

**REGENT PACIFIC PROPERTIES INC.**  
Consolidated Financial Statements  
December 31, 2021 and 2020  
(Expressed in Canadian dollars)

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Regent Pacific Properties Inc. for the years ended December 31, 2021 and 2020 have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded and financial records are properly maintained to facilitate the preparation of the consolidated financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Kenway Mack Slusarchuk Stewart LLP, an independent firm of Chartered Professional Accountants, appointed as external auditors by the shareholders upon the recommendation of the Board of Directors, have audited the consolidated financial statements and their report is included herein.



Eddie Yu  
Chief Executive Officer



Rose Chang  
Interim Chief Financial Officer

April 28, 2022

## Independent Auditors' Report

To: The Shareholders of **Regent Pacific Properties Inc.**

### Opinion

We have audited the consolidated financial statements of Regent Pacific Properties Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2021.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which indicates that the Company incurred a net loss of \$535,789 during the year ended December 31, 2021 and as at December 31, 2021, had an accumulated deficit of \$888,686 and a negative working capital balance of \$17,943,373. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

### Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Independent Auditors' Report (continued)

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Roland A. Bishop, CPA, CA.



Chartered Professional Accountants

April 28, 2022  
Calgary, Alberta

**REGENT PACIFIC PROPERTIES INC.**  
Consolidated Statements of Financial Position  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

As at	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment properties (Note 5)	\$ 22,250,000	\$ 23,500,000
Deposits (Note 8)	1,303,888	---
Loan receivable from related party (Note 7)	---	1,242,534
Furniture and fixtures (Note 6)	<u>16,852</u>	<u>21,064</u>
	<u>23,570,740</u>	<u>24,763,598</u>
<b>Current Assets</b>		
Accounts receivable (Note 9)	<u>85,245</u>	<u>19,326</u>
	<u>\$ 23,655,985</u>	<u>\$ 24,782,924</u>
<b>LIABILITIES</b>		
<b>Non-current Liabilities</b>		
Prepaid rents	\$ 167,510	\$ 167,510
CEBA Loan (Note 10)	34,938	---
Deferred income taxes (Note 13)	<u>1,585,451</u>	<u>1,525,540</u>
	<u>1,787,899</u>	<u>1,693,050</u>
<b>Current Liabilities</b>		
Mortgage payable (Note 15)	16,943,901	17,584,925
Loan payable (Note 11)	169,997	159,041
Loan payable to related party (Note 12)	358,078	421,167
Prepaid rents	44,885	45,325
Accounts payable and accrued liabilities (Note 16)	224,799	255,299
Overdraft facility (Note 17)	<u>286,958</u>	<u>248,860</u>
	<u>18,028,618</u>	<u>18,714,617</u>
	<u>19,816,517</u>	<u>20,407,667</u>
<b>EQUITY</b>		
Share capital (Note 18)	4,167,624	4,167,624
Contributed surplus	560,530	560,530
Deficit	<u>(888,686)</u>	<u>(352,897)</u>
	<u>3,839,468</u>	<u>4,375,257</u>
	<u>\$ 23,655,985</u>	<u>\$ 24,782,924</u>

**Going Concern** (Note 2)

Approved on behalf of the Board of Directors:

*Eddie Yu*

Director

*Ted Power*

Director

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**

Consolidated Statements of Comprehensive Loss  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

	<b>2021</b>	<b>2020</b>
Rental revenue (Note 19)	\$ 1,557,120	\$ 1,724,829
Recovery of operating expenses	897,910	836,407
Direct operating expenses	<u>(999,648)</u>	<u>(1,002,667)</u>
<b>Net rental income</b>	<b><u>1,455,382</u></b>	<b><u>1,558,569</u></b>
<b>Expenses</b>		
General and administrative	193,558	210,117
Amortization (Note 6)	<u>4,212</u>	<u>5,266</u>
	<b><u>197,770</u></b>	<b><u>215,383</u></b>
<b>Income before fair value adjustment on investment properties, and other income (expenses)</b>	<b>1,257,612</b>	<b>1,343,186</b>
Fair value adjustments on investment properties (Note 5)	<u>(1,198,893)</u>	<u>(2,461,312)</u>
<b>Income (loss) before other income (expenses)</b>	<b><u>58,719</u></b>	<b><u>(1,118,126)</u></b>
<b>Other income (expenses)</b>		
Interest income	61,353	16,707
Forgivable portion of CEBA loan	20,000	---
Fair value adjustment on CEBA loan	5,062	---
Loss on disposal of investment properties (Note 5)	---	(334,130)
Finance costs (Note 20)	<u>(621,012)</u>	<u>(735,907)</u>
	<b><u>(534,597)</u></b>	<b><u>(1,053,330)</u></b>
<b>Loss before income taxes</b>	<b>(475,878)</b>	<b>(2,171,456)</b>
Deferred income tax (expense) recovery (Note 13)	<u>(59,911)</u>	<u>136,073</u>
<b>Net loss and comprehensive loss</b>	<b><u>\$ (535,789)</u></b>	<b><u>\$ (2,035,383)</u></b>
<b>Net loss per share:</b>		
<b>Basic net loss per common share (Note 21)</b>	<b><u>\$ (0.013)</u></b>	<b><u>\$ (0.05)</u></b>
<b>Diluted net loss per common share (Note 21)</b>	<b><u>\$ (0.013)</u></b>	<b><u>\$ (0.05)</u></b>

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**

Consolidated Statements of Changes in Equity  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

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	Share Capital (Note 18)		Contributed Surplus	Retained Earnings	Total
	Number	Amount			
<b>Balance, December 31, 2019</b>	40,039,000	\$ 4,167,624	\$ 560,530	\$ 1,682,486	\$ 6,410,640
Net loss	---	---	---	<u>(2,035,383)</u>	<u>(2,035,383)</u>
<b>Balance, December 31, 2020</b>	<b>40,039,000</b>	<b>4,167,624</b>	<b>560,530</b>	<b>(352,897)</b>	<b>4,375,257</b>
Net loss	---	---	---	<u>(535,789)</u>	<u>(535,789)</u>
<b>Balance, December 31, 2021</b>	<b><u>40,039,000</u></b>	<b><u>\$ 4,167,624</u></b>	<b><u>\$ 560,530</u></b>	<b><u>\$ (888,686)</u></b>	<b><u>\$ 3,839,468</u></b>

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

	2021	2020
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net loss	\$ (535,789)	\$ (2,035,383)
Adjustments for:		
Accrued interest income	(61,353)	(15,464)
Amortization (Note 6)	4,212	5,266
Fair value adjustments to investment properties (Note 5)	1,198,893	2,461,312
Fair value adjustment on CEBA loan	(5,062)	38,688
Straight-line rent adjustment (Note 5)	52,517	38,688
Loss on disposal of investment properties (Note 5)	---	334,130
Finance costs (Note 20)	621,012	735,907
Deferred income tax expense (recovery) (Note 13)	59,911	(136,073)
Net changes in non-cash working capital items (Note 22)	<u>(96,859)</u>	<u>99,051</u>
Net cash from operations	<u>1,237,482</u>	<u>1,487,434</u>
<b>Investing Activities</b>		
Additions to investment properties (Note 5)	<u>(1,410)</u>	---
<b>Financing Activities</b>		
Repayment of mortgage payable	(644,904)	(444,538)
Proceeds from CEBA loan	60,000	---
Forgiven portion of CEBA loan	(20,000)	---
Interest paid	(599,099)	(686,358)
Repayment of loan payable to related party	<u>(70,167)</u>	<u>(790,940)</u>
Net cash used in financing activities	<u>(1,274,170)</u>	<u>(1,921,836)</u>
<b>Decrease in cash</b>	<b>(38,098)</b>	<b>(434,402)</b>
<b>(Bank indebtedness) cash, beginning of year</b>	<u><b>(248,860)</b></u>	<u>185,542</u>
<b>Bank indebtedness, end of year</b>	<u><u><b>\$ (286,958)</b></u></u>	<u><u><b>\$ (248,860)</b></u></u>

See accompanying notes

# REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

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## 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 consolidated financial statements were authorized for issue by the Company’s Board of Directors on April 28, 2022.

## 2. Going Concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. The Company has incurred a net loss of \$535,789 (2020 - \$2,035,383), has negative working capital of \$17,943,373 (2020 - \$18,695,291), and an accumulated deficit of \$888,686 (2020 - \$352,897). The Company’s long-term financial health may be impacted if some tenants are not able to survive the pandemic and subsequently vacate the property. The Company’s mortgage is due on demand and there is no assurance the mortgage would not be called or renewed with similar terms. 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. The Company’s ability to continue as a going concern is dependent on continued support from related parties, generating a profit from operations, and obtaining additional financing as required.

These consolidated financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

## 3. Basis of Presentation

### a) Statement of Compliance

These consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

### b) Basis of Measurement

The 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 consolidated financial statements are presented in Canadian dollars, which is the Company’s and its subsidiaries functional currency.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
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3. **Basis of Presentation** (Continued)

d) Use of Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS 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. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The estimates and judgements that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

i) Investment Properties

The determination of the fair value of the investment properties requires the use of estimates such as net operating income based on market lease rates per square feet, vacancy rates and capitalization rates and available comparable transactions. These estimates are based on market conditions existing at the reporting date. The critical estimates and assumptions underlying the valuation of the investment properties are described in Note 5.

The significant economic uncertainty resulting from COVID-19 has impacted the availability of reliable market metrics. Accordingly, the Company has made estimates of stabilized net operating income or forecasted future cash flows and capitalization and discount rates based on the best information available. The impact of COVID-19 will continue to be considered and monitored when determining the fair value of investment properties. Due to the uncertainty of the situation, estimates could be subject to changes and such changes may be material.

ii) Deferred Income Taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing losses carried forward. To the extent assumptions regarding future probability change, there can be a change in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

iii) Financial Instruments

The Company estimates the fair value of financial instruments. When fair value cannot be derived from an active market, it is determined using fair value techniques, namely the discounted cash flow model. When possible, data is derived from observable markets, and if not, management estimate is required to determine fair value.

iv) Share-based Compensation

The valuation of stock options and warrants issued is based on management's best estimate of the future volatility of the Company's share price, estimated market price of the Company's shares at grant date, expected lives of the options and warrants, expected dividends and other relevant assumptions. Future volatility of the Company's share price is estimated based on the historical volatility of the Company's share price.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
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3. **Basis of Presentation** (Continued)

d) Use of Estimates and Judgements (Continued)

v) Leases

The Company makes judgments in determining whether certain leases, in particular tenant leases with long contractual terms where the Company is the lessor, are operating or finance leases. The Company has determined that all of its leases are operating leases.

vi) Deposits and Loan Receivable to Related Party

The valuation of the deposits and the loan receivable from related party is subject to management judgment regarding the probability of default and management estimate regarding the recoverable amount of the balance which are factors used in determining the expected credit loss.

4. **Significant Accounting Policies**

The following is a summary of the significant accounting policies applied in the preparation of these consolidated financial statements. These policies have been consistently applied to all years presented, unless otherwise stated.

**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.

**Basis of Consolidation**

These consolidated financial statements consist of Regent Pacific Properties Inc. and its wholly-owned subsidiaries Cassel Centre Ltd. and 1572587 Alberta Ltd. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are entities over which the Company has control and are consolidated from the date control commences until control ceases. Control is achieved when the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

**Cash (Bank Indebtedness)**

Cash (bank indebtedness) includes cash held in a Canadian financial institution and an overdraft facility representing an overdraft drawn on account held with the same institution.

**Investment Properties**

A property that is held to earn rental income, for capital appreciation or both is classified as an investment property.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
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(Expressed in Canadian dollars)

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4. **Significant Accounting Policies** (Continued)

**Investment Properties** (Continued)

The investment properties acquired through asset purchase are initially measured at its cost, including related transaction costs.

All direct development costs, insurance, realty taxes and borrowing costs incurred in connection to the construction or development are capitalized during the development period. This period extends from the date that activities commence to prepare the property for its intended use and ends when such activities are substantially complete.

Where the Company has pre-leased space at or prior to the investment property being substantially ready for its intended use, and the lease requires tenant improvements, which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

After the initial recognition, the investment property is measured using the fair value model. The investment is recorded at fair value, determined based on available market evidence at each reporting date. Changes in fair value are recognized in net income in the period in which it arises. The fair value is determined by a third-party valuation professional using a combination of income approach via overall income capitalization, income approach via discounted cash flow and direct comparison approach.

Lease incentives, which include costs incurred to make leasehold improvements to tenants' space, straight-line rents included in revenue and cash allowances provided to tenants, are added to the carrying amount of the investment property.

Capital additions to an investment property are capitalized to the carrying amount of the investment property when incurred and then considered in the fair value adjustment of the investment property at the next reporting date.

**Furniture and Fixtures**

Furniture and fixtures are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at the following annual rate commencing on the date the furniture and fixtures are available for use:

Furniture and fixtures - 20%

**Leasing Costs**

Leasing commissions are fees paid in connection with negotiating lease contracts with lessees. Such fees are included in the carrying amount of the investment properties.

**Finance Costs**

Finance costs are comprised of interest on mortgage, interest on overdraft facility, finance fees on mortgage, accretion of loan payable to related party and interest on loan payable. Finance costs are recognized in income using the effective interest rate method.

**REGENT PACIFIC PROPERTIES INC.**  
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**4. Significant Accounting Policies (Continued)**

**Revenue**

Revenue includes lease revenue from investment properties including base rents, and parking revenue. The Company has determined that all of its leases are operating leases. Rental revenue from operating leases is recognized on a straight-line basis over the term of the related lease agreements.

Revenues also include recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and performance obligations are completed.

**Income Taxes**

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits and tax loss carry forwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

**Share-based Payments**

The Company uses the Black-Scholes option pricing model to fair value options granted to directors, officers and employees. The estimated fair value of options on the date of grant is recognized as compensation expense over the vesting period. The number of expected forfeitures is estimated at the grant date and adjustments for actual forfeitures are made as they occur.

**Basic and Diluted Net Income (Loss) Per Share**

The Company presents basic and diluted net income (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential common shares.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

## REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements  
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### 4. Significant Accounting Policies (Continued)

#### Financial Instruments

##### i) Classification and Measurements

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (FVTPL), at fair value through other comprehensive income (FVTOCI) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial instruments and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL. On the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate other equity instruments as FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

##### a) Financial assets at fair value through other comprehensive income

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss). No financial instruments have been classified in this category.

##### b) Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value, net of transaction costs, and subsequently carried at amortized cost less any impairment. Cash, accounts receivable, loan receivable from related party, accounts payable and accrued liabilities, CEBA loan, mortgage payable, loan payable, loan payable to related party and overdraft facilities are classified in this category.

##### c) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of net income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net income (loss) in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss). No financial instruments have been classified in this category.

**REGENT PACIFIC PROPERTIES INC.**  
Notes to the Consolidated Financial Statements  
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(Expressed in Canadian dollars)

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4. **Significant Accounting Policies** (Continued)

**Financial Instruments** (Continued)

ii) Impairment of Financial Assets at Amortized Cost

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model. The Company applies the simplified approach which uses lifetime ECLs for accounts receivable and the general approach for loan receivable from related party.

The Company uses an accounts receivable aging provision matrix to measure the ECL for accounts receivable and applies loss factors to aging categories greater than 30 days past due.

iii) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statement of comprehensive income (loss). However, gains and losses on derecognition of financial assets classified as FVTOCI remain within the accumulated other comprehensive income (loss).

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of comprehensive income (loss).

**Government Assistance**

Government assistance is recognized initially when there is reasonable assurance that they will be received and when the Company has intentions to comply with the conditions of the assistance. Assistance received for expenditures incurred are recognized as revenue on a systematic basis and in the same accounting period in which the expenditures are incurred.

**Accounting Standards and Amendments Issued but not yet Effective**

(i) 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.

(ii) 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.

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**5. 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	---	(52,517)	(52,517)
Fair value adjustment	---	(1,198,893)	(1,198,893)
Addition to property	<u>---</u>	<u>1,410</u>	<u>1,410</u>
<b>Balance, December 31, 2021</b>	<b><u>\$ ---</u></b>	<b><u>\$22,250,000</u></b>	<b><u>\$ 22,250,000</u></b>

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.

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### 5. Investment Properties (Continued)

#### Commercial Property

In applying the income approach via overall income capitalization, the stabilized net operating income is capitalized at an overall capitalization rate. The most appropriate income year to measure the value of the property is the forthcoming twelve-month period, the "year one" income, as this year requires the fewest assumptions and provides the most certain net operating income over the investment horizon. An overall capitalization rate range of between 6.25% and 6.75% (2020 – 6.25% and 7.25%) was determined and for the main floor the mid-rate of 6.5% (2020 – 6.50%) was applied to the year one net operating income of \$351,704 (2020 - \$351,717), and for the office tower the mid-rate of 7.25% (2020 – 7.0%) was applied to the year one net operating income of \$1,232,490 (2020 - \$1,281,547) to arrive at a final value (rounded) estimate of \$22,150,000 (2020 - \$23,460,000).

Values determined by the capitalization of income are most sensitive to changes in capitalization rate. A 0.50% increase in the capitalization rate would decrease the value arrived at by \$1,322,560, and a 0.50% decrease in the capitalization rate would increase the value arrived at by \$1,870,844.

In applying the income approach via discounted cash flow, a discount rate is selected and applied to the expected stream of future cash flows, and then a reversionary capitalization rate is applied to the discounted value to determine a value. A discount rate range of between 6.75% and 7.75% (2020 – 6.75% and 7.75%) and a reversionary capitalization rate range of between 6.25% to 7.00% (2020 – 6.50% and 6.75%) were used to arrive at a mid-point value (rounded) of \$22,050,000 (2020 - \$22,150,000).

In applying the direct comparison method, the property was compared to properties that have sold recently or are currently listed and considered to be relatively similar to the property. A unit of comparison, i.e. the sale price per square foot of leasable area is then used to facilitate the analysis. An estimated unit value of \$310 per square foot for the main floor bays, and \$315 per square foot for the office tower was considered achievable (2020 - \$320 and \$335 per square foot value range). \$310 per square foot applied to the leasable building area of the main floor bays of 17,220 square feet arrives at a final value (rounded) of \$5,340,000. \$315 per square foot applied to the leasable building area of the tower of 54,100 square feet (less holding and lease up costs) arrives at a final value (rounded) of \$16,780,000. The combined total value (rounded) arrived at is \$22,120,000 (2020 - \$23,380,000).

The three approaches were reconciled with the overall income capitalization method given primary emphasis. The discounted cash flow analysis was included due to the multi-tenant nature of the building, and the duration and escalation of the leases. The direct comparison approach was given secondary emphasis. The overall reconciled market value of the investment property as at December 31, 2021 was determined to be \$22,250,000 (2020 - \$23,500,000).

The Company leases space in its commercial investment property to tenants under non-cancellable operating leases. The leases have various terms. As at December 31, 2021, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

One year or less	\$ 1,519,690
2 – 5 years	3,154,529
Greater than 5 years	<u>471,643</u>
	<u>\$ 5,145,862</u>

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### 6. Furniture and Fixtures

	<b>Cost</b>						<b>Balance at December 31, 2021</b>
	Balance at January 1, 2020	Additions	Disposals	Balance at December 31, 2020	Additions	Disposals	
	Furniture and fixtures	\$ 82,259	\$ ---	\$ ---	\$ 82,259	\$ ---	

	<b>Accumulated Depreciation</b>						<b>Balance at December 31, 2021</b>
	Balance at January 1, 2020	Additions	Disposals	Balance at December 31, 2020	Additions	Disposals	
	Furniture and fixtures	\$ 55,929	\$ 5,266	\$ ---	\$ 61,195	\$ 4,212	

	<b>Net Book Value</b>	
	<b>Balance at December 31, 2021</b>	Balance at December 31, 2020
	Furniture and fixtures	<b>\$ 16,852</b>

### 7. Loan Receivable from Related Party

	<b>2021</b>	2020
Loan receivable is due on demand, secured, bears Interest at 5%	\$ -	\$ 1,227,070
Interest accrued	-	15,464
	<b>\$ -</b>	<b>\$ 1,242,534</b>

The loan receivable was repayable from an entity owned and controlled 50% by one of the directors of the Company.

### 8. Deposits

As at December 31, 2021, the loan receivable from related party of \$1,303,888, which includes interest accrued of \$78,818, was assigned to a company controlled by a director of the Company as consideration for deposits on condominium units purchased subsequent to year end.

### 9. Accounts Receivable

Accounts receivable is comprised of the following items:

	<b>2021</b>	2020
Rents receivable	\$ 74,033	\$ 7,568
Goods and Services Tax receivable	<b>11,212</b>	11,758
	<b>\$ 85,245</b>	<b>\$ 19,326</b>

Included in accounts receivable is an amount of \$20,000 (2020 - \$394) which is rents receivable or operating costs recoverable from entities owned and controlled by one of the directors of the Company.

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### 10. 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, 2023 and has no terms of repayment until that date. Full repayment of loan balance before December 31, 2023 will result in debt forgiveness of \$20,000. After December 31, 2023, any unpaid balance is payable over a two-year term at interest of 5% per annum.

The loan was advanced to assist with the payment of eligible non-deferrable expenses. The Company has recognized the \$20,000 forgivable portion of the loan as government assistance received during fiscal 2021.

### 11. Loan Payable

	<u>2021</u>	<u>2020</u>
Loan payable is unsecured, bears interest at 7%, and has no fixed terms of repayment	\$ 160,749	\$ 148,482
Interest accrued	<u>9,248</u>	<u>10,559</u>
	<u>\$ 169,997</u>	<u>\$ 159,041</u>

### 12. Loan payable to related party

	<u>2021</u>	<u>2020</u>
Loan payable is unsecured, bears interest at 8.0%, no regular payments, principal repayment due November 10, 2022	\$ 354,154	\$ ---
Loan payable is unsecured, bears interest at 8.0%, no regular payments, principal repayment due November 10, 2021	---	416,511
Interest accrued	<u>3,924</u>	<u>4,656</u>
	<u>\$ 358,078</u>	<u>\$ 421,167</u>

The loan payable is repayable to an entity owned and controlled by one of the directors of the Company.

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13. **Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets (liabilities):		
Tax loss carry-forward	\$ 339,926	\$ 341,478
Tax basis of finance costs and other	1,541	1,894
Carrying value in excess of tax basis of investment property	<u>(1,586,992)</u>	<u>(1,527,434)</u>
	<b>(1,245,525)</b>	(1,184,062)
Less tax assets not recognized	<u>(339,926)</u>	<u>(341,478)</u>
Net deferred income tax liability	<b>\$ (1,585,451)</b>	<b>\$ (1,525,540)</b>

As at December 31, 2021, the Company has non-capital loss carry forwards of \$1,477,939 which will expire as follows:

2030	\$ 7,523
2031	90,260
2032	80,556
2033	40,503
2034	52,596
2035	329,466
2036	130,407
2037	281,250
2038	-
2039	77,160
2040	173,479
2041	214,739

A reconciliation of income taxes at statutory rates is as follows:

	<u>2021</u>	<u>2020</u>
Loss before income taxes	\$ (475,878)	\$ (2,171,456)
Statutory tax rate	<u>23%</u>	<u>24%</u>
Expected tax recovery	(109,452)	(521,149)
Permanent differences	257	16
Rate differential of capital items	172,054	312,210
Net effect of unrecognized non-capital losses	(1,783)	51,136
Impact of changes in tax rate and other	<u>(1,165)</u>	<u>21,714</u>
Income tax expense (recovery)	<b>\$ 59,911</b>	<b>\$ (136,073)</b>

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### 14. 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 year, the Company charged a total of \$123,012 (2020 - \$1,894) to an entity owned and 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 \$245,700 (2020 - \$270,923) from an entity owned and controlled by one of the directors of the Company.

During the year, the Company accrued interest of \$7,078 (2020 - \$4,656), and paid interest of \$21,953 (2020 - \$12,164) to an entity owned and controlled by one of the directors of the Company.

During the year, the Company accrued interest income of \$61,353 (2020 - \$15,464) from an entity owned and controlled by one of the directors of the Company.

During the year, an amount of \$4,431 (2020 - \$16,893) 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 year, an amount of \$110,502 (2020 - \$110,502) 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 year, an amount of \$32,076 (2020 - \$31,477) 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.

### 15. Mortgage Payable

	<u>2021</u>	<u>2020</u>
<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 \$22,250,000, general assignment of rent, and a general security agreement	\$ 16,892,750	\$ 17,537,654
Accrued interest	<u>51,151</u>	<u>47,271</u>
	<b>16,943,901</b>	17,584,925
Less current portion of mortgage payable	<u>(16,943,901)</u>	<u>(17,584,925)</u>
	<u>\$ ---</u>	<u>\$ ---</u>

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### 15. Mortgage Payable (Continued)

As at December 31, 2021, the minimum contractual principal payments if not demanded earlier are as follows:

2022	\$ 666,277
2023	688,256
2024	709,754
2025	<u>14,828,463</u>
	<u>\$ 16,892,750</u>

### 16. Accounts Payable and Accrued Liabilities

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

	<u>2021</u>	<u>2020</u>
Trade payables	\$ 117,250	\$ 141,985
Accrued liabilities	55,350	86,400
Goods and Services Tax payable	<u>52,199</u>	<u>26,914</u>
	<u>\$ 224,799</u>	<u>\$ 255,299</u>

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

### 17. Overdraft Facility

The Company has a 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.

### 18. 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	<u>---</u>	<u>---</u>
Balance, December 31, 2021	<u>40,039,000</u>	<u>\$ 4,167,624</u>

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### 18. Share Capital (Continued)

#### 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  $\frac{1}{4}$  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:

	2021		2020	
	<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 year	2,955,000	\$ 0.09	2,955,000	\$ 0.09
Granted	---	---	---	---
Expired	---	---	---	---
Exercised	---	---	---	---
Outstanding, end of year	<u>2,955,000</u>	<u>\$ 0.09</u>	<u>2,955,000</u>	<u>\$ 0.09</u>
Exercisable, end of year	<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 December 31, 2021:

	<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

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**19. Rental Revenue**

	<u>2021</u>	<u>2020</u>
Commercial tenant leases	\$ 1,487,725	\$ 1,466,701
Parking and storage	69,395	69,988
Residential tenant leases	<u>---</u>	<u>188,140</u>
	<u>\$ 1,557,120</u>	<u>\$ 1,724,829</u>

**20. Finance Costs**

	<u>2021</u>	<u>2020</u>
Interest on mortgage	\$ 564,375	\$ 696,259
Interest on loan payable	44,463	56,890
Interest on overdraft facility	10,674	7,433
Annual fees on loans	1,500	1,500
Accretion of loan payable to related party	<u>---</u>	<u>(26,175)</u>
	<u>\$ 621,012</u>	<u>\$ 735,907</u>

**21. 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 December 31, 2021 of 40,039,000 (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.

**22. Net changes in Non-Cash Working Capital Items**

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ (65,919)	\$ 18,501
Prepaid rents	(440)	(73,057)
Accounts payable and accrued liabilities	<u>(30,500)</u>	<u>153,607</u>
	<u>\$ (96,859)</u>	<u>\$ 99,051</u>

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### 23. 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	<b>(644,904)</b>	---	<b>(70,167)</b>	---
Proceeds received	---	---	---	<b>60,000</b>
Forgiven portion recognized	---	---	---	<b>(20,000)</b>
Fair value adjustment	---	---	---	<b>(5,062)</b>
Accrued interest	<u>3,880</u>	<u>10,956</u>	<u>7,078</u>	<u>---</u>
Balance, December 31, 2021	<u><b>\$ 16,943,901</b></u>	<u><b>\$ 169,997</b></u>	<u><b>\$ 358,078</b></u>	<u><b>\$ 34,938</b></u>

### 24. 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 accounts receivable, loan receivable from related party, CEBA loan, 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 inputs used in measuring 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 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.

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24. **Financial Instruments** (Continued)

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

- The carrying amounts of 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 CEBA loan, mortgage payable, 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).

	Fair Value Hierarchy	<u>2021</u>	<u>2020</u>
<b>Financial Liabilities:</b>			
Loan payable	Level 3	\$ 169,997	\$ 159,041
Loan payable to related party	Level 3	\$ 358,078	\$ 421,167
CEBA loan	Level 3	\$ 34,938	\$ ---
Mortgage payable	Level 3	\$ 16,943,901	\$ 17,584,925

**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 mortgage payable, loan payable to related party and loan 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.

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24. **Financial Instruments** (Continued)

**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>2021</u>	<u>2020</u>
Current	\$ 81,989	\$ 17,024
31-90 days	3,182	553
91 + days	<u>74</u>	<u>1,749</u>
	<u>\$ 85,245</u>	<u>\$ 19,326</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the year ended December 31, 2021, rent earned from 4 key tenants represents 91% (2020 – 88%) of total revenues. As at December 31, 2021, receivables from these tenants total 82% of total accounts receivable (2020 – 16%).

**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. The Company's contractual obligation consists of accounts payable and accrued liabilities of \$224,799 (2020 - \$255,299) that have a current contractual maturity. Repayment of the \$40,000 (2020 - \$nil) CEBA loan is not required until December 31, 2023. The mortgage payable of \$16,943,901 (2020 - \$17,584,925) is due on demand and has terms which expire in fiscal 2025 (Note 15). The loan payable of \$169,997 (2020 - \$159,041) have no fixed terms of repayment. The loan payable to related party of \$358,078 (2020 - \$421,167) has terms which expire in fiscal 2022. The overdraft facility of \$286,958 (2020 - \$248,860) is due on demand with revolving terms (Note 17).

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Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian dollars)

24. **Financial Instruments** (Continued)

**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.

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

25. **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 December 31, 2021:

	<u>2021</u>	<u>2020</u>
Mortgage payable	<b>\$ 16,943,901</b>	\$ 17,584,925
Loan payable	<b>169,997</b>	159,041
Loan payable to related party	<b>358,078</b>	421,167
CEBA loan	<b>34,938</b>	---
Overdraft facility	<b>286,958</b>	248,860
Equity	<b><u>3,839,468</u></b>	<u>4,375,257</u>
	<b><u>\$ 21,633,340</u></b>	<b><u>\$ 22,789,250</u></b>

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.

26. **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.