



# REGENT PACIFIC PROPERTIES

## Management's Discussion and Analysis ("MD&A")

The following management discussion and analysis as of November 26, 2024 is provided to enhance the reader's understanding of, and should be read in conjunction with, Regent Pacific Properties Inc.'s (the "Company") annual audited consolidated financial statements for the years ended December 31, 2023 and 2022, and accompanying notes thereto (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2024, and accompanying notes thereto (the "Interim Financial Statements"). All dollar amounts are expressed in Canadian funds unless otherwise stated. The Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB"). The Interim Financial Statements are prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* as issued by the IASB.

Unless indicated otherwise, reference herein to Q3 2024 and Q3 2023 refers to the three-month periods ended September 30, 2024 and 2023, respectively.

Additional information relating to the Company, including the Annual Financial Statements and Interim Financial Statements, are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

### Core Business

The Company is a real estate development and investment company with a portfolio consisting of:

- a premiere 72,675 sq. ft. three-story commercial office tower and attached single-story bays with underground parking facility ("Cassel Centre") located in Edmonton, Alberta; and
- two (2) residential condominium units located in Edmonton, Alberta.

### Objectives and Strategy

The Company seeks to expand its portfolio of high-quality, income producing properties.

## Overall Performance

As at September 30, 2024, Cassel Centre had fixed-term leases for approximately 95% of its rentable area with lease terms remaining of between approximately one (1) and ten (10) years.

The Company ranks and classifies its tenants based on criteria including but not limited to:

- **Credit Rating:** Tenants are evaluated based on their credit ratings provided by recognized credit rating agencies.
- **Lease Term and Stability:** The length of the lease term and the stability of the tenant's business are considered.
- **Industry and Business Profile:** The nature of the tenant's business, industry trends, and market positioning.
- **Historical Payment Performance:** The Company reviews the tenant's historical payment performance to gauge their reliability in meeting lease obligations.

Based on these criteria, the Company classifies its tenants into different categories to manage risk and optimize the overall quality of its tenant portfolio. This classification assists the Company in making informed decisions regarding lease negotiations, property management, and portfolio diversification strategies.

During the nine months ended September 30, 2024, the Company obtained a new term loan facility of \$40,000 to facilitate the repayment of the CEBA loan and obtain the loan forgiveness (see "Liquidity and Capital Resources" section below for additional details).

On February 28, 2024, the Company obtained a new term loan facility of \$450,000, with \$200,000 for tenant improvements and \$250,000 to retire the majority of the overdraft facility (see "Liquidity and Capital Resources" section below for additional details).

On March 27, 2024, the Company acquired, subject to TSX Venture Exchange acceptance, one (1) additional residential condominium unit located in Edmonton, Alberta ("237 Griesbach") for a purchase price of \$205,000 from 1784338 Alberta Ltd. (see "Related Party Transactions" section below for additional details). The purchase was funded with the use of \$61,508 of the Company's deposit (see "Related Party Transactions" section below for additional details) together with a mortgage of \$143,500 (see "Liquidity and Capital Resources" section below for additional details).

On July 22, 2024, the Company granted 600,000 stock options to the directors of the Company. Of these stock options, 300,000 stock options have an exercise price of \$0.08 per common share and 300,000 stock options have an exercise price of \$0.15 per common share. All stock options vested immediately upon grant and expire on June 27, 2029, subject to any earlier termination in accordance with the terms of the Company's stock option plan.

On November 18, 2024, the Company entered into agreements to acquire two (2) residential condominium units located in Edmonton, Alberta, from a company indirectly majority owned by Eddie Yu, the CEO, director and majority shareholder of the Company. The acquisitions, expected to close on November 30, 2024, are subject to TSX Venture Exchange acceptance. The total aggregate purchase price of \$499,000 will be funded using \$178,000 of the Company's deposit together with mortgages totaling \$321,000.

## Restatement

During the nine months ended September 30, 2024, the Company clarified the demandable terms of its mortgages payable with the lender. As a result, the mortgages payable as at December 31, 2023, should have been presented as current liabilities. The following table summarises the impact on the Company's interim condensed consolidated statements of financial position. There was no impact to the Company's interim condensed consolidated statements of comprehensive income and no impact to the classification of the mortgages payable as at January 1, 2023.

As at December 31, 2023	As Previously Reported	Adjustments	As Restated
<b>LIABILITIES</b>			
<b>Non-current Liabilities</b>			
Mortgages payable	\$ 15,188,617	\$ (15,188,617)	\$ -
<b>Current Liabilities</b>			
Mortgages payable – current portion	\$ 751,567	\$ 15,188,617	\$ 15,940,184

## Going Concern

The Interim Financial Statements have been prepared in accordance with IFRSs 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, 2024, the Company reported current liabilities in excess of current assets of \$16,590,569 (December 31, 2023 - \$17,038,549, Restated – see “Restatement” section above for additional details), of which \$16,024,925 is due to the Company's mortgages payable and loans payable, which are due in accordance with their repayment terms unless demanded earlier by the lender, Servus Credit Union (“Servus”) (see “Liquidity and Capital Resources” section below for additional details). In addition, the Company had an accumulated deficit of \$446,214 (December 31, 2023 - \$658,281). The Company expects to manage this through the collection of rental income from its committed and non-cancellable leases with tenants. The Company's ability

to continue as a going concern is dependent on generating a profit from operations, and obtaining additional financing as required.

The Interim 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.

## Selected Annual Information (in accordance with IFRS)

Years ended December 31,	2023 Restated <sup>(1)</sup>	2022	2021
Total Assets	\$ 23,117,340	\$ 22,881,278	\$ 23,655,985
Total Current Liabilities	\$ 17,062,200 <sup>(2)</sup>	\$ 17,336,797 <sup>(3)</sup>	\$ 18,028,618 <sup>(4)</sup>
Total Long-term Liabilities	\$ 1,969,532	\$ 1,825,539	\$ 1,787,899
Total Liabilities	\$ 19,031,732	\$ 19,162,336	\$ 19,816,517
Revenue	\$ 2,258,037	\$ 2,460,852	\$ 2,455,030
Expenses	\$ (1,180,808)	\$ (1,225,303)	\$ (1,197,418)
Deferred Income Tax Expense	\$ (122,043)	\$ (89,277)	\$ (59,911)
Fair Value Adjustment on Investment Properties	\$ (29,684)	\$ (678,832)	\$ (1,198,893)
Other Expenses	\$ (574,571)	\$ (587,966)	\$ (534,597)
Net Income (Loss)	\$ 350,931	\$ (120,526)	\$ (535,789)
Number of Shares Outstanding	40,039,000	40,039,000	40,039,000
Income (Loss) per Share	\$ 0.009	\$ (0.003)	\$ (0.013)
Diluted Income (Loss) per Share	\$ 0.009	\$ (0.003)	\$ (0.013)

**Notes:**

- (1) See "Restatement" section above for additional details.
- (2) 2023 Total Current Liabilities included a \$15,940,184 mortgage payable with a five (5) year term; due on demand, if requested.
- (3) 2022 Total Current Liabilities included a \$16,275,951 mortgage payable with a five (5) year term; due on demand, if requested.
- (4) 2021 Total Current Liabilities included a \$16,943,901 mortgage payable with a five (5) year term; due on demand, if requested.

## Selected Quarterly Information (in accordance with IFRS)

Three and nine months ended September 30,	Three months		Nine months	
	2024	2023	2024	2023
	\$	\$	\$	\$
Net rental income	316,397	359,466	996,597	993,205
Net and comprehensive income	103,657	175,384	212,067	398,115
Net income per share (basic and diluted)	0.00	0.00	0.01	0.01
Cash provided by operating activities	412,120	395,019	1,010,377	829,775
Cash used in financing activities	(313,709)	(391,445)	(396,120)	(832,472)
Cash used in investing activities	(65,175)	-	(331,607)	-
Total assets	23,297,055	22,919,025	23,297,055	22,919,025
Total non-current liabilities	2,378,448	1,825,539	2,378,448	1,825,539
Weighted average number of common shares outstanding	40,039,000	40,039,000	40,039,000	40,039,000

## Discussion of Operations and Financial Condition:

### Revenue

Total revenue and operating cost recoveries increased to \$608,789 in Q3 2024 as compared to \$561,669 in Q3 2023, an increase of \$47,120 or 8.4%, and increased to \$1,825,260 during the nine months ended September 30, 2024 as compared to \$1,687,308 in the same period in 2023, an increase of \$137,952 or 8.2%.

Q3 2024 revenue was comprised of \$364,266 of commercial rental income from Cassel Centre and \$10,875 of residential rental income from the residential condominium units (2023 - \$332,294 and \$Nil, respectively). Q3 2024 operating cost recovery was \$233,648 from the tenants of Cassel Centre (2023 - \$211,600).

Revenue during the nine months ended September 30, 2024 was comprised of \$1,096,316 of commercial rental income from Cassel Centre and \$27,900 of residential rental income from the residential condominium units (2023 - \$996,883 and \$Nil, respectively). The operating cost recovery was \$701,044 from the tenants of Cassel Centre (2023 - \$634,800).

These increases were due primarily to a lease with a new tenant of the commercial investment property together with new residential leases from the recent residential investment property acquisitions.

## **Expenses**

Overall expenses for Q3 2024 were \$357,169, an increase of \$113,642 or 46.7% as compared to \$243,527 in Q3 2023. Overall expenses for the nine months ended September 30, 2024 were \$989,994, an increase of \$123,954 or 14.3% as compared to \$866,040 in the same period in 2023. Expenses include direct operating expenses, general and administrative expenses, share-based compensation and depreciation.

During Q3 2024, direct operating costs increased by \$90,189 or 44.6% to \$292,392 as compared to \$202,203 in Q3 2023. During the nine months ended September 30, 2024, direct operating costs increased by \$134,560 or 19.4% to \$828,663 as compared to \$694,103 during the same period in 2023. These increases were largely due to increases in property taxes, costs incurred for repairs and maintenance and to prepare units for tenant improvements, together with the amortization of tenant improvement incentives and sales commissions, which are capitalized in accordance with IFRS.

General and administrative expenses during Q3 2024 were \$51,394 as compared to \$39,470 in Q3 2023, an increase of \$11,924 or 30.2%. During the nine months ended September 30, 2024, general and administrative expenses were \$146,667 as compared to \$153,000 in the same period in 2023, a decrease of \$6,333 or 4.1%. Overall, general and administrative expenses did not change significantly during the nine months ended September 30, 2024, as compared to 2023. Changes between the quarters reflect changes in the timing of when costs have been incurred.

Share-based compensation was \$11,618 in the three and nine months ended September 30, 2024 (2023 - \$Nil and \$15,735, respectively) and arises from the grant, on July 22, 2024, of 600,000 stock options to directors of the Company (see "Share Structure" section below for additional details).

Amortization expense was not significant during the three and nine months ended September 30, 2024 and 2023.

## **Other Income (Expenses)**

Other income (expenses) is composed of interest income, fair value adjustment on CEBA loan and finance costs.

Interest income and fair value adjustment on CEBA loan were not significant during the three and nine months ended September 30, 2024 and 2023.

Finance costs increased in Q3 2024 to \$144,937 as compared to \$144,502 in Q3 2023, an increase of \$435 or 0.3%, and increased to \$461,961 during the nine months ended September 30, 2024

as compared to \$428,441 in the same period in 2023, an increase of \$33,520 or 7.8%. These increases were largely due to:

- an increase from the addition of new mortgages payable obtained in connection with the purchase of the two (2) residential condominium units with an aggregate total carrying value of \$321,487 at September 30, 2024;
- \$5,000 of additional interest paid, during the nine months ended September 30, 2024, on a loan payable; and
- a loan guarantee fee of \$25,000, during the nine months ended September 30, 2024, payable to Eddie Yu as compensation for his personal guarantee on a portion of the Company's loans payable, mortgages payable and overdraft facility;

### **Fair value adjustment on Investment Properties**

The Company's investment properties are measured using the fair value model. The investment properties are 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 annually, at December 31<sup>st</sup>, 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 for the commercial investment property and using the direct comparison approach for the residential investment property. Management estimates that there has been no change on the valuation of the investment properties since December 31, 2023 and March 27, 2024, the purchase date of 237 Griesbach. The Company recorded a fair value reduction on its investment properties totaling during the three and nine months ended September 30, 2024 of \$3,776 and \$162,741, respectively (2023 – an increase of \$2,408 and \$7,225, respectively).

## Summary of Quarterly Results (in accordance with IFRS)

	Sep 30, 2024 \$	Jun 30, 2024 \$	Mar 31, 2024 \$	Dec 31, 2023 \$	Sep 30, 2023 \$	Jun 30, 2023 \$	Mar 31, 2023 \$	Dec 31, 2022 \$
Revenues	<b>608,789</b>	610,159	606,312	570,729	561,669	561,945	563,694	586,954
Expenses	<b>(357,169)</b>	(345,129)	(287,696)	(314,768)	(243,527)	(311,124)	(311,389)	(304,417)
Deferred Income Tax Expense	-	-	-	(122,043)	-	-	-	(89,277)
Fair Value Adjustment on Investment Properties	<b>(3,776)</b>	(17,603)	(141,362)	(36,909)	2,408	2,409	2,408	(725,390)
Other Expenses	<b>(144,187)</b>	(174,863)	(141,408)	(144,193)	(145,166)	(142,909)	(142,303)	(135,094)
Net Income (Loss)	<b>103,657</b>	72,564	35,846	(47,184)	175,384	110,321	112,410	(667,224)
Income (Loss) per Share	<b>0.00</b>	0.00	0.00	(0.00)	0.00	0.00	0.00	(0.02)
Fully Diluted Income (Loss) per Share	<b>0.00</b>	0.00	0.00	(0.00)	0.00	0.00	0.00	(0.02)

During the quarter ended December 31, 2022, the Company incurred a fair value write down on its commercial investment property of approximately \$725,000 due to the decline in rental revenue.

### Liquidity and Capital Resources

As at September 30, 2024, the Company had bank indebtedness of \$19,476 (December 31, 2023 - \$302,126) through its overdraft facility and a working capital deficiency of \$16,590,569 (December 31, 2023 - \$17,038,549, Restated – see “Restatement” section above for additional details). Working capital is calculated as current assets less current liabilities. See “Going Concern” section above for additional details on working capital.

The Company wishes to highlight the distinct terms of the mortgages and loans payable with Servus. Unlike traditional bank mortgage agreements, Servus’ loan agreements include a specific provision stating that the borrower shall repay all loans on demand, if requested. Prior to demand by Servus, the loans are payable in accordance with their stated repayment schedules. Pursuant to IFRS, this provision requires the Company to present the full amount of its mortgages and loans payable with Servus as current liabilities on its interim condensed consolidated statements of financial position. Absent this provision, these liabilities could be presented based

on their repayment schedules, allowing a portion to be presented as non-current liabilities. To date, Servus has never issued a demand for repayment nor indicated any intent to do so. Since the inception of the relationship with Servus in 2012, the Company has consistently met all repayment obligations under its loan agreements with Servus and expects to continue to repay these liabilities according to their stated repayment schedules and renew them, as needed, at the end of their respective terms. However, there can be no assurance that Servus will not issue a demand in the future and that the mortgages and loans payable will be renewed with similar terms.

As at September 30, 2024, the following liabilities are subject to financial covenants:

- the \$15,231,805 commercial mortgage payable (December 31, 2023 - \$15,759,526);
- the \$19,476 bank overdraft facility (December 31, 2023 - \$302,126);
- a loan payable of \$36,021 (December 31, 2023 - \$Nil); and
- a loan payable of \$435,612 (December 31, 2023 - \$Nil).

The financial covenants include a debt service coverage ratio covenant (the “DSCR Covenant”) of no less than 1:20:1 based on the operations of the commercial investment property and a debt to equity ratio (the “DE Covenant”) not to exceed 3:00:1 based on the long-term liabilities and shareholder’s equity of Cassel Centre Ltd. As at September 30, 2024, the Company was not in compliance with the financial covenants. Servus is aware that the Company is not in compliance with the financial covenants and has never taken any action and has agreed not to demand repayment as a consequence of the covenant breach. The Company has shown consistent positive cash flow from operations and has a history of making all scheduled payments in full and on time, in accordance with the respective agreements. The breach of the financial covenants is primarily due to: (1) the shorter amortization period of the commercial mortgage payable, with approximately 17 years remaining, together with (2) recent vacancies in the commercial investment property. To address the shorter amortization period, the Company has been advised by Servus that it has pre-approved the extension of the amortization period to 25 years, subject to certain conditions, when the commercial mortgage payable term comes up for renewal in August 2025. To address the vacancies, the Company has been working to secure new tenants and renegotiate existing leases to improve its rental income. During 2024, the Company signed leases with new tenants, which resulted in an increase in its rental revenue.

Net cash from operations during the three and nine months ended September 30 2024 was \$412,120 and \$1,010,377, respectively (2023 - \$395,019 and \$829,775, respectively).

Cash used in financing activities during the three and nine months ended September 30, 2024 was \$313,709 and \$396,120, respectively (2023 - \$391,445 and \$832,472, respectively) and largely consisted of:

- scheduled repayments of principal on the mortgages payable of \$177,286 and \$527,911, respectively (2023 - \$170,262 and \$341,942, respectively);
- repayment of the CEBA loan of \$Nil and \$40,000, respectively (2023 - \$Nil);

- interest payments of \$176,055 and \$445,842, respectively (2023 - \$131,089 and \$470,436, respectively);
- proceeds from a new residential mortgage payable of \$Nil and \$143,500, respectively (2023 - \$Nil);
- proceeds from new loans payable of \$48,487 and \$490,000, respectively (2023 - \$Nil), which were used to repay the CEBA loan, finance tenant improvements and retire the majority of the overdraft facility, which bears interest at a higher rate;
- advances from a related party of \$1,500 and \$2,500, respectively (2023 - \$6,500 and \$146,500, respectively); and
- repayments to a related party of \$Nil (2023 - \$96,594 and \$166,597, respectively).

Cash used in investing activities during the three and nine months ended September 30, 2024 was \$65,175 and \$331,607, respectively (2023 - \$Nil) and included \$143,492 for the acquisition of 237 Griesbach, \$143,940 of additions to the commercial investment property for direct leasing costs and \$44,175 of additions to furniture and fixtures.

The Company expects to manage its working capital deficiency through a combination of cash flow generated from its operating activities, including the collection of rent from its committed and non-cancellable leases with tenants, or additional financing, as necessary. There is no guarantee that additional financing will be available to the Company, and if available, may not be on terms that are favourable or acceptable to the Company.

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. During the nine months ended September 30, 2024, the Company obtained a new term loan facility of \$40,000 to facilitate the payout of the CEBA loan and obtained the \$20,000 loan forgiveness. The new term loan facility bears interest at a rate of 7.10% per annum, is due on demand if requested and repayable in monthly blended instalments of \$795 over a five (5) year period, and is secured by a personal guarantee of \$4,000,000 provided by Eddie Yu, which includes the loans payable, commercial mortgage payable and overdraft facility. The Company may prepay the balance at any time without penalty.

As at September 30, 2024, the minimum contractual principal payments on the loan payable if not demanded earlier are as follows:

<u>Year ended September 30,</u>	<u>Amount</u>
2025	\$ 7,215
2026	7,744
2027	8,312
2028	8,921
2029	<u>3,829</u>
	<u>\$ 36,021</u>

As at September 30, 2024, the Company had a loan payable to related party of \$362,158 (December 31, 2023 - \$341,058). The loan is payable to Cassel Properties Ltd. and is unsecured, bears interest at a rate of 8% per annum and matures on November 10, 2025. The Company will seek to extend the loan before the maturity date and expects to repay the loan over time using cash generated from operations or additional financing, as necessary. There is no guarantee that additional financing will be available to the Company, and if available, may not be on terms that are favourable or acceptable to the Company.

As at September 30, 2024, the Company had mortgages payable of \$15,553,292 (December 31, 2023 - \$15,940,184). The mortgages payable are composed of:

- A commercial mortgage payable, due on demand if requested, with monthly blended instalments of \$100,450, bearing interest at 3.25% per annum, and with a term expiring on August 1, 2025. The mortgage payable is secured by the commercial investment property which has a carrying value of \$21,600,000 as at September 30, 2024 (December 31, 2023 - \$21,600,000), general assignment of rent, a general security agreement and a personal guarantee of \$4,000,000 provided by Eddie Yu, which includes the commercial mortgage payable, overdraft facility and loans payable. The mortgage payable is subject to the DSCR Covenant and DE Covenant and the Company is not in compliance with the financial covenants (see discussion above). The Company expects to repay the mortgage instalments over the term with cash generated from its operations and will seek to renew the mortgage at the end of its term.
- A residential mortgage payable, due on demand if requested, with monthly blended instalments of \$1,330, interest at prime plus 0.30% per annum, with a term expiring on November 24, 2028, and secured by the residential investment property with a carrying amount of \$351,000 as at September 30, 2024 (December 31, 2023 - \$351,000), general assignment of rent, a general security agreement and a personal guarantee of \$600,000 provided by Eddie Yu (subsequently amended to an unlimited amount, see paragraphs below), which includes both residential mortgages payable. The Company expects to repay the mortgage instalments over the term with cash generated from its operations and will seek to renew the mortgage at the end of its term.

- A residential mortgage payable, due on demand if requested, with monthly blended instalments of \$950, interest at 6.25% per annum, with a term expiring on March 27, 2029, and secured by the residential investment property with a carrying amount of \$205,000 as at September 30, 2024 (December 31, 2023 - \$Nil), general assignment of rent, a general security agreement and a personal guarantee of \$600,000 provided by Eddie Yu (subsequently amended to an unlimited amount, see paragraphs below), which includes both residential mortgages payable. The Company expects to repay the mortgage instalments over the term with cash generated from its operations and will seek to renew the mortgage at the end of its term.

As at September 30, 2024, the minimum contractual principal payments on the mortgages payable if not demanded earlier are as follows:

<u>Year ended September 30,</u>	<u>Amount</u>
2025	\$ 15,198,758
2026	8,074
2027	8,564
2028	9,146
2029	<u>286,451</u>
	<u>\$ 15,510,993</u>

On February 28, 2024, the Company obtained a new term loan facility of \$450,000, with \$200,000 for tenant improvements and \$250,000 to retire the majority of the overdraft facility, which bears interest at a higher rate equal to the financial institution's Prime Lending Rate plus 1.50%. As at September 30, 2024, the Company has drawn down on \$450,000 of the loan. The term loan facility is due on demand if requested and payable in monthly instalments of \$5,250, bears interest at a fixed rate of 7.10% per annum, is amortized over 10 years, has a term of 60 months and is secured by a personal guarantee of \$4,000,000 provided by Eddie Yu, which includes the loans payable, commercial mortgage payable and overdraft facility. The Company expects to repay the loan instalments over the term with cash generated from its operations and will seek to renew the loan at the end of its term.

As at September 30, 2024, the minimum contractual principal payments on the loan payable if not demanded earlier are as follows:

<u>Year ended September 30,</u>	<u>Amount</u>
2025	\$ 33,121
2026	35,566
2027	38,175
2028	40,975
2029	<u>287,775</u>
	<u>\$ 435,612</u>

On November 18, 2024, the Company entered into agreements to acquire 125 Griesbach and 238 Griesbach, from a company indirectly majority owned by Eddie Yu. The acquisitions, expected to close on November 30, 2024, are subject to TSX Venture Exchange acceptance. The total aggregate purchase price of \$499,000 will be funded using \$178,000 of the Company's deposit together with mortgages totaling \$321,000. The details of the mortgages include:

- 125 Griesbach was funded with a mortgage payable with a principal amount of \$173,000, payable in monthly blended instalments of \$1,050, bearing interest at a fixed rate of 5.30% per annum, amortized over 25 years, having a term of 60 months and which is secured by the residential investment property, general assignment of rent, a general security agreement and an unlimited personal guarantee provided by the CEO, director and majority shareholder of the Company; and
- 238 Griesbach was funded with a mortgage payable with a principal amount of \$148,000, payable in monthly blended instalments of \$900, bearing interest at a fixed rate of 5.30% per annum, amortized over 25 years, having a term of 60 months and which is secured by the residential investment property, general assignment of rent, a general security agreement and an unlimited personal guarantee provided by the CEO, director and majority shareholder of the Company.

In addition, on November 18, 2024, the Company and Servus amended the 333 Griesbach and 237 Griesbach residential mortgages payable security, such that the personal guarantee provided by Eddie Yu was increased from \$600,000 to an unlimited amount.

Capital expenditures are generally funded by cash on hand, and/or cash provided by operating activities, or by obtaining new financing. It is the Company's objective to maintain its properties at a high level, consequently, capital expenditures may be regularly required, however the timing of such expenditures is often discretionary and may be deferred, for example with a repair rather than replacement. The Company added \$44,175 in furniture and fixtures during the three and

nine months ended September 30, 2024. There were no capital expenditures in the same period in 2023.

From time to time the Company anticipates incurring direct leasing costs and/or tenant improvement allowances related to acquiring new tenants or maintaining existing tenants. For example, there may be direct leasing costs and/or tenant improvement allowances incurred as a result of securing a new lease or acquiring a new tenant. During the three and nine months ended September 30, 2024, the Company incurred \$Nil and \$69,000, respectively, in tenant improvement allowance costs (2023 - \$Nil) and \$21,000 and \$74,940, respectively, in direct leasing costs (2023 - \$Nil).

Another significant use of cash could be the acquisition of or investment in new properties. During the nine months ended September 30, 2024, the Company acquired, subject to TSX Venture Exchange acceptance, 237 Griesbach for a purchase price of \$205,000 from 1784338 Alberta Ltd. (see “Related Party Transactions” section below for additional details). The purchase was funded with the use of \$61,508 of the Company’s deposit (see “Related Party Transactions” section below for additional details) together with a mortgage of \$143,500, see details in paragraphs above. The Company is actively and continuously seeking new investment opportunities and as at September 30, 2024 maintains a deposit of \$1,070,395 (December 31, 2023 - \$1,131,903) with 1784338 Alberta Ltd. (see “Related Party Transactions” section below for additional details), which can be used towards the purchase of eight (8) (December 31, 2023 – nine (9)) additional condominium units in Edmonton, Alberta.

On November 18, 2024, the Company entered into agreements to acquire an additional two (2) residential investment properties, 125 Griesbach and 238 Griesbach (see “Overall Performance” section above and other paragraphs above for additional details), and subsequent to the expected closing of the acquisitions on November 30, 2024, the Company will have a remaining deposit of \$892,395, which can be applied towards the purchase of an additional six (6) condominium units in Edmonton, Alberta.

## **Risk and Uncertainty**

The Company is exposed to a variety of business and other risks and uncertainties including the following:

### **Economic Risk**

The performance of real estate investments is impacted by local market conditions, which in turn can be affected by national or global economic conditions. Economic trends can also be exacerbated in smaller markets, resulting in greater risk. The Company mitigates economic risk by focusing on larger markets, maintaining tenants from various industries, and maintaining high quality properties.

### **Fair value Risk**

Real estate markets are in a constant state of flux and prices and values can vary in a short timeframe due to such factors as economic conditions, the general desirability of real estate investments, the number and nature of potential purchasers in the market, the availability of comparable investment opportunities, the motivation of vendors, the availability and cost of financing, etc. Changes in fair value will result in gains or losses in earnings being recorded in the financial statements, although these would be non-cash gains or losses until such time as a property is sold. Upon sale, there is a risk that the Company may realize sale proceeds of less, or even significantly less, than the fair value recorded in its real estate investments. In addition, transaction costs are not included in the fair value of investment properties which will reduce fair value gain (or increase the loss) on disposal of investment properties. Lower property value may also make refinancing of maturing mortgages more difficult, although with low leverage, this is less likely to occur.

### **Tenant Terminations and Financial Stability**

The Company's revenues would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the Company's properties were not able to be leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Company than the existing lease.

In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the Company's investment may be incurred. Furthermore, at any time, a tenant of any of the Company's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the Company. The ability to rent unleased space in the properties in which the Company will have an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property required by a new tenant. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the Company's financial condition.

### **Credit 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. Tenant default can occur because of economic conditions or tenant specific circumstances. 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:

	<b>September</b>	December
	<b><u>30, 2024</u></b>	<u>31, 2023</u>
Current	\$ <b>8,483</b>	\$ 17,498
31-90 days	<b>7,746</b>	-
91 + days	<b><u>2,516</u></b>	<u>6,153</u>
	<b><u>\$ 18,745</u></b>	<b><u>\$ 23,651</u></b>

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, 2024, revenue earned from three (3) (2023 - three (3)) key tenants represents approximately 81% (2023 – 91%), of total revenues. As at September 30, 2024, there were no amounts receivable from these key tenants (December 31, 2023 – 21% of total accounts receivable).

### **Interest Rate Risk**

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 commercial mortgage payable, a residential mortgage payable with a carrying value of \$143,231, loan payable to related party and loans payable, that bear fixed interest rates. 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. In addition, the Company’s overdraft facility and a residential mortgage payable with a carrying value of \$178,256, bear interest at variable rates and for the three and nine months ended September 30, 2024, 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 (2023 – not significant).

### **Financing Risk**

There is the risk that the Company will be unable to obtain satisfactory financing when required, particularly to refinance maturing debt. This risk is mitigated by actively managing the Company’s capacity to service debt, and by maintaining good borrowing relations with sound lenders.

## **Environmental Risk**

Environmental liability is a risk for any owner in the real-estate industry, and primarily stems from the possibility of inheriting an existing unknown liability through the acquisition of a property or from environmental liability caused by a tenant. The Company manages the former risk by obtaining professional environmental assessments of potential acquisition properties as a condition of acquisition, which assessments, among other things, investigate the historical use and current condition of the property. The risk of potential environmental liability caused by a tenant is mitigated by screening tenants, by obliging tenants to be responsible for any environmental contamination or other issues caused by them, and by monitoring properties for any apparent environmental threats.

## **Property Loss Risk**

The Company contracts with an insurance agency that specializes in commercial insurance. Insurance coverage is reviewed annually for each property.

## **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, 2024, the Company's contractual obligations consists of accounts payable and accrued liabilities of \$427,329 (December 31, 2023 - \$430,201) that have a current contractual maturity. The commercial mortgage payable, including accrued interest, of \$15,231,805 (December 31, 2023 - \$15,759,526) is demandable and has terms which expire in fiscal 2025 and the residential mortgages payable, including accrued interest, of \$321,487 (December 31, 2023 - \$180,658) are demandable and have terms which expire in fiscal 2028 and 2029. The loans payable of \$471,633 (2023 - \$Nil) are demandable and have terms which expire in fiscal 2029. The loan payable to related party of \$362,158 (December 31, 2023 - \$341,058) has terms which expire in November 2025. The overdraft facility of \$19,476 (December 31, 2023 - \$302,126) is due on demand, if requested, with revolving terms.

## **Government Regulation**

The Company currently has an interest in a property located in the province of Alberta. The nature of real estate construction and operation is such that refurbishment and structural repairs are required periodically, in addition to regular ongoing maintenance. In addition, legislation relating to, among other things, environmental and fire safety standards is continually evolving, and

changes thereto may give rise to ongoing financial and other obligations of the Company, the costs of which may not be fully recoverable from tenants.

### **Dependence on Key Personnel**

The Company will depend on the good faith, experience and judgment of the directors and officers of the Company to manage the business and affairs of the Company. The management of the Company depends on the services of certain key personnel, including in particular Eddie Yu, as Chief Executive Officer. There can be no assurance that the Company will be able to retain its existing key personnel, attract qualified executives or adequately fill new or replace existing senior management positions or vacancies created by expansion, turnover or otherwise. The loss of the services of any one or more of the Company's key personnel or the inability to retain, attract or fill any such personnel or positions or vacancies could have an adverse effect on the Company.

### **Failure or Unavailability of Computer and Data Processing Systems and Software**

The Company is dependent upon the successful and uninterrupted functioning of its computer and data processing systems and software. The failure or unavailability of these systems could interrupt operations or materially impact the Company's ability to collect revenues and make payments. If sustained or repeated, a system failure or loss of data could negatively and materially adversely affect the ability of the Company to discharge its duties and the impact on the Company may be material.

### **Cyber Security Risk**

Cyber security is an increasingly important aspect of business operations. A cyber-attack is an intentional attack which can include gaining unauthored access to information systems to disrupt business operations, corrupt data or steal confidential information. Such an attack could compromise the Company, its employees and tenants' confidential information and may result in negative consequences, including remediation costs, loss of revenue, data corruption, additional regulatory scrutiny, litigations and reputational damages. As a result, the Company has implemented controls to help mitigate cyber security risks but these measures do not guarantee that a cyber attack will not occur or may not be successful due to the ever changing and increased sophistication of these types of attacks.

### **Litigation Risks**

The Company may, from time to time, become involved in legal proceedings in the course of its business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. The unfavorable resolution of any legal proceedings

could have an adverse effect on the Company and its financial position and results of operations that could be material.

## **Financial Instruments and Other Instruments**

Financial instruments of the Company include accounts receivable, CEBA Loan, mortgages payable, loans 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 year.

The fair values 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 mortgages payable are determined using the current market interest rates as discount rates, the net present value of principal balances and future cash flows over the terms of the mortgages.
- The fair value of the CEBA Loan, loans 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.

	<u>Fair Value Hierarchy</u>	<u>Fair value September 30, 2024</u>	<u>Fair value December 31, 2023</u>
<b>Financial Liabilities:</b>			
Mortgages payable	Level 2	\$ 15,068,273	\$ 15,940,184
Loans payable	Level 3	\$ 471,633	\$ -
Loan payable to related party	Level 3	\$ 362,158	\$ 341,058
CEBA Loan	Level 3	\$ -	\$ 40,000

## Off – Balance Sheet Arrangements

As at September 30, 2024, the Company did not enter into any off-balance sheet arrangements.

## Contingencies

Management of the Company is aware of no contingent liabilities as at September 30, 2024.

## Share Structure

As at September 30, 2024, the Company has 40,039,000 common shares outstanding and 2,922,066 stock options exercisable and outstanding with a weighted average exercise price of \$0.08 per common share.

The following table summarizes information on the stock options outstanding and exercisable as at September 30, 2024:

	<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry Date</u>
December 20, 2019	\$ 0.08	1,336,100	1,336,100	Dec 19, 2024
January 16, 2023	\$ 0.07	985,966	986,966	Jan 15, 2028
July 22, 2024	\$ 0.08	300,000	300,000	Jun 27, 2028
July 22, 2024	<u>\$ 0.15</u>	<u>300,000</u>	<u>300,000</u>	<u>Jun 27, 2028</u>
	<u>\$ 0.08</u>	<u>2,922,066</u>	<u>2,922,066</u>	

As at the date of this MD&A, the Company has common shares issued and outstanding of 40,039,000 and fully diluted common share capital of 42,961,066.

## Transactions with Related Parties

Key management of the Company includes the Chief Executive Officer (“CEO”) (Eddie Yu) and Interim Chief Financial Officer (“CFO”) (William Harper) and the directors of the Company (Eddie Yu, Ted Power, and David Tam).

Related party transactions not disclosed elsewhere in this MD&A:

During the three and nine months ended September 30, 2024, the Company incurred \$4,200 and \$14,555, respectively, in consulting fees due to William Harper (2023 - \$3,150 and \$10,967, respectively). As at September 30, 2024, \$3,000 was included in accounts payable and accrued liabilities as owing to William Harper (December 31, 2023 - \$5,000).

During the three and nine months ended September 30, 2024, the Company charged a total of \$51,929 and \$155,786, respectively, to Cassel Properties Ltd., an entity owned and controlled by Eddie Yu, for recovery of operating expenses (2023 - \$51,442 and \$154,326, respectively).

During the three and nine months ended September 30, 2024, the Company received rental income, before straight-line adjustments, of \$77,040 and \$230,820, respectively, from Cassel Properties Ltd. (2023 - \$86,640 and \$259,920, respectively) and as at September 30, 2024, \$112,752 was included in prepaid rent for rent paid in advance and rental deposits (December 31, 2023 - \$19,928).

During the three and nine months ended September 30, 2024, \$Nil and \$83,880, respectively, was paid to Cassel Properties Ltd. for direct leasing costs (2023 - \$Nil).

During the three and nine months ended September 30, 2024, the Company incurred interest expense of \$6,262 and \$18,600, respectively, to Cassel Properties Ltd. (2023 - \$7,626 and \$20,011, respectively) in connection with the outstanding balance on the loan payable to related party.

During the three and nine months ended September 30, 2024, \$327 has been included in general and administrative expenses related to fees with Parlee McLaws LLP, a law firm where David Tam, one of the directors of the Company, is a partner (2023 - \$Nil and \$14,339, respectively). As at September 30, 2024, \$123 was included in accounts payable and accrued liabilities as owing to Parlee McLaws LLP (December 31, 2023 - \$2,666).

During the three and nine months ended September 30, 2024, \$18,626 and \$55,877, respectively, has been included in general and administrative expenses related to administration fees with Cassel Properties Ltd. (2023 - \$18,626 and \$55,877, respectively).

During the three and nine months ended September 30, 2024, \$8,019 and \$24,057, respectively, has been included in general and administrative expenses related to rent with Cassel Properties Ltd. (2023 - \$8,019 and \$24,057, respectively).

During the three and nine months ended September 30, 2024, \$18,387 and \$51,779, respectively, has been included in direct operating costs related to property management fees with Cassel Properties Ltd. (2023 - \$17,624 and \$52,987, respectively).

During the three and nine months ended September 30, 2024, the Company incurred \$11,618 in share-based compensation expense for directors and key management (2023 - \$Nil and \$14,791, respectively).

During the three and nine months ended September 30, 2024, \$Nil and \$25,000, respectively, has been included in finance costs related to a loan guarantee fee payable to Eddie Yu (2023 - \$Nil). As at September 30, 2024, \$25,000 remains unpaid and was included in accounts payable and accrued liabilities.

As at September 30, 2024, \$Nil (December 31, 2023 - \$396) is receivable from and \$173,151 (December 31, 2023 - \$132,988) is payable to Cassel Properties Ltd. related to the above transactions.

On December 24, 2021, and as amended on December 31, 2022 and December 22, 2023, the Company entered into a purchase contract (the "Purchase Contract") to acquire ten (10) condominium units in Edmonton, Alberta from 1784338 Alberta Ltd., a company indirectly majority owned by Eddie Yu, for a total purchase price of \$3,229,762 subject to certain conditions to be satisfied by December 31, 2024, 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.

On March 27, 2024, pursuant to the Purchase Contract, the Company acquired one (1) condominium unit for a purchase price of \$205,000.

## **IFRS Accounting Policies**

The material accounting policies applied by the Company in the Interim Financial Statements are consistent with those applied by the Company in its Annual Financial Statements.

## **Forward Looking Information**

This management discussion and analysis may contain forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. These statements are not historical acts and are subject to risks and uncertainties which could cause actual results and the timing of certain events to differ materially from those set forth in or implied herein including, without limitation, risks associated with the Company's proposed activities.

## **Additional Information**

Additional information on the Company can be found on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

Shareholder communications information may be obtained here:

Regent Pacific Properties Inc.: 1-780-424-9898

Email: [info@cassel.ca](mailto:info@cassel.ca)

The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "RPP".

The Company's registered head office is located at 301 - 2627 Ellwood Drive SW, Edmonton, Alberta, T6X 0P7.