

REGENT PACIFIC PROPERTIES INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Three and Nine Months Ended
September 30, 2023
(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 have not performed a review of these interim condensed consolidated financial statements.

"Eddie Yu"
Signed
Eddie Yu
Chief Executive Officer

"William Harper"
Signed
William Harper
Interim Chief Financial Officer

November 24, 2023

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September 30, 2023	December 31, 2022
ASSETS		
Non-current Assets		
Investment property (Note 5)	\$ 21,550,000	\$ 21,550,000
Deposit (Note 22)	1,303,888	1,303,888
Furniture and fixtures (Note 6)	<u>10,280</u>	<u>13,482</u>
	<u>22,864,168</u>	<u>22,867,370</u>
Current Asset		
Accounts receivable (Note 7)	<u>54,857</u>	<u>13,908</u>
	<u>\$ 22,919,025</u>	<u>\$ 22,881,278</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 150,811	\$ 150,811
Deferred income taxes	<u>1,674,728</u>	<u>1,674,728</u>
	<u>1,825,539</u>	<u>1,825,539</u>
Current Liabilities		
Mortgage payable (Note 12)	15,932,094	16,275,951
CEBA Loan (Note 9)	39,324	37,383
Loan payable (Note 8)	-	75,791
Loan payable to related party (Note 10)	334,829	334,912
Prepaid rents	-	36,503
Accounts payable and accrued liabilities (Note 13)	356,602	281,109
Overdraft facility (Note 14)	<u>297,845</u>	<u>295,148</u>
	<u>16,960,694</u>	<u>17,336,797</u>
	<u>18,786,233</u>	<u>19,162,336</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	4,167,624	4,167,624
Contributed surplus	576,265	560,530
Deficit	<u>(611,097)</u>	<u>(1,009,212)</u>
	<u>4,132,792</u>	<u>3,718,942</u>
	<u>\$ 22,919,025</u>	<u>\$ 22,881,278</u>

Going Concern (Note 2)

Approved on behalf of the Board of Directors:

"Eddie Yu"
Signed _____
Director

"Ted Power"
Signed _____
Director

See accompanying notes to the interim condensed consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Comprehensive Income

For the Three and Nine-Month Periods Ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Rental revenue (Note 16)	\$ 350,069	\$ 388,801	\$ 1,052,508	\$ 1,168,603
Recovery of operating expenses	211,600	238,441	634,800	705,295
Direct operating expenses	<u>(202,203)</u>	<u>(254,021)</u>	<u>(694,103)</u>	<u>(773,270)</u>
Net rental income	<u>359,466</u>	<u>373,221</u>	<u>993,205</u>	<u>1,100,628</u>
Expenses				
General and administrative	39,470	49,201	153,000	144,246
Share-based compensation (Note 15)	-	-	15,735	-
Amortization (Note 6)	<u>1,854</u>	<u>1,685</u>	<u>3,202</u>	<u>3,370</u>
	<u>41,324</u>	<u>50,886</u>	<u>171,937</u>	<u>147,616</u>
Income before fair value adjustment on investment property and other income (expenses)	<u>318,142</u>	<u>322,335</u>	<u>821,268</u>	<u>953,012</u>
Fair value adjustment on investment property (Note 5)	<u>2,408</u>	<u>16,009</u>	<u>7,225</u>	<u>46,558</u>
Income before other income (expenses)	<u>320,550</u>	<u>338,344</u>	<u>828,493</u>	<u>999,570</u>
Other income (expenses)				
Interest income	-	-	3	-
Fair value adjustment on CEBA Loan	(664)	(621)	(1,940)	(1,813)
Finance costs (Note 17)	<u>(144,502)</u>	<u>(156,978)</u>	<u>(428,441)</u>	<u>(451,059)</u>
	<u>(145,166)</u>	<u>(157,599)</u>	<u>(430,378)</u>	<u>(452,872)</u>
Net income and comprehensive income	<u>\$ 175,384</u>	<u>\$ 180,745</u>	<u>\$ 398,115</u>	<u>\$ 546,698</u>
Net income per share:				
Basic net income per common share (Note 18)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted net income per common share (Note 18)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

See accompanying notes to the interim condensed consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

For the Nine-Month Periods Ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

	Share Capital (Note 15)		Contributed Surplus	Deficit	Total
	Number	Amount			
Balance, January 1, 2022	40,039,000	\$ 4,167,624	\$ 560,530	\$ (888,686)	\$ 3,839,468
Net income and comprehensive income	-	-	-	546,698	546,698
Balance, September 30, 2022	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 560,530</u>	<u>\$ (341,988)</u>	<u>\$ 4,386,166</u>

	Share Capital (Note 15)		Contributed Surplus	Deficit	Total
	Number	Amount			
Balance, January 1, 2023	40,039,000	\$ 4,167,624	\$ 560,530	\$(1,009,212)	\$ 3,718,942
Share-based compensation (Note 15)	-	-	15,735	-	15,735
Net income and comprehensive income	-	-	-	398,115	398,115
Balance, September 30, 2023	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 576,265</u>	<u>\$ (611,097)</u>	<u>\$ 4,132,792</u>

See accompanying notes to the interim condensed consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Cash Flows

For the Nine-Month Periods Ended September 30, 2023 and 2022

(Expressed in Canadian dollars)

	September 30, 2023	September 30, 2022
Cash provided by (used in):		
Operating Activities		
Net income	\$ 398,115	\$ 546,698
Adjustments for:		
Amortization	3,202	3,370
Fair value adjustment to investment property	(7,225)	(46,558)
Fair value adjustment on CEBA Loan	1,941	1,813
Straight-line rent adjustment	7,225	45,148
Finance costs (Note 17)	412,741	451,059
Share-based compensation (Note 15)	15,735	-
Net changes in non-cash working capital items (Note 19)	<u>(1,959)</u>	<u>(38,158)</u>
Net cash provided by operations	<u>829,775</u>	<u>963,372</u>
Investing Activity		
Reversal of prior addition to investment property	<u>-</u>	<u>1,410</u>
Financing Activities		
Repayments of mortgage financing	(341,942)	(492,692)
Advances from related party	146,500	-
Repayments of loan payable to repayment party	(166,594)	(50,000)
Interest paid	<u>(470,436)</u>	<u>(421,275)</u>
Net cash used in financing activities	<u>(832,472)</u>	<u>(963,967)</u>
Decrease in cash	(2,697)	815
Overdraft facility, beginning of period	<u>(295,148)</u>	<u>(286,958)</u>
Overdraft facility, end of period	<u>\$ (297,845)</u>	<u>\$ (286,143)</u>

See accompanying notes to the interim condensed consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(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 24, 2023.

2. Going Concern

These interim condensed 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. As at September 30, 2023, the Company had negative working capital (as defined by IFRS) of \$16,905,837 (December 31, 2022 - \$17,322,889), of which \$15,932,094 is due to the Company's term mortgage which commenced on July 31, 2012, and has been renewed on a term basis from time to time, with the existing term expiring on August 1, 2025. The Company has made all of the mortgage payments, throughout the term of the mortgage, in accordance with the mortgage terms. The mortgage is demandable; however, no demand nor indication of a demand has been made by the lender, Servus Credit Union. There is no assurance the mortgage would not be called or will be renewed with similar terms. In addition, the Company has an accumulated deficit of \$611,097 (December 31, 2022 - \$1,009,212). The Company's ability to continue as a going concern is dependent on generating a profit from operations, and obtaining additional financing as required.

These interim condensed 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 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, 2022.

b) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on a historical cost basis except for the measurement of the investment property, which is 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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

3. Basis of Presentation (continued)

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 estimates and judgments made by management in applying the Company's accounting policies were the same as those described in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2022.

4. 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, 2022.

New accounting pronouncements not yet adopted

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods beginning after January 1, 2023. Pronouncements that are not applicable to the Corporation have been excluded from this note.

- a) IAS 1 – Classification of liabilities as current or non-current and non-current liabilities with covenants

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after January 1, 2024.

5. Investment Property

	<u>Commercial</u>
Balance, December 31, 2021	\$22,250,000
Straight-line rent adjustment	(19,758)
Fair value adjustment	(678,832)
Addition to property	<u>(1,410)</u>
Balance, December 31, 2022	21,550,000
Straight-line rent adjustment	7,225
Fair value adjustment	<u>(7,225)</u>
Balance, September 30, 2023	<u>\$21,550,000</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

5. Investment Property (continued)

The Company values its investment property using Level 3 inputs. The investment property was appraised by third party accredited valuation professionals. For the investment property a combination of income approach via overall income capitalization, income approach via discounted cash flow and direct comparison approach was used.

Management estimates that there has been no material change on the valuation of the investment property as at September 30, 2023 as compared to December 31, 2022.

The Company leases space in its investment property to tenants under operating leases. The leases have various terms between 1 and 5 years. The total future contractual minimum base rent lease payments expected to be received under non-cancellable leases as at September 30, 2023 are as follows:

One year or less	\$	844,406
2 – 5 years	\$	1,846,217

6. Furniture and Fixtures

	Cost						
	Balance at January 1, 2022	Additions	Disposals	Balance at December 31, 2022	Additions	Disposals	Balance at September 30, 2023
Furniture and fixtures	\$ 82,259	\$ -	\$ -	\$ 82,259	\$ -	\$ -	\$ 82,259

	Accumulated Depreciation						
	Balance at January 1, 2022	Additions	Disposals	Balance at December 31, 2022	Additions	Disposals	Balance at September 30, 2023
Furniture and fixtures	\$ 65,407	\$ 3,370	\$ -	\$ 68,777	\$ 3,202	\$ -	\$ 71,979

	Net Book Value	
	Balance at September 30, 2023	Balance at December 31, 2022
Furniture and fixtures	\$ 10,280	\$ 13,482

7. Accounts Receivable

Accounts receivable is comprised of the following items:

	September 30, 2023	December 31, 2022
Rents receivable	\$ 47,321	\$ 6,221
Goods and Services Tax receivable	7,536	7,687
	<u>\$ 54,857</u>	<u>\$ 13,908</u>

Included in accounts receivable is an amount of \$36,347 (December 31, 2022 - \$nil) which is rents receivable from entities owned and controlled by the CEO, director and majority shareholder of the Company.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

8. Loan Payable

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Loan payable is unsecured, bears interest at 7% per annum, compounded quarterly, with no regular payments, and loan payable is due on demand	\$ -	\$ -
Interest accrued	<u>-</u>	<u>75,791</u>
	<u>\$ -</u>	<u>\$ 75,791</u>

During the year ended December 31, 2022, the Company repaid the principal balance of the loan payable. On February 4, 2023, the Company and the lender amended the loan payable so that the maturity date was no longer February 10, 2023 and the loan payable was due on demand. On June 6, 2023, the Company repaid the remaining accrued interest outstanding on the loan payable.

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, 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 the year ended December 31, 2021.

10. Loan payable to related party

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Loan payable is unsecured, bears interest at 8% per annum, with no regular payments, and principal repayment is due November 10, 2024	\$ 309,409	\$ 329,503
Interest accrued	<u>25,420</u>	<u>5,409</u>
	<u>\$ 334,829</u>	<u>\$ 334,912</u>

The loan payable is repayable to an entity owned and controlled by the CEO, director and majority shareholder of the Company. Subsequent to September 30, 2023, the Company and the lender extended the maturity date from November 10, 2023 to November 10, 2024.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(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 (“CEO”) and Interim Chief Financial Officer (“CFO”).

During the three and nine months ended September 30, 2023, the Company incurred \$3,150 and \$10,967, respectively, in consulting fees due to the CFO of the Company (2022 - \$5,390 and \$8,890, respectively). As at September 30, 2023, \$5,808 was included in accounts payable and accrued liabilities as owing to the CFO (December 31, 2022 - \$10,990).

During the three and nine months ended September 30, 2023, the Company charged a total of \$51,442 and \$154,326, respectively, to an entity owned and controlled by the CEO, director and majority shareholder of the Company for recovery of operating expenses (2022 - \$32,956 and \$98,868, respectively).

During the three and nine months ended September 30, 2023, the Company received rental income, before straight-line adjustments, of \$86,640 and \$259,920, respectively, from an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$61,200 and \$183,600, respectively) and as at September 30, 2023, \$46,928 was included in prepaid rent for rent paid in advance and rental deposits (December 31, 2022 - \$46,928).

During the three and nine months ended September 30, 2023, the Company incurred interest expense of \$7,626 and \$20,011, respectively, to an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$7,835 and \$20,836, respectively) (Note 10).

During the three and nine months ended September 30, 2023, an amount of \$nil and \$14,339, respectively, 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 (2022 - \$12,797 and \$20,267, respectively). As at September 30, 2023, \$10,243 was included in accounts payable and accrued liabilities as owing to the law firm (December 31, 2022 - \$13,471).

During the three and nine months ended September 30, 2023, \$18,626 and \$55,877 has been included in general and administrative expenses related to administration fees paid to an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$18,626 and \$73,877, respectively).

During the three and nine months ended September 30, 2023, an amount of \$8,019 and \$24,057, respectively, has been included in general and administrative expenses related to rent paid to an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$8,019 and \$24,057, respectively).

During the three and nine months ended September 30, 2023, an amount of \$17,624 and \$52,987, respectively, has been included in direct operating costs related to property management fees with an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$20,284 and \$59,095, respectively).

During the three and nine months ended September 30, 2023, the Company incurred \$nil and \$14,791, respectively, in share-based compensation expense for directors and key management (2022 - \$nil).

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

11. Related Party Transactions (Continued)

On December 24, 2021, and as amended on December 31, 2022, the Company entered into a purchase contract to acquire ten (10) condominium units in Edmonton, Alberta from a company indirectly majority owned by the CEO, director and majority shareholder of the Company for a total purchase price of \$3,229,762, subject to certain conditions to be satisfied by December 31, 2023, or as mutually extended by the parties, including:

- securing satisfactory financing on suitable terms and conditions;
- obtaining TSXV conditional acceptance as a Reviewable Transaction in accordance with TSXV policies;
- receiving all other necessary regulatory and securities commissions approvals, if any; and
- receiving all necessary shareholder approvals, as required.

12. Mortgage Payable

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</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 a term expiring on August 1, 2025, and secured by the commercial investment property with a carrying amount of \$21,550,000, general assignment of rent and a general security agreement.	\$ 15,889,195	\$ 16,231,138
Accrued interest	<u>42,899</u>	<u>44,813</u>
	15,932,094	16,275,951
Less current portion of mortgage payable	<u>(15,932,094)</u>	<u>(16,275,951)</u>
	<u>\$ -</u>	<u>\$ -</u>

As at September 30, 2023, the minimum contractual principal payments if not demanded earlier are as follows:

<u>Year ended September 30,</u>	<u>Amount</u>
2024	\$ 699,357
2025	<u>15,189,838</u>
	<u>\$ 15,889,195</u>

The mortgage payable is subject to an annual debt service coverage ratio covenant of no less than 1:20:1 based on the operations of the commercial investment property. As at September 30, 2023, the Company was not in compliance with this covenant.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

13. Accounts Payable and Accrued Liabilities

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

	September 30, 2023	December 31, 2022
Trade payables	\$ 177,327	\$ 167,782
Accrued liabilities	34,745	40,120
Goods and Services Tax payable	<u>144,530</u>	<u>73,207</u>
	<u>\$ 356,602</u>	<u>\$ 281,109</u>

Included in accounts payable and accrued liabilities as at September 30, 2023 is \$62,061 (December 31, 2022 - \$90,265) owing to entities owned and controlled by one of the directors of the Company.

14. Overdraft Facility

The Company has a demand overdraft facility of up to \$300,000 (December 31, 2022 – \$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 the CEO, director and majority shareholder 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.

	Number of <u>Common Shares</u>	<u>Amount</u>
Balance, January 1, 2022, December 31, 2022 and September 30, 2023	<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

For the Nine Months Ended September 30, 2023

(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:

	September 30, 2023		December 31, 2022	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,955,000	\$ 0.09	2,955,000	\$ 0.09
Granted	1,048,900	0.07	-	-
Expired	(800,000)	0.10	-	-
Exercised	-	-	-	-
Outstanding, end of period	<u>3,203,900</u>	<u>\$ 0.08</u>	<u>2,955,000</u>	<u>\$ 0.09</u>
Exercisable, end of period	<u>3,203,900</u>	<u>\$ 0.08</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, 2023:

	Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
December 20, 2019	\$ 0.08	2,155,000	2,155,000	Dec 19, 2024
January 16, 2023	<u>\$ 0.07</u>	<u>1,048,900</u>	<u>1,048,900</u>	<u>Jan 15, 2028</u>

On January 16, 2023, the Company granted 1,048,900 common share purchase options to directors, officers and an employee of the Company. The common share purchase options have an exercise price of \$0.07 per common share for a term of five (5) years and vested immediately upon grant.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

15. Share Capital (Continued)

Stock Options (Continued)

As at September 30, 2023, the weighted average life remaining of the total number of outstanding and exercisable stock options was 2.23 years.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted. The Company considered historical volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term, taking into account expected director, officer and employee exercise and expected post-vesting employment termination behaviour. The following assumptions were used to estimate the Black-Scholes fair value of the options granted during the nine months ended September 30, 2023:

Annualized volatility	129.00%
Risk-free interest rate	2.95%
Expected life of options in years	5.00
Dividend rate	0.00%
Exercise price	\$0.070
Market price on date of grant	\$0.020
Fair value per stock option	\$0.015

16. Rental Revenue

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Commercial tenant leases	\$ 332,294	\$ 371,858	\$ 996,883	\$ 1,115,575
Parking and storage	<u>17,775</u>	<u>16,943</u>	<u>55,625</u>	<u>53,028</u>
	<u>\$ 350,069</u>	<u>\$ 388,801</u>	<u>\$ 1,052,508</u>	<u>\$ 1,168,603</u>

17. Finance Costs

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest on mortgages	\$ 131,088	\$ 142,143	\$ 390,530	\$ 411,358
Interest on loan payable	-	3,103	2,200	8,947
Interest on loan payable to related party	7,626	7,836	20,011	20,837
Interest on overdraft facility	<u>5,788</u>	<u>3,896</u>	<u>15,700</u>	<u>9,917</u>
	<u>\$ 144,502</u>	<u>\$ 156,978</u>	<u>\$ 428,441</u>	<u>\$ 451,059</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

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For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

18. Net Income per Common Share

The basic earnings per common share is based on the weighted average number of common shares outstanding during the three and nine months ended September 30, 2023 of 40,039,000 (2022 - 40,039,000). The inclusion of the Company's stock options in the computation of the diluted net income per share would be anti-dilutive and are excluded from the computation.

19. Net Changes in Non-Cash Working Capital Items

	September 30, 2023	September 30, 2022
Accounts receivable	\$ (40,949)	\$ 75,914
Prepaid rents	(36,503)	(61,584)
Accounts payable and accrued liabilities	75,493	(52,488)
	<u>\$ (1,959)</u>	<u>\$ (38,158)</u>

20. Reconciliation of Liabilities Arising From Financing Activities

	<u>Mortgage</u>	<u>Loan Payable</u>	<u>Loan From Related Party</u>	<u>CEBA Loan</u>
Balance, January 1, 2022	\$ 16,943,901	\$ 169,997	\$ 358,078	\$ 34,938
Repayments made	(661,612)	(100,000)	(49,500)	-
Fair value adjustment	-	-	-	2,445
Accrued interest	<u>(6,338)</u>	<u>5,794</u>	<u>26,334</u>	<u>-</u>
Balance, December 31, 2022	16,275,951	75,791	334,912	37,383
Repayments made	(341,942)	(77,991)	(166,594)	-
Advances from	-	-	146,500	-
Fair value adjustment	-	-	-	1,941
Accrued interest	<u>(1,915)</u>	<u>2,200</u>	<u>20,011</u>	<u>-</u>
Balance, September 30, 2023	<u>\$ 15,932,094</u>	<u>\$ -</u>	<u>\$ 334,829</u>	<u>\$ 39,324</u>

REGENT PACIFIC PROPERTIES INC.

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Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

21. Financial Instruments

Financial instruments recognized in the statements of financial position include accounts receivable, 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 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 period.

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

- The carrying amounts of accounts receivable, 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	September 30, 2023	December 31, 2022
Financial Liabilities:			
Loan payable	Level 3	\$ -	\$ 75,791
Loan payable to related party	Level 3	\$ 334,829	\$ 334,912
CEBA Loan	Level 3	\$ 39,324	\$ 37,383
Mortgage payable	Level 3	\$ 15,932,094	\$ 16,275,951

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.

REGENT PACIFIC PROPERTIES INC.

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Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

21. Financial Instruments (Continued)

Financial risk management (Continued)

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 and for the three and nine months ended September 30, 2023, all else being equal, the increase or decrease in net earnings for each 1% change in market interest rates is not expected to be significant (three and nine months ended September 30, 2022 – not significant).

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:

	September 30, 2023	December 31, 2022
Current	\$ 46,493	\$ 12,231
31-90 days	461	-
91 + days	<u>7,903</u>	<u>1,677</u>
	<u>\$ 54,857</u>	<u>\$ 13,908</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the three and nine months ended September 30, 2023, revenue earned from three (3) key tenants (2022 – four (4) key tenants) represents 91% (2022 – 96% and 97%, respectively), of total revenues. As at September 30, 2023, amounts receivable from these tenants represented 77% of rents receivable (December 31, 2022 – no amounts receivable).

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2023

(Expressed in Canadian dollars)

21. Financial Instruments (Continued)

Financial risk management (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 the management of working capital and cash flows. Operating cashflow remains positive and is largely dependent on occupancy and collection. The Company closely monitors the collection of receivables from tenants.

As at September 30, 2023, the Company's contractual obligation consists of accounts payable and accrued liabilities of \$356,602 (December 31, 2022 - \$281,109) that have a current contractual maturity. Repayment of the \$40,000 CEBA Loan is required by December 31, 2023. The mortgage payable of \$15,932,094 (December 31, 2022 - \$16,275,951) is due on demand and has terms which expire in fiscal 2025 (Note 12). The loan payable to related party of \$334,829 (December 31, 2022 - \$334,912) has terms which expire in November 2023 (subsequently extended to November 2024). The overdraft facility of \$297,845 (December 31, 2022 - \$295,148) is due on demand with revolving terms (Note 14).

22. Deposits

As at September 30, 2023 and December 31, 2022, a deposit of \$1,303,888 is held by a company indirectly majority owned by the CEO, director and majority shareholder of the Company for the purchase of ten (10) condominium units in Edmonton, Alberta (Note 11).

23. 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, 2023:

	September 30, 2023	December 31, 2022
Mortgage payable	\$ 15,932,094	\$ 16,275,951
Loan payable	-	75,791
Loan payable to related party	334,829	334,912
CEBA Loan	39,324	37,383
Overdraft facility	297,845	295,148
Equity	<u>4,132,792</u>	<u>3,718,942</u>
	<u>\$ 20,736,884</u>	<u>\$ 20,738,127</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.