



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

The following management discussion and analysis as of April 28, 2020 is provided to enhance the reader’s understanding of, and should be read in conjunction with, Regent Pacific Properties Inc.’s (the “Company”) annual audited consolidated financial statements for the years ended December 31, 2019 and 2018, and accompanying notes thereto. All dollar amounts are expressed in Canadian funds unless otherwise stated. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). Additional information relating to the Company, including its financial statements, is available on SEDAR at www.sedar.com.

Core Business

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

Objectives and Strategy

The Company seeks to expand its portfolio of high-quality, income producing properties.

Overall Performance

Cassel Centre has fixed-term leases in place with AAA tenants for 90.7% of its rentable area. The term for two leases from one tenant representing 9.3% of the total rentable area ended November 30, 2017, and the leases became month-to-month at 125% of the prior base rent rate with 90 days’ notice to vacate. The tenant vacated on July 15, 2019. The remaining tenant leases in the building have lease terms remaining of between 0.2 and 4.8 years.

At the end of December 31, 2019, The Silhouette at Carlton units have tenants in 15 out of the 15 units. All tenant leases are one-year leases. Over the course of the fiscal year occupancy has ranged between 13, 14 and 15 out of 15 units occupied.

Selected Annual Information

	2019	2018	2017
Total Assets	\$30,020,798	\$31,337,340	\$30,969,408
Total Current Liabilities	\$21,781,035*	\$22,175,792*	\$20,831,760
Total Long-term Liabilities	\$1,829,123	\$2,371,066	\$4,379,569
Total Liabilities	\$23,610,158	\$24,546,858	\$25,211,329
Revenue	\$2,876,665	\$3,036,624	\$2,779,966
Cost of Sales	\$ -	\$ -	\$ -
Expenses	\$2,261,980	\$2,237,147	\$1,946,994
Income Taxes	\$ -	\$ -	\$ -
Deferred Income Tax Expense (Recovery)	\$(530,775)	\$351,999	\$125,158
Other Income	\$2,556	\$442,135	\$1,134,986
Other Expenses	(\$1,635,205)	---	---
Net Income (Loss)	\$(530,775)	\$990,140	\$1,842,800
Number of Shares Outstanding	40,039,000	40,039,000	40,039,000
Income (Loss) per Share	\$(0.01)	\$0.02	\$0.05
Diluted Income (Loss) per Share	\$(0.01)	\$0.02	\$0.05

*2019 Total Current Liabilities included a \$17,888,885 mortgage payable which is due on demand on a 5 year term, and an interest rate of 3.64%.

Summary of Quarterly Results

	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenues	\$681,579	\$700,623	\$765,508	\$728,955	\$851,192	\$732,776	\$748,951	\$703,705
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	\$673,987	\$529,866	\$532,564	\$525,563	\$711,234	\$517,701	\$521,894	\$486,318
Income Tax (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Income Tax (Recovery)	\$(530,775)	\$ -	\$ -	\$ -	\$351,999	\$ -	\$ -	\$ -
Other Income (Expenses)	\$(1,636,101)	\$692	\$621	\$614	\$440,658	\$498	\$492	\$487
Net Income (Loss)	\$(1,097,734)	\$171,449	\$233,565	\$204,006	\$329,144	\$215,573	\$227,549	\$217,874
Earnings (Loss) per Share	\$(0.01)	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Fully Diluted Earnings (Loss) per Share	\$(0.01)	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01

Discussion of Operations and Financial Condition:

Revenue

Total revenue for the year was \$2,876,665, a decrease of 5.2% from 2018 (\$3,036,624). Current year revenue is comprised of \$1,735,646 of commercial rental income from Cassel Centre (2018 - \$1,896,915), \$246,394 of residential rental income (2018 - \$232,579) from the Silhouette at Carlton units, and \$864,625 of operating cost recoveries from tenants (2018 - \$907,130). Revenue has decreased from the prior year as a result of some vacancy in the commercial building.

Expenses

Total expenses for the year were \$2,261,980, an increase of 1.0% over 2018 (\$2,237,147). Expenses include operating expenses, general and administrative expenses, depreciation and amortization, and finance charges. Overall expenses have remained stable over the prior year with higher general and administrative expenses offset by lower finance costs.

Capital Resources

As at December 31, 2019, the Company had cash of \$185,542 (December 31, 2018 – \$nil) and a working capital deficiency of \$21,557,666 (December 31, 2018 - \$22,054,882). Working capital is calculated as current assets less current liabilities. Since the \$17,888,885 (2018 - \$17,297,360) mortgage payable on Cassel Centre is due on demand the entire amount of the mortgage is included in current liabilities and as such significantly contributes to the working capital deficiency. Cash from operations was positive. Investing activities involved an addition to the commercial property. Financing activities included the net repayment of a loan from related party, refinancing of the mortgage payable on the commercial investment property, scheduled repayments on the mortgages, and interest payments.

Capital expenditures are generally funded by cash on hand, and/or cash provided by operating activities, or by obtaining new financing. It is the Company's objective to maintain its properties at a high level, consequently, capital expenditures may be regularly required, however the timing of such expenditures is often discretionary and may be deferred, for example with a repair rather than replacement.

From time to time the Company anticipates incurring direct leasing costs and/or tenant improvement allowances related to acquiring new tenants or maintaining existing tenants. For example, there may be direct leasing costs and/or tenant improvement allowances incurred as a result of securing a new lease or acquiring a new tenant. For the Silhouette at Carlton units which have residential leases typically of one year in duration, the Company anticipates incurring direct leasing costs on an ongoing basis as a part of regular residential tenant turnover. Management expects regular tenant turnover and fluctuating vacancy rates due to the nature of residential tenancies and depending upon local market conditions. At the end of December 31, 2019, 15 out of the 15 units are rented.

Another significant use for cash could be the acquisition of or investment in new properties. The Company is actively and continuously seeking new investment opportunities.

Risk and Uncertainty

The Company is exposed to a variety of business and other risks and uncertainties including the following:

Economic Risk

The performance of real estate investments is impacted by local market conditions, which in turn can be affected by national or global economic conditions. Economic trends can also be exacerbated in smaller markets, resulting in greater risk. The Company mitigates economic risk

by focusing on larger markets, maintaining tenants from various industries, and maintaining highquality properties.

Fair value risk

Real estate markets are in a constant state of flux and prices and values can vary in a short timeframe due to such factors as economic conditions, the general desirability of real estate investments, the number and nature of potential purchasers in the market, the availability of comparable investment opportunities, the motivation of vendors, the availability and cost of financing, etc. Changes in fair value will result in gains or losses in earnings being recorded in the financial statements, although these would be non-cash gains or losses until such time as a property is sold. Upon sale, there is a risk that the Company may realize sale proceeds of less, or even significantly less, than the fair value recorded in its real estate investments. In addition, transaction costs are not included in the fair value of investment properties which will reduce fair value gain (or increase the loss) on disposal of investment properties. Lower property value may also make refinancing of maturing mortgages more difficult, although with low leverage, this is less likely to occur.

Credit risk

Tenant default can occur because of economic conditions or tenant specific circumstances. The Company manages this risk by having multiple tenants, retaining security deposits on leases, staggering lease expiry dates, and screening tenants for longevity and credit worthiness.

Interest rate risk

Future interest rates can significantly positively or negatively affect net returns.

Financing risk

There is the risk that the Company will be unable to obtain satisfactory financing when required, particularly to refinance maturing debt. This risk is mitigated by actively managing the Company's capacity to service debt, and by maintaining good borrowing relations with sound lenders.

Environmental risk

Environmental liability is a risk for any owner in the real-estate industry, and primarily stems from the possibility of inheriting an existing unknown liability through the acquisition of a property or from environmental liability caused by a tenant. The Company manages the former risk by obtaining professional environmental assessments of potential acquisition properties as a condition of acquisition, which assessments, among other things, investigate the historical use and current condition of the property. The risk of potential environmental liability caused by a tenant is mitigated by screening tenants, by obliging tenants to be responsible for any environmental contamination or other issues caused by them, and by monitoring properties for any apparent environmental threats.

Property Loss Risk

The Company contracts with an insurance agency that specializes in commercial insurance. Insurance coverage is reviewed annually for each property.

Financial Instruments and Other Instruments

Financial instruments of the Company include cash, accounts receivable, loan receivable from related party, overdraft facility, accounts payable and accrued liabilities, loan payable to related party, loans payable, and mortgages payable.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

There were no transfers between levels of the fair value hierarchy during the year.

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

	Fair Value Hierarchy	2019	2018
Financial Liabilities:			
Loans payable	Level 3	\$ 148,482	\$ 138,261
Loan payable to related party	Level 3	\$ 1,204,115	\$ 1,948,745
Mortgages payable	Level 3	\$ 20,208,364	\$ 19,685,546
Non-Financial Assets:			
Investment properties	Level 3	\$ 29,733,020	\$ 31,147,930

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).

The Company carries its investment properties at fair value, which is determined by annual appraisal based on the accepted valuation methods of income capitalization, discounted future cash flows and direct comparison.

Off – Balance Sheet Arrangements

As at December 31, 2019, the Company did not enter into any off-balance sheet arrangements.

Contingencies

Management of the Company is aware of no contingent liabilities as at December 31, 2019.

Share Structure

The Company has 40,039,000 common shares outstanding at December 31, 2019. There are 2,955,000 stock options exercisable and outstanding as at December 31, 2019 with a weighted average exercise price of \$0.09. 800,000 of the stock options expire on August 27, 2023, and 2,155,000 of the stock options outstanding expire on December 19, 2024.

Transactions with Related Parties

Key management of the Company includes the Chief Executive Officer and Chief Financial Officer. No remuneration was paid.

During the year, the Company charged a total of \$119,830 (2018 - \$117,898) to an entity 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 \$236,822 (2018 - \$294,180) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest of \$27,940 (2018 - \$18,164), and paid interest of \$97,234 (2018 - \$112,633) to an entity owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest expense of \$nil (2018 - \$3,065) to a member of management and an immediate relative of key management.

During the year, the Company accrued interest income of \$2,491 (2018 - \$1,974) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid legal fees of \$5,840 (2018 - \$11,296) to a law firm where one of the directors of the Company is a partner.

During the year, the Company paid administration fees of \$84,102 (2018 - \$70,902) to an entity owned or controlled by one of the directors of the Company.

IFRS Accounting Policies

The Company's significant accounting policies under IFRS are disclosed in its December 31, 2019 annual consolidated financial statements.

Application of New and Revised Standards

IFRS 16, Leases

IFRS 16 was issued in January 2016 and supersedes IAS 17 Leases and sets out the principals for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer (lessee) and the supplier (lessor).

Lessor accounting is substantially unchanged from IAS 17 or previous requirements. Lessors will continue to classify all leases using the same classification principles and distinguish between operating and finance leases. Consistent with IAS 17, leases with tenants continue to be accounted for as operating leases.

From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. The most significant effect of the new standard was the lessee's recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

The Company adopted IFRS 16 Leases on January 1, 2019 using the modified retrospective basis. The adoption of the new standard by the Company resulted in no change to the presentation to the Company's consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

On January 1, 2019, the Company adopted IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23"), which has clarified the application of the recognition and measurement requirements in IAS 12, "Income Taxes" ("IAS 12"), for situations where there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers income tax treatments separately; assumptions that an entity makes regarding the examination of tax treatments by taxation authorities; how an entity determines taxable income or loss, tax bases, unused tax losses or credits and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. The adoption of IFRIC 23 did not have an impact on the Company's consolidated financial statements.

Standards Issued But Not Yet Effective

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

Critical Accounting Policies and Estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes.

There is a full discussion and description of the Company's critical accounting policies and estimates and judgments used in the December 31, 2019 and 2018 annual consolidated financial statements.

Impact of Coronavirus

With the spread of novel coronavirus (COVID-19) since late last year, COVID-19 has severely impacted local economies around the globe. The World Health Organization (WHO) has declared the outbreak of the COVID-19 as a pandemic. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on

travel and closures of offices, businesses, schools, retail stores and other public venues, resulting in an economic slowdown. Global stock markets have also experienced great volatility. Governments and central banks have been responding with monetary and fiscal interventions in an effort to stabilize the economic conditions.

Management has determined that these events are non-adjusting subsequent events for financial reporting purposes. Accordingly, the fiscal 2019 financial position and results of operations have not been adjusted in any way to reflect the potential future negative impact of the economic slowdown. The extent and duration of the impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, are currently uncertain and it is not possible to reliably assess and predict the impact on the future financial position and operating result of the Company.

Forward Looking Information

This management discussion and analysis may contain forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. These statements are not historical acts and are subject to risks and uncertainties which could cause actual results and the timing of certain events to differ materially from those set forth in or implied herein including, without limitation, risks associated with the Company's proposed activities.