



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

The following management discussion and analysis as of April 30, 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 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-story commercial office tower and attached single-story bays with underground parking facility (“Cassel Centre”). The property is located in Edmonton, Alberta. During 2020, the Company sold their interest in 15 residential apartment-style condominium units in a 119 unit condominium project.

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. Most of the tenants in the building have lease terms remaining of between 2 and 3.5 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	\$20,407,667	\$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

	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenues	\$427,372	\$705,711	\$713,192	\$714,961	\$681,579	\$700,623	\$765,508	\$728,955
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	\$474,336	\$533,297	\$441,308	\$504,986	\$673,987	\$529,866	\$532,564	\$525,563
Income Tax (Recovery)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Income Tax (Recovery)	\$(168,004)	\$ -	\$ -	\$ -	\$(530,775)	\$ -	\$ -	\$ -
Other Income (Expenses)	\$(2,778,735)	\$(334,130)	\$621	\$621	\$(1,636,101)	\$692	\$621	\$614
Net Income (Loss)	\$(2,356,768)	\$(161,716)	\$272,505	\$210,596	\$(1,097,734)	\$171,449	\$233,565	\$204,006
Earnings (Loss) per Share	\$(0.05)	\$0.00	\$0.01	\$0.01	\$(0.01)	\$0.01	\$0.01	\$0.01
Fully Diluted Earnings (Loss) per Share	\$(0.05)	\$0.00	\$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 \$2,561,236, a decrease of 11.0% from 2019 (\$2,876,665). Current year revenue is comprised of \$1,536,609 of commercial rental income from Cassel Centre (2019 - \$1,735,646), \$188,179 of residential rental income (2019 - \$246,394) from the Silhouette at Carlton units, and \$836,407 of operating cost recoveries from tenants (2019 - \$894,625). Revenue has decreased from the prior year as a result of some vacancy in the commercial building and rent relief offered to certain commercial tenants as result of COVID-19, and from less than a full year of rent on residential units sold during 2020.

Expenses

Total expenses for the year were \$1,953,957, a decrease of 13.6% over 2019 (\$2,261,980). 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, and decreased finance costs.

Capital Resources

As at December 31, 2020, the Company had cash of \$nil (December 31, 2019– \$185,542) and a working capital deficiency of \$18,695,291 (December 31, 2019 - \$21,557,666). Working capital is calculated as current assets less current liabilities. Since the \$17,537,654 mortgage payable (2019 - \$17,888,885) 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, 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.

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 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	2020	2019
Financial Liabilities:			
Loans payable	Level 3	\$ 159,041	\$ 148,482
Loan payable to related party	Level 3	\$ 421,167	\$ 1,204,115
Mortgages payable	Level 3	\$ 17,854,925	\$ 20,208,364
Non-Financial Assets:			
Investment properties	Level 3	\$ 23,500,000	\$ 29,733,020

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, 2020, 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, 2020.

Share Structure

The Company has 40,039,000 common shares outstanding at December 31, 2020. There are 2,955,000 stock options exercisable and outstanding as at December 31, 2020 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 \$1,894 (2019 - \$119,830) 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 \$270,923 (2018 - \$236,822) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest of \$4,656 (2019 - \$27,970), and paid interest of \$12,164 (2019 - \$97,234) to an entity owned or controlled by one of the directors of the Company.

During the year, the Company accrued interest income of \$15,464 (2019 - \$2,491) from an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid legal fees of \$16,893 (2019 - \$5,840) to a law firm where one of the directors of the Company is a partner.

During the year, the Company paid administration fees of \$110,502 (2019 - \$84,102) to an entity owned or controlled by one of the directors of the Company.

During the year, the Company paid rent expense of \$31,477 (2019 – \$31,078) 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.

New Accounting Standards Adopted

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify whether a transaction meets the definition of a business combination. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. There was no impact to the consolidated financial statements as a result of the adoption of this amendment.

Standards Issued But Not Yet Effective

IAS 1 Presentation of financial statements

The amendment to IAS 1 clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

IAS 37 Provisions, contingent liabilities and contingent assets

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's 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

The impact of COVID-19 on the consolidated financial statements included a write-down on the Company's investment property where there is now more uncertainty surrounding leasing vacant space and more uncertainty whether leases up for renewal in the next twelve months will be renewed. The write-downs affected the earnings per share on the consolidated statements of comprehensive income.

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. In 2020, some of the Company's tenants requested some relief from rent obligations which was dealt with on a case by case basis. Fortunately, the Company has little exposure to retail tenants who have had to suspend operations during this pandemic.

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. The Company was able to renew its mortgage on more favorable terms in 2020. 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.