Related Party Transactions** (Continued)

During the year, the Company accrued interest income of \$1,974 (2017 - \$35,633) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid legal fees of \$11,296 (2017 - \$14,929) 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 (2017 - \$70,902) to an entity owned or controlled by one of the directors of the Company.

13. **Mortgages Payable**

	<u>2018</u>	<u>2017</u>
<u>Commercial Investment Property – Cassel Centre</u>		
On March 8, 2018, the Cassel Centre mortgage was refinanced to obtain addition capital for debt retirement and other working capital purposes. The refinance was recorded as a debt modification, resulting in a gain on debt of \$31,108.		
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	\$ ---
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 commercial investment property with a carrying amount of \$26,800,000, general assignment of rent and a general security agreement	---	17,599,214
<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, 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	2,429,142
Debt modification (Note 22)	(31,108)	
Finance fee	(933)	---
Accrued interest	<u>58,712</u>	<u>53,212</u>
	19,685,546	20,081,568
Less current portion of mortgages payable	<u>(19,685,546)</u>	<u>(17,721,066)</u>
	<u>\$ ---</u>	<u>\$ 2,360,502</u>

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13. Mortgages Payable (continued)

The Company's mortgage of \$18,200,000 contains a holdback of \$310,870 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, 2018, the minimum contractual principal payments due are as follows:

2019	3,159,461
2020	<u>16,499,414</u>
	<u>\$ 19,658,875</u>

14. Accounts Payable and Accrued Liabilities

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

	<u>2018</u>	<u>2017</u>
Trade payables	\$ 29,694	\$ 38,211
Accrued liabilities	48,000	48,171
Goods and Services Tax payable	<u>28,829</u>	<u>1,012</u>
	<u>\$ 106,523</u>	<u>\$ 87,394</u>

Included in accounts payable and accrued liabilities is an amount of \$2,195 (2017 - \$10,482) owing to entities owned or controlled by one of the directors of the Company.

15. Overdraft Facility

The Company has an overdraft facility of up to \$300,000 (2017 – nil) 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.

16. Share Capital

Authorized:

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

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, January 1, 2017	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	<u>---</u>	<u>---</u>
Balance, December 31, 2018	<u>40,039,000</u>	<u>\$ 4,167,624</u>

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16. **Share Capital** (Continued)

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.

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

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,155,000	\$ 0.10	3,466,000	\$ 0.10
Granted	800,000	0.10	---	---
Expired	---	---	(1,311,000)	---
Exercised	---	---	---	---
Outstanding, end of year	<u>2,955,000</u>	<u>\$ 0.10</u>	<u>2,155,000</u>	<u>\$ 0.10</u>
Exercisable, end of year	<u>2,955,000</u>	<u>\$ 0.10</u>	<u>2,155,000</u>	<u>\$ 0.10</u>

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

The following table summarizes information on stock options outstanding and exercisable as at December 31, 2018:

	<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry Date</u>
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

The Company uses the Black-Scholes option pricing model to value the options at each grant date under the following weighted average assumptions:

	<u>2018</u>	<u>2017</u>
Weighted average grant date fair value	0.076	---
Expected dividend rate	0%	---
Expected historical volatility	100%	---
Risk-free interest rate	2.25%	---
Expected life of options	5.00	---

17. **Rental Revenue**

	<u>2018</u>	<u>2017</u>
Commercial tenant leases	\$ 1,774,155	\$ 1,715,313
Residential tenant leases	232,579	121,433
Parking and storage	122,760	108,445
	<u>\$ 2,129,494</u>	<u>\$ 1,945,191</u>

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18. Finance Costs

	<u>2018</u>	<u>2017</u>
Interest on mortgages	\$ 695,987	\$ 683,449
Interest on debentures	137,854	176,179
Accretion of warrants	135,185	
Interest on loans payable	33,219	33,210
Annual fees on loans	2,700	---
Interest on overdraft facility	2,192	---
Amortization of deferred financing fees on mortgages	467	---
	<u>\$ 1,007,604</u>	<u>\$ 892,838</u>

19. 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, 2018 of 40,039,000 (2017 - 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.

20. Net changes in Non-Cash Working Capital Items

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 49,460	\$ (139,771)
Prepaid expenses	(1,252)	(195)
Prepaid rents	4,981	2,096
Accounts payable and accrued liabilities	19,129	(18,518)
	<u>\$ 72,318</u>	<u>\$ (156,388)</u>

21. Reconciliation of Liabilities Arising From Financing Activities

	<u>Mortgages</u>	<u>Debentures Payable</u>	<u>Loans Payable</u>	<u>Loan From Related Party</u>
Balance, January 1, 2017	\$ 18,381,362	\$ 3,108,344	\$ 24,725	\$ ---
Proceeds received	2,462,705	---	502,000	---
Repayments made	(761,663)	(570,000)	---	---
Accrued interest	(836)	(101,736)	33,211	---
Balance, December 31, 2017	<u>20,081,568</u>	<u>2,436,608</u>	<u>559,936</u>	<u>---</u>
Proceeds received	17,877,237	---	---	2,000,000
Repayments made	(18,258,611)	(2,436,608)	(430,215)	---
Debt modification	(31,108)	---	---	(69,419)
Accrued interest	16,460	---	8,540	18,164
Balance, December 31, 2018	<u>\$ 19,685,546</u>	<u>\$ ---</u>	<u>\$ 138,261</u>	<u>\$ 1,948,745</u>

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22. Debt Modification

The Company restructured its mortgage payable on the commercial property with new terms, and the debentures were exchanged for a loan from related party. These transactions resulted in a net gain on the debt modification by discounting the cash flows at the original effective interest rate.

	<u>2018</u>	<u>2017</u>
Mortgage payable	\$ 31,108	\$ ---
Loan from related party	<u>69,419</u>	<u>---</u>
	<u>\$ 100,527</u>	<u>\$ ---</u>

23. Financial Instruments

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, amounts due to related party, debentures payable, 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	<u>2018</u>	<u>2017</u>
Financial Liabilities:			
Loans payable	Level 3	\$ 138,261	\$ 559,936
Loan payable to related party	Level 3	\$ 1,948,745	\$ ---
Debentures payable	Level 3	\$ ---	\$ 2,430,688
Mortgages payable	Level 3	\$ 19,685,546	\$ 19,618,556

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23. **Financial Instruments** (Continued)

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 and overdraft facility 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.

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. 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:

	<u>2018</u>	<u>2017</u>
Current	\$ 93,084	\$ 109,535
31-90 days	7,959	41,434
91 + days	<u>9,837</u>	<u>3,558</u>
	<u>\$ 110,880</u>	<u>\$ 154,527</u>

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23. **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 year ended December 31, 2018, rent earned from four key tenants represents 72% (2017 – 83%) of total revenues. At December 31, 2018 receivables from these tenants total 13% of total accounts receivable (2017 – 80%).

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 \$106,523 (2017 - \$87,394) that have a current contractual maturity. The mortgage payable of \$17,298,360 (2017 - \$17,599,214) is due on demand and has terms which expire in fiscal 2020 and the mortgages payable of \$2,360,515 (2017 - \$2,429,142) has terms which expire in fiscal 2019 (Note 12). The loans payable of \$138,261 (2017 - \$nil) have no fixed terms of repayment. The loans payable of \$nil (2017 - \$559,936) had terms which expired in fiscal 2018. The loan payable to related party of \$1,948,745 (2017 – \$nil) has terms which expire in fiscal 2019. The overdraft facility of \$264,980 (2017 – \$nil) is due on demand with revolving terms (Note 15).

24. **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, 2018:

	<u>2018</u>	<u>2017</u>
Mortgages payable	\$ 19,685,546	\$ 20,081,568
Debentures	---	2,436,608
Loans payable	138,261	559,936
Loan payable to related party	1,948,745	---
Overdraft facility	264,980	---
Equity	<u>6,790,482</u>	<u>5,758,079</u>
	<u>\$ 28,828,014</u>	<u>\$ 28,836,191</u>

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24. **Capital Management** (Continued)

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 and overdraft facility. As at and during the years ended December 31, 2018 and 2017, the Company was in compliance with its bank covenants.

25. **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.

26. **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.