



# REGENT PACIFIC PROPERTIES

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

The following management discussion and analysis as of November 26, 2021 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, 2020 and 2019, and the unaudited interim condensed consolidated financial statements for the nine-month period ended September 30, 2021, and accompanying notes thereto. All dollar amounts are expressed in Canadian funds unless otherwise stated. The unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including IAS 34, interim financial reporting. Additional information relating to the Company, including its financial statements, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Core Business**

The Company is a real estate development and investment company with a portfolio consisting of a premiere 72,675 sq. ft. three-story commercial office tower and attached single-story bays with underground parking facility (“Cassel Centre”) The property is 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 tenant leases in the building have lease terms remaining of between 1.0 and 2.7 years.

## Selected Annual Information

	2020	2019	2018
Total Assets	\$24,782,924	\$30,020,798	\$31,337,340
Total Current Liabilities	\$18,714,617*	\$21,781,035*	\$22,175,792*
Total Long-term Liabilities	\$1,693,050	\$1,829,123	\$2,371,066
Total Liabilities	\$20,407,617	\$23,610,158	\$24,546,858
Revenue	\$2,561,236	\$2,876,665	\$3,036,624
Cost of Sales	\$ -	\$ -	\$ -
Expenses	\$1,953,957	\$2,261,980	\$2,237,147
Income Taxes	\$ -	\$ -	\$ -
Deferred Income Tax Expense (Recovery)	\$(136,073)	\$(530,775)	\$351,999
Other Income	\$16,707	\$2,556	\$442,135
Other Expenses	\$(2,461,312)	\$(1,635,205)	\$ -
Loss on Disposal of Investment Property	\$(334,130)	\$ -	\$ -
Net Income (Loss)	\$(2,035,383)	\$(488,714)	\$990,140
Number of Shares Outstanding	40,039,000	40,039,000	40,039,000
Income (Loss) per Share	\$(0.05)	\$(0.01)	\$0.02
Diluted Income (Loss) per Share	\$(0.05)	\$(0.01)	\$0.02

\*2020 Total Current Liabilities included a \$17,537,654 mortgage payable which is due on demand on a 5 year term, and an interest rate of 3.25%.

## Summary of Quarterly Results

	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Revenues	\$584,043	\$584,044	\$584,044	\$427,372	\$705,711	\$713,192	\$714,961	\$681,579
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	\$297,096	\$301,799	\$267,373	\$464,356	\$533,297	\$441,308	\$504,986	\$673,987
Income Tax (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Income Tax (Recovery)	\$ -	\$ -	\$ -	\$(168,004)	\$ -	\$ -	\$ -	\$(530,775)
Other Income (Expenses)	\$(141,145)	\$(137,564)	\$(139,101)	\$(2,596,001)	\$(334,130)	\$621	\$621	\$(1,636,101)
Net Income (Loss)	\$145,802	\$144,681	\$177,570	\$(2,464,941)	\$(161,716)	\$272,505	\$210,596	\$(1,097,734)
Earnings (Loss) per Share	\$0.00	\$0.00	\$0.00	\$(0.06)	\$0.00	\$0.01	\$0.01	\$(0.01)
Fully Diluted Earnings (Loss) per Share	\$0.00	\$0.00	\$0.00	\$(0.06)	\$0.00	\$0.01	\$0.01	\$(0.01)

### Discussion of Operations and Financial Condition:

#### Revenue

Total revenue for the quarter was \$584,043, a decrease of 17.2% from 2020 (\$705,711). Current period revenue is comprised of \$372,261 of commercial rental income from Cassel Centre (2020 - \$416,139), \$nil of residential rental income (2020 - \$57,170) from the Silhouette at Carlton units, and \$257,386 of operating cost recoveries from tenants (2020 - \$215,485). Revenue has decreased from the prior year as a result of some vacancy in the commercial property, and from selling the residential properties in September 2020.

## **Expenses**

Total expenses for the quarter were \$297,096, a decrease of 46.3% from 2020 (\$553,297). Expenses include operating expenses, general and administrative expenses, depreciation and amortization, and finance charges. Overall expenses have decreased over the prior year as a result of selling the residential units.

## **Capital Resources**

As at September 30, 2021, the Company had bank indebtedness of \$298,228 (December 31, 2020 - \$248,860) and a working capital deficiency of \$18,119,234 (December 31, 2020 – \$18,695,291). Working capital is calculated as current assets less current liabilities. Since the \$17,101,895 mortgage payable (December 31, 2020 - \$17,584,925) 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. Financing activities included the net repayment of a loan from related party, scheduled repayments on the mortgages, the CEBA loan advance, 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.

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

## **Risk and Uncertainty**

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

### **Economic Risk**

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

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

### **Fair value risk**

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

### **Credit risk**

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

### **Interest rate risk**

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

### **Financing risk**

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

### **Environmental risk**

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

### **Property Loss Risk**

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

### **Financial Instruments and Other Instruments**

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

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

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

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

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

	Fair Value Hierarchy	September 30, 2021	December 31, 2020
<b>Financial Liabilities:</b>			
Loan payable	Level 3	\$ 167,161	\$ 159,041
Loan payable to related party	Level 3	\$ 351,000	\$ 421,167
CEBA Loan	Level 3	\$ 55,127	\$ ---
Mortgage payable	Level 3	\$ 17,101,895	\$ 17,584,925
<b>Non-Financial Assets:</b>			
Investment properties	Level 3	\$ 23,409,297	\$ 23,500,000

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

- The carrying amounts of 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 mortgage payable, CEBA loan, loan payable, and loan 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 September 30, 2021, the Company did not enter into any off-balance sheet arrangements.

### **Contingencies**

Management of the Company is aware of no contingent liabilities as at September 30, 2021.

### **Share Structure**

The Company has 40,039,000 common shares outstanding at September 30, 2021. There are 2,955,000 stock options exercisable and outstanding as at September 30, 2021 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 period, the Company charged a total of \$92,259 (September 30, 2020 - \$89,872) 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 \$184,350 (September 30, 2020 - \$185,475) 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 \$nil (September 30, 2020 - \$26,034), and paid interest of \$26,429 (September 30, 2020 - \$12,164) to an entity owned and controlled by one of the directors of the Company.

During the period, the Company accrued interest income of \$45,889 (September 30, 2020 - \$nil) and received interest of \$nil (September 30, 2020 - \$1,242) from an entity owned and controlled by one of the directors of the Company.

During the period, an amount of \$453 (September 30, 2020 - \$12,690) has been included in general and administrative expenses related to fees paid to a law firm where one of the directors of the Company is a partner.

During the period, an amount of \$82,877 (September 30, 2020 - \$82,878) has been included in general and administrative expenses related to administration fees paid to an entity owned and controlled by one of the directors of the Company.

During the period, an amount of \$24,057 (September 30, 2020 - \$23,458) has been included in general and administrative expenses related to rent paid to an entity owned and 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, 2020 and 2019 annual consolidated financial statements.

## **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, 2020 and 2019 annual consolidated financial statements.

## **Impact of Coronavirus**

The impact of COVID-19 on companies continues to evolve rapidly and its future effects are uncertain, making it difficult to assess or predict the broad effects on industries and individual tenants. The actual impact will depend on many factors beyond the Company's control and knowledge. Management is responding to evolving events and planning for the uncertainties surrounding the effects of COVID-19 on the Company.

### **COVID-19 - impact on the financial condition and results of operations**

In light of changing trends and the overall economic outlook, COVID-19 will impact the near future operating cash flows, and potentially, the availability of related party financing to assist with short-term needs

The Company's long-term financial impact will be determined if some tenants are not able to survive the crisis and subsequently vacate the property.

### **COVID-19 - impact on capital and financial resources**

The Company's access to capital and funding sources, such as revolving credit facilities, new mortgages, and related party financing has not changed during the year. At this reporting date, the Company has no known uncertainties as it relates to the ability to service the current debt and other financial obligations.

## **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.