

REGENT PACIFIC PROPERTIES INC.
Consolidated Financial Statements
December 31, 2022 and 2021
(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, 2022 and 2021 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"
Signed
Eddie Yu
Chief Executive Officer

"William Harper"
Signed
William Harper
Interim Chief Financial Officer

April 27, 2023

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, 2022 and 2021 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years 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, 2022 and 2021, and its financial performance and its cash flows for the years 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which indicates that at December 31, 2022 the Company had a negative working capital of \$17,322,889 and an accumulated deficit of \$1,009,212. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and not otherwise addressed in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of the fair value of investment property

Description of the matter:

As reported in the consolidated statement of financial position, on December 31, 2022 the Company had investment property with a carrying amount of \$21,550,000. As indicated in Notes 3, 4, and 5, the Company values the investment property at fair value. 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.

Why the matter is a key audit matter:

We determined that auditing the evaluation of fair value of the investment property is a key audit matter due to the high degree of complexity in the fair value model.

Independent Auditors' Report (continued)

How the matter was addressed in the audit:

We analyzed the inputs used in the appraisal performed by an independent valuation firm, assessed the competence of management's expert, and assessed reasonability of the fair value.

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

In preparing the 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based

Independent Auditors' Report (continued)

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 financial statements, including the disclosures, and whether the 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 27, 2023
Calgary, Alberta

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(Expressed in Canadian dollars)

	December 31, 2022	December 31, 2021
ASSETS		
Non-current Assets		
Investment property (Note 5)	\$ 21,550,000	\$ 22,250,000
Deposit (Note 23)	1,303,888	1,303,888
Furniture and fixtures (Note 6)	<u>13,482</u>	<u>16,852</u>
	<u>22,867,370</u>	<u>23,570,740</u>
Current Assets		
Accounts receivable (Note 7)	<u>13,908</u>	<u>85,245</u>
	<u>\$ 22,881,278</u>	<u>\$ 23,655,985</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 150,811	\$ 167,510
CEBA Loan (Note 9)	-	34,938
Deferred income taxes (Note 11)	<u>1,674,728</u>	<u>1,585,451</u>
	<u>1,825,539</u>	<u>1,787,899</u>
Current Liabilities		
Mortgage payable (Note 13)	16,275,951	16,943,901
CEBA Loan (Note 9)	37,383	-
Loan payable (Note 8)	75,791	169,997
Loan payable to related party (Note 10)	334,912	358,078
Prepaid rents	36,503	44,885
Accounts payable and accrued liabilities (Note 14)	281,109	224,799
Overdraft facility (Note 15)	<u>295,148</u>	<u>286,958</u>
	<u>17,336,797</u>	<u>18,028,618</u>
	<u>19,162,336</u>	<u>19,816,517</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	4,167,624	4,167,624
Contributed surplus	560,530	560,530
Deficit	<u>(1,009,212)</u>	<u>(888,686)</u>
	<u>3,718,942</u>	<u>3,839,468</u>
	<u>\$ 22,881,278</u>	<u>\$ 23,655,985</u>
Going Concern (Note 2)		
Subsequent Events (Note 26)		

Approved on behalf of the Board of Directors:

“Eddie Yu”	“Ted Power”
Signed _____	Signed _____
Director	Director

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Comprehensive Loss
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	<u>2022</u>	<u>2021</u>
Rental revenue (Note 17)	\$ 1,532,947	\$ 1,557,120
Recovery of operating expenses	927,905	897,910
Direct operating expenses	<u>(1,041,753)</u>	<u>(999,648)</u>
Net rental income	<u>1,419,099</u>	<u>1,455,382</u>
Expenses		
General and administrative	180,180	193,558
Amortization (Note 6)	<u>3,370</u>	<u>4,212</u>
	<u>183,550</u>	<u>197,770</u>
Income before fair value adjustment on investment property and other income (expenses)	1,235,549	1,257,612
Fair value adjustment on investment property (Note 5)	<u>(678,832)</u>	<u>(1,198,893)</u>
Income before other income (expenses)	<u>556,717</u>	<u>58,719</u>
Other income (expenses)		
Interest income	262	61,353
Forgivable portion of CEBA loan	-	20,000
Fair value adjustment on CEBA loan	(2,445)	5,062
Finance costs (Note 18)	<u>(585,783)</u>	<u>(621,012)</u>
	<u>(587,966)</u>	<u>(534,597)</u>
Loss before income taxes	(31,249)	(475,878)
Deferred income tax expense (Note 11)	<u>(89,277)</u>	<u>(59,911)</u>
Net loss and comprehensive loss	<u>\$ (120,526)</u>	<u>\$ (535,789)</u>
Net loss per share:		
Basic and diluted (Note 19)	<u>\$ (0.003)</u>	<u>\$ (0.013)</u>
Weighted average number of common shares outstanding:		
Basic and diluted (Note 19)	<u>40,039,000</u>	<u>40,039,000</u>

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Share Capital (Note 16)		Contributed Surplus	Deficit	Total
	Number	Amount			
Balance, December 31, 2020	40,039,000	\$ 4,167,624	\$ 560,530	\$ (352,897)	\$ 4,375,257
Net loss and comprehensive loss	-	-	-	(535,789)	(535,789)
Balance, December 31, 2021	40,039,000	\$ 4,167,624	\$ 560,530	\$ (888,686)	\$ 3,839,468
Net loss and comprehensive loss	-	-	-	(120,526)	(120,526)
Balance, December 31, 2022	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 560,530</u>	<u>\$ (1,009,212)</u>	<u>\$ 3,718,942</u>

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	2022	2021
Cash provided by (used in):		
Operating Activities		
Net loss	\$ (120,526)	\$ (535,789)
Adjustments for:		
Accrued interest income	-	(61,353)
Amortization	3,370	4,212
Fair value adjustment to investment property (Note 5)	678,832	1,198,893
Fair value adjustment on CEBA loan	2,445	(5,062)
Straight-line rent adjustment (Note 5)	19,758	52,517
Finance costs (Note 18)	569,578	621,012
Deferred income tax expense (Note 11)	89,277	59,911
Forgiven portion of CEBA loan	-	(20,000)
Net changes in non-cash working capital items (Note 20)	<u>102,566</u>	<u>(96,859)</u>
Net cash from operations	<u>1,345,300</u>	<u>1,217,482</u>
Investing Activity		
Reversal of (Additions to) investment property (Note 5)	<u>1,410</u>	<u>(1,410)</u>
Financing Activities		
Repayments of mortgage financing	(661,612)	(644,904)
Proceeds from CEBA loan (Note 9)	-	60,000
Interest paid	(543,788)	(599,099)
Repayment of loan payable (Note 8)	(100,000)	-
Repayment of loan payable to related party (Note 10)	<u>(49,500)</u>	<u>(70,167)</u>
Net cash used in financing activities	<u>(1,354,900)</u>	<u>(1,254,170)</u>
Decrease in cash	(8,190)	(38,098)
Overdraft facility, beginning of period	<u>(286,958)</u>	<u>(248,860)</u>
Overdraft facility, end of period	<u><u>\$ (295,148)</u></u>	<u><u>\$ (286,958)</u></u>

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(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 consolidated financial statements were authorized for issue by the Company’s Board of Directors on April 27, 2023.

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 negative working capital of \$17,322,889 (December 31, 2021 - \$17,943,373) and has an accumulated deficit of \$1,009,212 (December 31, 2021 - \$888,686). 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 Company’s ability to continue as a going concern is dependent on 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 with and compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard 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 the investment property, which is 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
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

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 property 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 property is 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) 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.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

3. **Basis of Presentation** (Continued)

v) Deposit

The valuation of the deposit 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.

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.

Revenue

Revenue includes lease revenue from the investment property 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.

Investment Property

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

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.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

4. Significant Accounting Policies (Continued)

Investment Property (Continued)

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 profit or loss 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.

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 property.

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.

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%

Overdraft Facility

Overdraft facility includes an overdraft drawn on an account held in a Canadian financial institution.

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.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

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

Basic and Diluted Net Loss Per Share

The Company presents basic and diluted net 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.

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. 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. Accounts receivable, overdraft facility, accounts payable and accrued liabilities, loan payable to related party, loan payable, CEBA loan, and mortgage payable are classified in this category.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

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

Financial Instruments (Continued)

i) Classification and Measurements (Continued)

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 consolidated statement of comprehensive 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 consolidated statement of comprehensive 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 loss. No financial instruments have been classified in this category.

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.

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 consolidated statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within the accumulated other comprehensive 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 consolidated statements of comprehensive 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

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.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

4. Significant Accounting Policies (Continued)

Accounting Standards and Amendments Issued but not yet Effective (Continued)

Income taxes – deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of when the existing exemption for recognizing deferred income tax assets and deferred income tax liabilities on initial recognition of an asset and a liability is applied. The amendments clarify the requirement to account for deferred tax on transactions such as initial recognition of leases and decommissioning obligations where the transaction gives rise to an equal taxable and deductible temporary difference.

5. Investment Property

	<u>Commercial</u>
Balance, December 31, 2020	\$23,500,000
Straight-line rent adjustment	(52,517)
Fair value adjustment	(1,198,893)
Addition to property	<u>1,410</u>
Balance, December 31, 2021	22,250,000
Straight-line rent adjustment	(19,758)
Fair value adjustment	(678,832)
Reversal of prior addition	<u>(1,410)</u>
Balance, December 31, 2022	<u>\$21,550,000</u>

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

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 7.00% (2021 - 6.25% and 6.75%) was determined and for the main floor the mid-rate of 6.50% (2021 – 6.50%) was applied to the year one net operating income of \$363,479 (2021 - \$351,704), and for the office tower the mid-rate of 6.75% (2021 – 7.25%) was applied to the year one net operating income of \$1,117,059 (2021 - \$1,232,490) to arrive at a final value (rounded) estimate of \$21,580,000 (2021 - \$22,150,000).

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 \$1,540,739, and a 0.50% decrease in the capitalization rate would increase the value arrived at by \$1,789,920.

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 7.25% and 7.75% (2021 - 6.75% and 7.75%) and a reversionary capitalization rate range of between 6.50% to 7.00% (2021 - 6.25% and 7.00%) were used to arrive at a mid-point value (rounded) of \$21,170,000 (2021 - \$22,050,000).

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

5. Investment Property (Continued)

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 \$315 per square foot for the main floor bays, and \$300 per square foot for the office tower was considered achievable (2021 - \$310 and \$315 per square foot value range). \$315 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 \$5,350,000 (2021 - \$5,340,000). \$300 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 \$15,740,000 (2021 - \$16,780,000). The combined total value (rounded) arrived at is \$21,090,000 (2021 - \$22,120,000).

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, 2022 was determined to be \$21,550,000 (2021 - \$22,250,000).

The Company leases space in its investment property to tenants under operating leases. The leases have various terms between approximately 1 and 5 years. The total future contractual minimum base rent lease payments expected to be received under non-cancellable leases as at December 31, 2022 are as follows:

One year or less	\$ 1,093,746
2 – 5 years	<u>2,280,306</u>
	<u>\$ 3,374,052</u>

6. Furniture and Fixtures

	Cost						Balance at December 31, 2022
	Balance at January 1, 2021	Additions	Disposals	Balance at December 31, 2021	Additions	Disposals	
Furniture and fixtures	<u>\$ 82,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,259</u>

	Accumulated Depreciation						Balance at December 31, 2022
	Balance at January 1, 2021	Additions	Disposals	Balance at December 31, 2021	Additions	Disposals	
Furniture and fixtures	<u>\$ 61,195</u>	<u>\$ 4,212</u>	<u>\$ -</u>	<u>\$ 65,407</u>	<u>\$ 3,370</u>	<u>\$ -</u>	<u>\$ 68,777</u>

	Net Book Value	
	Balance at December 31, 2022	Balance at December 31, 2021
Furniture and fixtures	<u>\$ 13,482</u>	<u>\$ 16,852</u>

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

7. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>2022</u>	<u>2021</u>
Rents receivable	\$ 6,221	\$ 74,033
Goods and Services Tax receivable	<u>7,687</u>	<u>11,212</u>
	<u>\$ 13,908</u>	<u>\$ 85,245</u>

Included in accounts receivable is an amount of \$nil (2021 - \$20,000) which is rents receivable from an entity owned and controlled by the CEO, director, and majority shareholder of the Company.

8. Loan Payable

	<u>2022</u>	<u>2021</u>
Loan payable is unsecured, bears interest at 7% per annum, with no regular payments, and principal repayment is due February 10, 2023.	\$ -	\$ 100,000
Interest accrued	<u>75,791</u>	<u>69,997</u>
	<u>\$ 75,791</u>	<u>\$ 169,997</u>

9. CEBA Loan

On April 30, 2021, the Company was advanced \$60,000 of bank financing as part of the Government of Canada COVID-19 assistance for small business. The loan bears interest at 0% until December 31, 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>2022</u>	<u>2021</u>
Loan payable is unsecured, bears interest at 8% per annum, with no regular payments, and principal repayment is due November 10, 2023	\$ 329,503	\$ 354,154
Interest accrued	<u>5,409</u>	<u>3,924</u>
	<u>\$ 334,912</u>	<u>\$ 358,078</u>

During the year ended December 31, 2022, the repayment due date was extended from November 10, 2022 to November 10, 2023. The loan payable is repayable to an entity owned and controlled by one of the directors of the Company.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

11. 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>2022</u>	<u>2021</u>
Deferred tax assets (liabilities):		
Tax loss carry-forward	\$ 343,535	\$ 339,926
Tax basis of finance costs and other	3,697	1,541
Carrying value of investment property in excess of tax basis	<u>(1,678,425)</u>	<u>(1,586,992)</u>
	(1,331,193)	(1,245,525)
Less tax assets not recognized	<u>(343,535)</u>	<u>(339,926)</u>
Net deferred income tax liability	<u>\$ (1,674,728)</u>	<u>\$ (1,585,451)</u>

As at December 31, 2022, the Company has non-capital loss carry forwards of \$1,493,634 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	200
2041	214,739
2042	188,974

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

	<u>2022</u>	<u>2021</u>
Loss before income taxes	\$ (31,249)	\$ (475,878)
Statutory tax rate	<u>23%</u>	<u>23%</u>
Expected tax recovery	(7,187)	(109,452)
Permanent differences	-	257
Rate differential of capital items	94,685	172,054
Net effect of unrecognized non-capital losses	3,610	(1,783)
Impact of changes in tax rate and other	<u>(1,831)</u>	<u>(1,165)</u>
Deferred income tax expense	<u>\$ 89,277</u>	<u>\$ 59,911</u>

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

12. 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 year ended December 31, 2022, the Company incurred \$16,095 in consulting fees due to the CFO of the Company (2021 - \$nil). As at December 31, 2022, \$10,990 was included in accounts payable and accrued liabilities as owing to the CFO (December 31, 2021 - \$nil).

During the year ended December 31, 2022, the Company charged a total of \$150,403 to an entity owned and controlled by the CEO, director and majority shareholder of the Company for recovery of operating expenses (2021 - \$123,012).

During the year ended December 31, 2022, the Company received rental income, before straight-line adjustments, of \$268,140 from an entity owned and controlled by the CEO, director and majority shareholder of the Company (2021 - \$245,700) and as at December 31, 2022, \$46,928 was included in prepaid rent for rent paid in advance and rental deposits (2021 - \$19,928).

During the year ended December 31, 2022, the Company incurred interest expense of \$26,334 to an entity owned and controlled by the CEO, director and majority shareholder of the Company (2021 - \$29,031) (Note 10).

During the year ended December 31, 2022, the Company accrued interest income of \$nil from an entity owned and controlled by the CEO, director and majority shareholder of the Company (2021 - \$61,353).

During the year ended December 31, 2022, \$20,267 has been included in general and administrative expenses related to fees with a law firm where one of the directors of the Company is a partner (2021 - \$4,431). As at December 31, 2022, \$13,471 was included in accounts payable and accrued liabilities as owing to the law firm (December 31, 2021 - \$445).

During the year ended December 31, 2022, \$92,502 has been included in general and administrative expenses related to administration fees with an entity owned and controlled by the CEO, director and majority shareholder of the Company (2021 - \$110,502) and as at December 31, 2022, \$19,557 was included in accounts payable and accrued liabilities (December 31, 2021 - \$nil).

During the year ended December 31, 2022, \$32,076 has been included in general and administrative expenses related to rent with an entity owned and controlled by the CEO, director and majority shareholder of the Company (2021 - \$32,076) and as at December 31, 2022, \$8,420 was included in accounts payable and accrued liabilities (December 31, 2021 - \$nil).

During the year ended December 31, 2022, \$77,170 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 (2021 - \$88,519) and as at December 31, 2022, \$26,125 was included in accounts payable and accrued liabilities (December 31, 2021 - \$nil).

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

12. Related Party Transactions (Continued)

On December 24, 2021, 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, 2022.

On December 31, 2022, the purchase contract was amended such that the following conditions are to be satisfied by December 31, 2023, or as mutually further extended by the parties:

- 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.

13. Mortgage Payable

	<u>2022</u>	<u>2021</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	\$ 16,231,138	\$ 16,892,750
Accrued interest	<u>44,813</u>	<u>51,151</u>
	16,275,951	16,943,901
Less current portion of mortgage payable	<u>(16,275,951)</u>	<u>(16,943,901)</u>
	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2022, the minimum contractual principal payments if not demanded earlier are as follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2023	\$ 688,256
2024	709,554
2025	<u>14,833,328</u>
	<u>\$ 16,231,138</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 December 31, 2022, the Company was not in compliance with this covenant.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

14. Accounts Payable and Accrued Liabilities

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

	<u>2022</u>	<u>2021</u>
Trade payables	\$ 167,782	\$ 117,250
Accrued liabilities	40,120	55,350
Goods and Services Tax payable	<u>73,207</u>	<u>52,199</u>
	<u>\$ 281,109</u>	<u>\$ 224,799</u>

Included in accounts payable and accrued liabilities is an amount of \$90,265 (2021 - \$nil) owing to entities owned and controlled by one of the directors of the Company.

15. Overdraft Facility

The Company has a demand overdraft facility of up to \$300,000 (2021 – \$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.

16. 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, December 31, 2020, 2021 and 2022	<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.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

16. 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:

	2022		2021	
	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	-	-	-	-
Expired	-	-	-	-
Exercised	-	-	-	-
Outstanding, end of period	<u>2,955,000</u>	<u>\$ 0.09</u>	<u>2,955,000</u>	<u>\$ 0.09</u>
Exercisable, end of period	<u>2,955,000</u>	<u>\$ 0.09</u>	<u>2,955,000</u>	<u>\$ 0.09</u>

The following table summarizes information on stock options outstanding and exercisable as at December 31, 2022:

	Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
August 28, 2018	\$ 0.10	800,000	800,000	Aug 27, 2023
December 20, 2019	<u>\$ 0.08</u>	<u>2,155,000</u>	<u>2,155,000</u>	<u>Dec 19, 2024</u>

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

17. Rental Revenue

	<u>2022</u>	<u>2021</u>
Commercial tenant leases	\$ 1,461,070	\$ 1,487,725
Parking and storage	71,877	69,395
	<u>\$ 1,532,947</u>	<u>\$ 1,557,120</u>

18. Finance Costs

	<u>2022</u>	<u>2021</u>
Interest on mortgage payable	\$ 537,450	\$ 564,375
Interest on loan payable	5,794	10,956
Interest on loan payable to related party	26,334	33,507
Interest on overdraft facility	14,705	10,674
Annual fees on loans	1,500	1,500
	<u>\$ 585,783</u>	<u>\$ 621,012</u>

19. 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, 2022 of 40,039,000 (2021 - 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.

20. Net changes in Non-Cash Working Capital Items

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 71,337	\$ (65,919)
Prepaid rents	(25,081)	(440)
Accounts payable and accrued liabilities	56,310	(30,500)
	<u>\$ 102,566</u>	<u>\$ (96,859)</u>

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

21. Reconciliation of Liabilities Arising From Financing Activities

	<u>Mortgages</u>	<u>Loan Payable</u>	<u>Loan From Related Party</u>	<u>CEBA Loan</u>
Balance, January 1, 2021	\$ 17,584,925	\$ 159,041	\$ 421,167	\$ -
Repayments made	(644,904)	-	(70,167)	-
Proceeds received	-	-	-	60,000
Forgiven portion recognized	-	-	-	(20,000)
Fair value adjustment	-	-	-	(5,062)
Accrued interest	<u>3,880</u>	<u>10,956</u>	<u>7,078</u>	<u>-</u>
Balance, December 31, 2021	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	<u>\$ 16,275,951</u>	<u>\$ 75,791</u>	<u>\$ 334,912</u>	<u>\$ 37,383</u>

22. Financial Instruments

Financial instruments recognized in the statements of financial position include accounts receivable, CEBA Loan, mortgage payable, loan payable, loan payable to related party, 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.

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

22. **Financial Instruments** (Continued)

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	<u>2022</u>	<u>2021</u>
Financial Liabilities:			
Loan payable	Level 3	\$ 75,791	\$ 169,997
Loan payable to related party	Level 3	\$ 334,912	\$ 358,078
CEBA Loan	Level 3	\$ 37,383	\$ 34,938
Mortgage payable	Level 3	\$ 16,275,951	\$ 16,943,901

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 and for the year ended December 31, 2022, 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 (2021 – not significant).

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

22. **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>2022</u>	<u>2021</u>
Current	\$ 12,231	\$ 81,989
31-90 days	-	3,182
91 + days	<u>1,677</u>	<u>74</u>
	<u>\$ 13,908</u>	<u>\$ 85,245</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the year ended December 31, 2022, revenue earned from four key tenants represents 91% (2021 – 91%) of total revenues. As at December 31, 2022, there were no amounts receivable from these tenants (December 31, 2021 – 82%).

Liquidity risk

The Company's exposure to liquidity risk is dependent on generating rental revenue to sustain operations. The Company controls liquidity risk by management of working capital and cash flows. Operating cashflow remains positive and is largely dependent on occupancy and collection. During the COVID-19 pandemic, the Company has maintained high occupancy and continues to closely monitor the collection of receivables from tenants.

As at December 31, 2022, the Company's contractual obligation consists of accounts payable and accrued liabilities of \$281,109 (December 31, 2021 - \$224,799) that have a current contractual maturity. Repayment of the \$40,000 CEBA loan is required by December 31, 2023. The mortgage payable of \$16,275,951 (December 31, 2021 - \$16,943,901) is due on demand and has terms which expire in fiscal 2025 (Note 13). The loan payable of \$75,791 (December 31, 2021 - \$169,997) is due on demand. The loan payable to related party of \$334,912 (December 31, 2021 - \$358,078) has terms which expire in November 2023. The overdraft facility of \$295,148 (December 31, 2021 - \$286,958) is due on demand with revolving terms (Note 15).

23. **Deposit**

As at December 31, 2022 and 2021, 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 12).

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

24. 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:

	<u>2022</u>	<u>2021</u>
Mortgage payable	\$ 16,275,951	\$ 16,943,901
Loan payable	75,791	169,997
Loan payable to related party	334,912	358,078
CEBA Loan	37,383	34,938
Overdraft facility	295,148	286,958
Equity	<u>3,718,942</u>	<u>3,839,468</u>
	<u>\$ 20,738,127</u>	<u>\$ 21,633,340</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.

25. Segment Information

Management has determined that the Company has one reportable segment that being the rental of commercial real estate properties located in Canada. All the properties are located in one region, Edmonton.

26. Subsequent Events

On January 16, 2023, the Company granted 1,048,900 common share purchase options to directors, officers and consultants 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.

On February 4, 2023, the Company and the lender amended the loan payable so that the maturity date is no longer February 10, 2023 and the loan payable is due on demand.