

REGENT PACIFIC PROPERTIES INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Three and Nine Months Ended
September 30, 2021
(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 26, 2021

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September, 30, 2021	December 31, 2020
ASSETS		
Non-current Assets		
Investment properties (Note 4)	\$ 23,409,267	\$ 23,500,000
Loan receivable from related party (Note 6)	1,288,423	1,242,534
Furniture and fixtures (Note 5)	<u>17,905</u>	<u>21,064</u>
	<u>24,715,595</u>	<u>24,763,598</u>
Current Assets		
Accounts receivable (Note 7)	<u>13,120</u>	<u>19,326</u>
	<u>\$ 24,728,715</u>	<u>\$ 24,782,924</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 167,510	\$ 167,510
CEBA Loan (Note 9)	60,000	---
Deferred income taxes	<u>1,525,540</u>	<u>1,525,540</u>
	<u>1,753,050</u>	<u>1,693,050</u>
Current Liabilities		
Mortgage payable (Note 12)	17,101,895	17,584,925
Loan payable (Note 8)	167,161	159,041
Loan payable to related party (Note 10)	351,000	421,167
Prepaid rents	15,917	45,325
Accounts payable and accrued liabilities (Note 13)	198,153	255,299
Overdraft facility (Note 14)	<u>298,228</u>	<u>248,860</u>
	<u>18,132,354</u>	<u>18,714,617</u>
	<u>19,885,404</u>	<u>20,407,667</u>
EQUITY		
Share capital (Note 15)	4,167,534	4,167,624
Contributed surplus	560,530	560,530
Retained earnings (deficit)	<u>115,157</u>	<u>(352,897)</u>
	<u>4,843,311</u>	<u>4,375,257</u>
	<u>\$ 24,728,715</u>	<u>\$ 24,782,924</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, 2021 and 2020

(Expressed in Canadian dollars)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Rental revenue (Note 16)	\$ 372,261	\$ 490,226	\$ 1,116,783	\$ 1,487,409
Recovery of operating expenses	211,782	215,485	635,348	646,455
Direct operating expenses	<u>(257,386)</u>	<u>(256,006)</u>	<u>(725,767)</u>	<u>(746,343)</u>
Net rental income	<u>326,567</u>	<u>449,705</u>	<u>1,026,364</u>	<u>1,387,521</u>
Other expenses				
General and administrative	38,656	43,685	137,341	146,235
Amortization	<u>1,054</u>	<u>1,316</u>	<u>3,160</u>	<u>3,949</u>
	<u>39,710</u>	<u>45,001</u>	<u>140,501</u>	<u>150,184</u>
Income before interest income, finance costs, and loss on sale of investment properties	<u>286,947</u>	<u>404,704</u>	<u>885,863</u>	<u>1,237,337</u>
Interest income	15,465	---	45,889	1,242
Finance costs (Note 17)	(156,610)	(232,290)	(463,699)	(583,064)
Loss on disposal of investment property	<u>---</u>	<u>(334,130)</u>	<u>---</u>	<u>(334,130)</u>
	<u>(141,145)</u>	<u>(566,420)</u>	<u>(417,810)</u>	<u>(915,952)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 145,802</u>	<u>\$ (161,716)</u>	<u>\$ 468,053</u>	<u>\$ 321,385</u>
Net income (loss) per share:				
Basic net income (loss) per common share (Note 18)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted net income (loss) per common share (Note 18)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</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, 2021 and 2020

(Expressed in Canadian dollars)

	<u>Share Capital</u>		<u>Contributed</u>	<u>Retained</u>	<u>Total</u>
	<u>(Note 15)</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>
	<u>Share Capital</u>		<u>Contributed</u>	<u>Retained</u>	<u>Total</u>
	<u>(Note 15)</u>		<u>Surplus</u>	<u>Earnings</u>	
	<u>Number</u>	<u>Amount</u>		<u>(Deficit)</u>	
Balance, January 1, 2021	40,039,000	\$ 4,167,624	\$ 560,530	\$ (352,897)	\$ 4,375,257
Net income	---	---	---	468,054	468,054
Balance, September 30, 2021	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 560,530</u>	<u>\$ 115,157</u>	<u>\$ 4,843,311</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Cash Flows

For the Nine-Month Periods Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

	September 30, 2021	September 30, 2020
Cash provided by (used in):		
Operating Activities		
Net income	\$ 468,054	\$ 321,385
Adjustments for:		
Accrued interest income	(45,889)	---
Loss on termination of agreements for sale	---	334,130
Amortization (Note 5)	3,159	3,949
Straight-line rent adjustment (Note 4)	90,733	(125,497)
Finance costs (Note 17)	463,699	583,064
Net changes in non-cash working capital items (Note 19)	<u>(80,348)</u>	<u>25,151</u>
Net cash from operations	<u>899,408</u>	<u>1,142,182</u>
Investing Activities		
Advance to related party	---	(1,227,070)
Repayment from related party	---	38,079
Termination of agreements for sale	<u>---</u>	<u>3,398,890</u>
Net cash used in investing activities	<u>---</u>	<u>2,209,899</u>
Financing Activities		
Repayments of mortgage financing	(481,325)	(2,482,695)
Interest paid	(457,284)	(582,310)
Advance of CEBA loan (Note 9)	60,000	---
Repayment to related party	<u>(70,167)</u>	<u>(763,000)</u>
Net cash used in financing activities	<u>(948,776)</u>	<u>(3,828,005)</u>
Decrease in cash	(49,368)	(475,924)
Cash (bank indebtedness), beginning of period	<u>(248,860)</u>	<u>185,542</u>
Bank indebtedness, end of period	<u>\$ (298,228)</u>	<u>\$ (290,382)</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 26, 2021.

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, 2020.

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.

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, 2020.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

3. Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are consistent with those applied by the Company in its audited consolidated financial statements for the year end December 31, 2020.

4. Investment Properties

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Balance, December 31, 2019	\$ 3,733,020	\$26,000,000	\$ 29,733,020
Straight-line rent adjustment	---	(38,688)	(38,688)
Fair value adjustment	---	(2,461,312)	(2,461,312)
Disposal of property	<u>(3,733,020)</u>	<u>---</u>	<u>(3,733,020)</u>
Balance, December 31, 2020	---	23,500,000	23,500,000
Straight-line rent adjustment	<u>---</u>	<u>(90,733)</u>	<u>(90,733)</u>
Balance, September 30, 2021	<u>---</u>	<u>\$23,409,267</u>	<u>\$ 23,409,267</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.

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 investment properties as at September 30, 2021.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

5. Furniture and Fixtures

	Cost						Balance at September 30, 2021
	Balance at January 1, 2020	Additions	Disposals	Balance at December 31, 2020	Additions	Disposals	
Furniture and fixtures	\$ 82,259	\$ ---	\$ ---	\$ 82,259	\$ ---	\$ ---	\$ 82,259

	Accumulated Depreciation						Balance at September 30, 2021
	Balance at January 1, 2020	Additions	Disposals	Balance at December 31, 2020	Additions	Disposals	
Furniture and fixtures	\$ 55,929	\$ 5,266	\$ ---	\$ 61,195	\$ 3,159	\$ ---	\$ 64,354

	Net Book Value	
	Balance at September 30, 2021	Balance at December 31, 2020
Furniture and fixtures	\$ 17,905	\$ 21,064

6. Loan Receivable from Related Party

	September 30, 2021	December 31, 2020
Loan receivable is due on demand, secured, bears Interest at 5% and is due September 30, 2022	\$ 1,227,070	\$ 1,227,070
Interest accrued	61,353	15,464
	\$ 1,288,423	\$ 1,242,534

The loan receivable is repayable from an entity owned and controlled 50% by one of the directors of the Company. Effective April 28, 2021, the loan receivable was assigned to a company controlled by a director of the Company as consideration for deposits on condominium units to be purchased.

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:

	September 30, 2021	December 31, 2020
Rents receivable	\$ 4,049	\$ 7,568
Goods and Services Tax receivable	<u>9,070</u>	<u>11,758</u>
	<u>\$ 13,120</u>	<u>\$ 19,326</u>

Included in accounts receivable is an amount of \$394 (December 31, 2020 - \$394) which is rents receivable from entities owned and controlled by one of the directors of the Company.

8. Loan Payable

	September 30, 2021	December 31, 2020
Loan payable is unsecured, bears interest at 7%, and has no fixed terms of repayment	\$ 159,041	\$ 148,482
Interest accrued	<u>8,120</u>	<u>10,559</u>
	<u>\$ 167,161</u>	<u>\$ 159,041</u>

9. CEBA Loan

On April 30, 2021, the company was advanced \$60,000 of bank financing as part of the Government of Canada COVID-19 assistance for small business. The loan bears interest at 0% until December 31, 2022 and has no terms of repayment until that date. Full repayment of loan balance before December 31, 2022 will result in debt forgiveness of \$20,000. After December 31, 2022, any unpaid balance is payable over a three-year term at interest of 5% per annum.

10. Loan payable to related party

	September 30, 2021	December 31, 2020
Loan payable is unsecured, bears interest at 8.0%, no regular payments, principal repayment due November 10, 2021	\$ 351,000	\$ 416,511
Interest accrued	<u>---</u>	<u>4,656</u>
	<u>\$ 351,000</u>	<u>\$ 421,167</u>

The loan payable is repayable to an entity owned and controlled by one of the directors of the Company. After September 30, 2021, the loan payable was extended to be due November 10, 2022.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

11. 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 \$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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

12. **Mortgage Payable**

	September 30, 2021	December 31, 2020
<u>Commercial Investment Property – Cassel Centre</u>		
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 \$23,409,267 general assignment of rent and a general security agreement	\$ 17,056,329	\$ 17,537,654
Accrued interest	<u>45,566</u>	<u>47,271</u>
	17,101,895	17,584,925
Less current portion of mortgage payable	<u>(17,101,895)</u>	<u>(17,584,925)</u>
	\$ ---	\$ ---

As at September 30, 2021, the minimum contractual principal payments if not demanded earlier are as follows:

2021	\$ 163,632
2022	655,530
2023	687,514
2024	708,813
2025	<u>14,840,840</u>
	\$ 17,056,329

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

13. Accounts Payable and Accrued Liabilities

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

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Trade payables	\$ 192,508	\$ 168,899
Accrued liabilities	<u>5,645</u>	<u>86,400</u>
	<u>\$ 198,153</u>	<u>\$ 255,299</u>

Included in accounts payable and accrued liabilities is an amount of \$512 (December 31, 2020 - \$5,824) owing to entities owned and controlled by one of the directors of the Company.

14. Overdraft Facility

The Company has an demand overdraft facility of up to \$300,000 (2020 – \$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, secured with a general security agreement, and personal guarantee by a director of the Company.

15. 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, 2021 and 2020	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	<u>---</u>	<u>---</u>
Balance, September 30, 2021 and December 31, 2020	<u>40,039,000</u>	<u>\$ 4,167,624</u>

Stock Options

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

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

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

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

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

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

	<u>September 30,</u> <u>2021</u>		<u>December 31,</u> <u>2020</u>	
	<u>Number</u> <u>of Options</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number</u> <u>of Options</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Outstanding, beginning of year	2,955,000	\$ 0.09	2,955,000	\$ 0.09
Granted	---	---	---	---
Expired	---	---	---	---
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, 2021:

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

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

16. Rental Revenue

	September 30, 2021	September 30, 2020
Commercial tenant leases	\$ 1,064,230	\$ 1,245,599
Residential tenant leases	---	188,140
Parking and storage	52,553	53,670
	<u>\$ 1,116,783</u>	<u>\$ 1,487,409</u>

17. Finance Costs

	September 30, 2021	September 30, 2020
Interest on mortgages	\$ 421,019	\$ 553,280
Interest on loans payable	34,549	46,000
Interest on overdraft facility	8,131	5,053
Finance fees	---	1,500
Accretion of debt modification	---	(22,769)
	<u>\$ 463,699</u>	<u>\$ 583,064</u>

18. Net Loss per Common Share

The basic and diluted net loss per common share is based on the weighted average number of common shares outstanding as at September 30, 2021 of 40,039,000 (December 31, 2020 - 40,039,000). The inclusion of the Company's stock options in the computation of the diluted net loss per share would be anti-dilutive and are excluded from the computation.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

19. Net changes in Non-Cash Working Capital Items

	September 30, 2021	September 30, 2020
Accounts receivable	\$ 6,206	\$ 25,129
Prepaid rents	(29,408)	(51,695)
Accounts payable and accrued liabilities	<u>(57,146)</u>	<u>51,717</u>
	<u>\$ (80,348)</u>	<u>\$ 25,159</u>

20. Reconciliation of Liabilities Arising From Financing Activities

	<u>Mortgages</u>	<u>Loans Payable</u>	<u>Loan From Related Party</u>	<u>CEBA Loan</u>
Balance, January 1, 2020	\$ 20,208,364	\$ 148,482	\$ 1,204,115	\$ ---
Repayments made	(444,538)	---	(790,940)	---
Extinguishment of vendor financing	(2,196,529)	---	---	---
Debt modification accretion	30,516	---	(26,175)	---
Accrued interest	<u>(12,888)</u>	<u>10,559</u>	<u>34,167</u>	<u>---</u>
Balance, December 31, 2020	17,584,925	159,041	421,167	---
Repayments made	(481,325)	---	(86,092)	---
Proceeds received	---	---	---	60,000
Accrued interest	<u>(1,705)</u>	<u>8,120</u>	<u>15,925</u>	<u>---</u>
Balance, September 30, 2021	<u>\$ 17,101,895</u>	<u>\$ 167,161</u>	<u>\$ 351,000</u>	<u>\$ 60,000</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, mortgage 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 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
Financial Liabilities:			
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

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

- The carrying amounts of cash, accounts receivable, 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 the loan receivable is determined using a probability weighted discounted cash flow using the effective interest rate that incorporates the lifetime expected credit losses at initial recognition. The cash flow scenario probabilities are determined using judgment based on factors related to expected sale of underlying assets and the ability to make principal and interest payments (Level 3).
- The fair value of mortgage 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 loan receivable from related party, mortgage payable, loan payable to related party 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 on its accounts receivable due to unexpected losses that could occur if a tenant fails to satisfy its lease obligations. The Company's maximum exposure to credit risk is equal to the carrying value of the accounts receivable. 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>September 30, 2021</u>	<u>December 31, 2020</u>
Current	\$ 12,652	\$ 17,024
31-90 days	---	553
91 + days	<u>468</u>	<u>1,749</u>
	<u>\$ 13,120</u>	<u>\$ 19,326</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the period ended September 30, 2021, rent earned from four key tenants represents 93% (September 30, 2020 – 74%) of total revenues. At September 30, 2021 receivables from these tenants total 25% of total accounts receivable (December 31, 2020 – 13%).

The Company is also susceptible to credit risk on its loan receivable from related party. 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.

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 dependent on occupancy and collection. During the 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 \$198,153 (December 31, 2020 - \$255,299) that have a current contractual maturity. The mortgage payable of \$17,101,895 (December 31, 2020 - \$17,584,925) is due on demand and has terms which expire in fiscal 2025 (Note 13). The loan payable of \$167,161 (December 31, 2020 - \$159,041) has no fixed terms of repayment. The loan payable to related party of \$351,000 (December 31, 2020 - \$421,167) has terms which expire in fiscal 2021. The overdraft facility of \$298,228 (December 31, 2020 - \$248,860) is due on demand with revolving terms (Note 15).

COVID-19 risk

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.

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 of COVID-19 could include the possibility some tenants are not able to survive the crisis and subsequently vacate the property.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

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 as at September 30, 2021 and December 31, 2020:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Mortgage payable	\$ 17,101,895	\$ 17,584,925
Loan payable	167,161	159,041
Loan payable to related party	351,000	421,167
CEBA loan	60,000	---
Overdraft facility	298,228	248,860
Equity	<u>4,843,311</u>	<u>4,375,257</u>
	<u>\$ 22,821,595</u>	<u>\$ 22,792,250</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.