

REGENT PACIFIC PROPERTIES INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Three and Nine Months Ended
September 30, 2020
(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

"Rose Chang"
Signed
Rose Chang
Interim Chief Financial Officer

November 27, 2020

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September 30, 2020	December 31, 2019
ASSETS		
Non-current Assets		
Investment properties (Note 4)	\$ 26,125,497	\$ 29,733,020
Loan receivable from related party (Note 6)	1,227,070	38,079
Furniture and fixtures (Note 5)	<u>22,381</u>	<u>26,330</u>
	<u>27,374,948</u>	<u>29,797,429</u>
Current Assets		
Accounts receivable (Note 7)	12,698	37,827
Cash	<u>---</u>	<u>185,542</u>
	<u>12,698</u>	<u>223,369</u>
	<u>\$ 27,387,646</u>	<u>\$ 30,020,798</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 167,510	\$ 167,510
Deferred income taxes	<u>1,661,613</u>	<u>1,661,613</u>
	<u>18,29,123</u>	<u>1,829,123</u>
Current Liabilities		
Mortgages payable (Note 11)	17,743,297	20,208,364
Loan payable (Note 8)	156,284	148,482
Loan payable to related party (Note 9)	416,439	1,204,115
Prepaid rents	66,687	118,382
Accounts payable and accrued liabilities (Note 12)	153,409	101,692
Overdraft facility (Note 13)	<u>290,382</u>	<u>---</u>
	<u>18,826,498</u>	<u>21,781,035</u>
	<u>20,655,621</u>	<u>23,610,158</u>
EQUITY		
Share capital (Note 14)	4,167,624	4,167,624
Contributed surplus	560,530	560,530
Retained earnings	<u>2,003,871</u>	<u>1,682,486</u>
	<u>6,732,025</u>	<u>6,410,640</u>
	<u>\$ 27,387,646</u>	<u>\$ 30,020,798</u>

Approved on behalf of the Board of Directors:

"Eddie Yu"
Signed _____
Director

"David Tam"
Signed _____
Director

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

For the Three and Nine-Month Period Ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Rental revenue (Note 15)	\$ 490,226	\$ 482,986	\$ 1,487,409	\$ 1,507,008
Recovery of operating expenses	215,485	217,637	646,455	688,078
Direct operating expenses	<u>(256,006)</u>	<u>(255,821)</u>	<u>(746,343)</u>	<u>(770,898)</u>
Net rental income	<u>449,705</u>	<u>444,802</u>	<u>1,387,521</u>	<u>1,424,188</u>
Other expenses				
General and administrative	43,685	37,138	146,235	111,106
Amortization	<u>1,316</u>	<u>1,645</u>	<u>3,949</u>	<u>4,936</u>
	<u>45,001</u>	<u>38,783</u>	<u>150,184</u>	<u>116,042</u>
Income before interest income, finance costs, and loss on sale of investment properties	<u>404,704</u>	<u>406,019</u>	<u>1,237,337</u>	<u>1,308,146</u>
Interest income	---	692	1,242	1,927
Finance costs (Note 16)	(232,290)	(235,262)	(583,064)	(701,053)
Termination of agreements for sale (Note 4)	<u>(334,130)</u>	<u>---</u>	<u>(334,130)</u>	<u>---</u>
	<u>(566,420)</u>	<u>(234,570)</u>	<u>(915,952)</u>	<u>(699,126)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (161,716)</u>	<u>\$ 171,449</u>	<u>\$ 321,385</u>	<u>\$ 609,020</u>
Net income (loss) per share:				
Basic net income (loss) per common share (Note 17)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Diluted net income (loss) per common share (Note 17)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</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 Periods Ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>			
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>\$ 2,780,220</u>	<u>\$ 7,399,502</u>

	<u>Share Capital</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>			
Balance, January 1, 2020	40,039,000	\$ 4,167,624	\$ 560,530	\$ 1,682,486	\$ 6,410,640
Net income	---	---	---	321,385	321,385
Balance, September 30, 2020	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 560,530</u>	<u>\$ 2,003,871</u>	<u>\$ 6,732,025</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Cash Flows

For the Nine-Month Periods Ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

	September 30, 2020	September 30, 2019
Cash provided by (used in):		
Operating Activities		
Net income	\$ 321,385	\$ 609,020
Adjustments for:		
Accrued interest income	---	(1,863)
Loss on termination of agreements for sale	334,130	---
Finance costs (Note 16)	583,064	701,053
Amortization	3,949	4,936
Straight-line rent adjustment	(125,497)	27,654
Net changes in non-cash working capital items (Note 18)	<u>25,151</u>	<u>64,523</u>
Net cash from operations	<u>1,142,182</u>	<u>1,405,323</u>
Investing Activities		
Advance to related party	(1,227,070)	---
Repayment from related party	38,079	---
Termination of agreements for sale (Note 4)	3,398,890	---
Addition to investments properties	<u>---</u>	<u>(122,400)</u>
Net cash from investing activities	<u>2,209,899</u>	<u>(122,400)</u>
Financing Activities		
Proceeds from mortgage financing	---	16,717,202
Repayments of mortgage financing	(2,482,695)	(17,351,174)
Interest paid	(582,310)	(635,335)
Repayment to related party	<u>(763,000)</u>	<u>(18,164)</u>
Net cash used in financing activities	<u>(3,828,005)</u>	<u>(1,287,471)</u>
Decrease in cash	(475,924)	(4,548)
Cash (bank indebtedness), beginning of period	<u>185,542</u>	<u>(264,980)</u>
Cash (bank indebtedness), end of period	<u><u>\$ (290,382)</u></u>	<u><u>\$ (269,528)</u></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, 2020.

2. Basis of Presentation

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019.

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 IAS 34 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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

2. Basis of Presentation (continued)

The critical accounting estimate and judgments have been set out in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2019.

i) Elevated estimation uncertainty as a result of COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic. The pandemic has created significant uncertainty in the general economy, including the real estate market. Such a pandemic could, if prolonged, adversely impact the Company directly and/or indirectly. Management continues to assess the impact of COVID-19 and governments' responses to it on the Company. Portions of the Company's financial results incorporate estimates from management that are subject to increased uncertainty due to the market disruptions caused by the COVID-19 pandemic. An area of increased estimation uncertainty in the Company's interim condensed consolidated financial statements is the fair value of its investment property.

The amounts recorded in these interim condensed consolidated financial statements are based on the latest reliable information available to management at the time the interim condensed consolidated financial statements were prepared where that information reflects conditions at the date of the interim condensed consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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, 2019.

4. Investment Properties

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Balance, December 31, 2018	\$ 3,847,930	\$27,300,000	\$ 31,147,930
Additions	---	244,710	244,710
Straight-line rent adjustment	---	(24,415)	(24,415)
Fair value adjustment	<u>(114,910)</u>	<u>(1,520,295)</u>	<u>(1,635,205)</u>
Balance, December 31, 2019	3,733,020	26,000,000	29,733,020
Termination of agreements for sale	(3,733,020)	---	(3,733,020)
Straight-line rent adjustment	<u>---</u>	<u>125,497</u>	<u>125,497</u>
Balance, September 30, 2020	<u><u>\$ ---</u></u>	<u><u>\$26,125,497</u></u>	<u><u>\$ 26,125,497</u></u>

On September 30, 2020, the Company terminated the agreements for sale in all residential properties and assigned all related mortgages back to the previous owner, an entity owned and non-controlled by one of the directors of the Company. Terminating the agreements for sale provides the Company with opportunity to pursue other investment opportunities.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

4. Investment Properties (Continued)

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, 2019. 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.

There is heightened uncertainty on the valuation of the investment properties as a result of the global effects of COVID-19. Management estimates that there has been no material effect on the valuation of the commercial investment property as at September 30, 2020.

5. Furniture and Fixtures

	Cost						
	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019	Additions	Disposals	Balance at September 30, 2020
Furniture and fixtures	\$ 82,259	\$ ---	\$ ---	\$ 82,259	\$ ---	\$ ---	\$ 82,259

	Accumulated Depreciation						
	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019	Additions	Disposals	Balance at September 30, 2020
Furniture and fixtures	\$ 49,347	\$ 6,582	\$ ---	\$ 55,929	\$ 3,949	\$ ---	\$ 59,878

	Net Book Value	
	Balance at September 30, 2020	Balance at December 31, 2019
Furniture and fixtures	\$ 22,381	\$ 26,330

6. Loan Receivable from Related Party

	September 30, 2020	December 31, 2019
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	\$ ---	\$ 35,588
Loan receivable is unsecured, bears interest at 5% and is due by September 30, 2022	1,227,070	---
Interest accrued	---	2,491
	\$ 1,227,070	\$ 38,079

The loan receivable is repayable from an entity owned and non-controlled by one of the directors of the Company, and was advanced on September 30, 2020 in connection with the termination of agreements for sale.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

7. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Rents receivable	\$ 3,117	\$ 31,318
Goods and Services Tax receivable	<u>9,581</u>	<u>6,509</u>
	<u>\$ 12,698</u>	<u>\$ 37,827</u>

Included in accounts receivable is an amount of \$394 (December 31, 2019 - \$nil) which is rents receivable from one of the directors of the Company.

8. Loan Payable

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Loan payable is unsecured, bears interest at 7%, and has no fixed terms of repayment	\$ 148,482	\$ 122,000
Interest accrued	<u>7,802</u>	<u>26,482</u>
	<u>\$ 156,284</u>	<u>\$ 148,482</u>

9. Loan payable to related party

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Loan payable is unsecured, bears interest at 8.0%, no regular payments, principal repayment due November 10, 2020	\$ 387,000	\$ 1,150,000
Debt modification	3,406	26,175
Interest accrued	<u>26,033</u>	<u>27,940</u>
	<u>\$ 416,439</u>	<u>\$ 1,204,115</u>

The loan payable is repayable to an entity owned and controlled by one of the directors of the Company. The loan payable was extended to November 10, 2021 under similar terms.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

10. 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. No remuneration was paid.

During the period, the Company charged a total of \$89,872 (September 30, 2019 - \$89,872 from two entities) to an entity owned and 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 \$185,475 (September 30, 2019 - \$205,200) from an entity owned and controlled by one of the directors of the Company. The Company also reduced the rent by nil% (2019 – 25%) for three months for an entity owned and controlled by one of the directors of the Company.

During the period, the Company accrued interest of \$26,034 (September 30, 2019 - \$nil), and paid interest of \$12,164 (September 30, 2019 - \$97,233) to an entity owned and controlled by one of the directors of the Company.

During the period, the Company accrued interest income of \$nil (September 30, 2019 - \$1,836) and received interest of \$1,242 (September 30, 2019 - \$nil) from an entity owned and controlled by one of the directors of the Company.

During the period, the Company paid rent expense of \$23,458 (September 30, 2019 - \$22,459) to an entity owned and controlled by one of the directors of the Company.

During the period, the Company paid legal fees of \$12,690 (September 30, 2019 - \$5,840) to a law firm where one of the directors of the Company is a partner.

During the period, the Company paid administration fees of \$82,878 (September 30, 2019 - \$56,477) to an entity owned and controlled by one of the directors of the Company.

During the period, the Company paid \$nil (September 30, 2019 - \$122,400) for tenant improvements for a unit owned and 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)

11. Mortgages Payable

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
<u>Commercial Investment Property – Cassel Centre</u>		
Mortgage payable with a maximum borrowing limit of \$17,953,383 due on demand with monthly blended instalments of \$114,500, interest at 3.64% per annum, with term expiring August 1, 2020, secured by the commercial investment property with a carrying amount of \$26,089,404, general assignment of rent and a general security agreement	\$ ---	\$ 17,888,885
Mortgage payable with a maximum borrowing limit of \$17,706,249 due on demand with monthly blended instalments of \$100,450, interest at 3.25% per annum, with term expiring August 1, 2025, secured by the commercial investment property with a carrying amount of \$26,125,497, general assignment of rent and a general security agreement	17,696,026	---
<u>Residential Investment Properties – Silhouette at Carlton Units</u>		
15 mortgages payable, to an entity owned and Non-controlled by one of the directors of the Company, due June 30, 2019, extended to June 30, 2020, and further extended to September 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 \$3,733,020. Discharged September 30, 2020 with the termination of agreements for sale (Note 4).	---	2,289,836
Mortgage modification	---	(30,516)
Accrued interest	47,271	60,159
	17,743,297	20,208,364
Less current portion of mortgages payable	<u>(17,743,297)</u>	<u>(20,208,364)</u>
	<u>\$ ---</u>	<u>\$ ---</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

11. Mortgages Payable (Continued)

As at September 30, 2020, the minimum contractual principal payments due are as follows:

2020	\$	158,203
2021		644,249
2022		655,530
2023		687,514
2024		708,813
Thereafter		<u>14,841,717</u>
	\$	<u>17,696,026</u>

As part of the COVID-19 relief available to the Company, payments on the commercial mortgage were postponed for the months of April – June 2020. Interest continued to accrue during that period.

On August 17, 2020, the company signed an agreement to renew the commercial mortgage on similar terms, expiring August 1, 2025.

On September 30, 2020, the company terminated its agreements for sale on the residential properties and discharged their obligations on all associated mortgages.

12. Accounts Payable and Accrued Liabilities

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

	<u>September 30, 2020</u>	December 31, 2019
Trade payables	\$ 126,042	\$ 46,722
GST payable	25,067	---
Accrued liabilities	<u>2,300</u>	<u>54,970</u>
	<u>\$ 153,409</u>	<u>\$ 101,692</u>

Included in accounts payable and accrued liabilities is an amount of \$33,462 (December 31, 2019 - \$3,099) owing to entities owned and controlled by one of the directors of the Company.

13. Overdraft Facility

The Company has an overdraft facility of up to \$300,000 (December 31, 2019 – \$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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

14. 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, 2020 and 2019	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	---	---
Balance, September 30, 2020 and December 31, 2019	<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.

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

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

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

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

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

	<u>September 30, 2020</u>		<u>December 31, 2019</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	2,955,000	\$ 0.09	2,955,000	\$ 0.10
Granted	---	---	2,155,000	0.08
Expired	---	---	(2,155,000)	0.10
Exercised	---	---	---	---
Outstanding, end of period	<u>2,955,000</u>	<u>\$ 0.09</u>	<u>2,955,000</u>	<u>\$ 0.09</u>
Exercisable, end of period	<u>2,955,000</u>	<u>\$ 0.09</u>	<u>2,955,000</u>	<u>\$ 0.09</u>

The following table summarizes information on stock options outstanding and exercisable as at September 30, 2020:

	<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry Date</u>
August 28, 2018	\$ 0.10	800,000	800,000	August 27, 2023
December 20, 2019	\$ 0.08	2,155,000	2,155,000	December 19, 2024

15. **Rental Revenue**

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Commercial tenant leases	\$ 1,245,599	\$ 1,243,320
Residential tenant leases	188,140	178,435
Parking and storage	<u>53,670</u>	<u>85,253</u>
	<u>\$ 1,487,409</u>	<u>\$ 1,507,008</u>

For the months of April – June 2020, the Company participated in the Canada Emergency Commercial Rent Assistance program from the Government of Canada with two commercial tenants. This program required the landlord and tenant each to pay 25% of the monthly rent, and the Government of Canada paid 50% of the rent for those months.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

16. Finance Costs

	September 30, 2020	September 30, 2019
Interest on mortgages	\$ 553,280	\$ 523,746
Interest on loans payable	46,000	104,896
Accretion of debt modification	(22,769)	60,354
Interest on overdraft facility	5,053	9,624
Finance fees	1,500	---
Amortization of deferred financing fees on mortgages	---	2,433
	<u>\$ 583,064</u>	<u>\$ 701,053</u>

17. Net Income (Loss) 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, 2020 of 40,039,000 (December 31, 2019 - 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.

18. Net changes in Non-Cash Working Capital Items

	September 30, 2020	September 30, 2019
Accounts receivable	\$ 25,129	\$ 8,884
Prepaid expenses	---	10,030
Prepaid rents	(51,695)	(7,188)
Accounts payable and accrued liabilities	<u>51,717</u>	<u>52,797</u>
	<u>\$ 25,151</u>	<u>\$ 64,523</u>

19. Reconciliation of Liabilities Arising From Financing Activities

	Mortgages	Loans Payable	Loan From Related Party
Balance, January 1, 2019	\$ 19,685,546	\$ 138,261	\$ 1,948,745
Proceeds received	18,017,202	---	2,000,000
Repayments made	(17,497,356)	---	(2,798,745)
Other	20,544	---	---
Debt modification	(19,018)	---	26,175
Accrued interest	<u>1,446</u>	<u>10,221</u>	<u>27,940</u>
Balance, December 31, 2019	20,208,364	148,482	1,204,115
Repayments made	(2,482,695)	---	(790,940)
Debt modification	30,516	---	(22,769)
Accrued interest	<u>(12,888)</u>	<u>7,802</u>	<u>26,033</u>
Balance, September 30, 2020	<u>\$ 17,743,297</u>	<u>\$ 156,284</u>	<u>\$ 416,439</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

21. 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, 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 period.

The following table summarizes the Company's assets and liabilities where carrying value may not approximate fair value:

	<u>Fair Value Hierarchy</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Financial Liabilities:			
Loan payable	Level 3	\$ 156,287	\$ 148,482
Loan payable to related party	Level 3	\$ 416,439	\$ 1,204,115
Mortgages payable	Level 3	\$ 17,743,297	\$ 20,208,364

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 mortgages payable, loans payable, and loans payable to related party 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).

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

21. Financial Instruments (Continued)

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 overdraft facility, mortgages payable, 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. Management does not anticipate any significant change in interest rates during the year, as a result of COVID-19, or as a result of any potential change in the valuation of the investment properties.

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, 2020	December 31, 2019
Current	\$ 12,698	\$ 6,509
31-90 days	---	10,680
91 + days	---	20,638
	<u>\$ 12,698</u>	<u>\$ 37,827</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the period ended September 30, 2020, rent earned from four key tenants represents 73% (December 31, 2019 – 81%) of total revenues. At September 30, 2020 receivables from these tenants total 5% of total accounts receivable (December 31, 2019 – 7%).

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

21. Financial Instruments (Continued)

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. Operating cashflow remains positive, and is largely dependant on occupancy and collection. During the initial phase of the COVID-19 pandemic, the Company has maintained high occupancy and continues to closely monitor the collection of receivables from tenants.

The Company's contractual obligation consists of accounts payable and accrued liabilities of \$153,409 (December 31, 2019 - \$101,692) that have a current contractual maturity. The commercial mortgage payable of \$17,743,297 (December 31, 2019 - \$17,888,885) is due on demand and has terms which expire in fiscal 2020 (Note 11). The commercial mortgage was renewed August 17, 2020 for a five year term expiring August 1, 2025.

The loan payable of \$156,284 (December 31, 2019- \$148,482) has no fixed terms of repayment. The loan payable to related party of \$416,439 (December 31, 2019 - \$1,204,115) has terms which expire in fiscal 2020. The overdraft facility of \$290,382 (December 31, 2019 - \$ nil) is due on demand with revolving terms (Note 13).

22. 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, 2020	December 31, 2019
Mortgages payable	\$ 17,743,297	\$ 20,208,364
Loan payable	156,284	148,482
Loan payable to related party	416,439	1,204,115
Overdraft facility	290,382	---
Equity	<u>6,732,025</u>	<u>6,410,640</u>
	<u>\$ 25,338,427</u>	<u>\$ 27,971,601</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.

23. 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.