



REGENT PACIFIC PROPERTIES

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

The following management discussion and analysis as of April 24, 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 “Financial Statements”). All dollar amounts are expressed in Canadian funds unless otherwise stated. The Financial Statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“the IASB”). Additional information relating to the Company, including the Financial Statements, is available on SEDAR+ at 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
- a two (2) bedroom residential condominium unit located in Edmonton, Alberta.

Objectives and Strategy

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

Overall Performance

As at December 31, 2023, Cassel Centre had fixed-term leases in place for approximately 90% 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.

On November 22, 2023, the Company acquired, subject to TSX Venture Exchange acceptance, one (1) residential condominium unit located in Edmonton, Alberta ("333 Griesbach") for a purchase price of \$351,000 from 1784338 Alberta Ltd. (see "Related Party Transactions" section below for additional details). The purchase was funded with the use of \$171,985 of the Company's deposit (see "Related Party Transactions" section below for additional details) together with a mortgage of \$179,258 (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. The purchase was funded with the use of \$61,508 of the Company's deposit together with a mortgage of \$143,500.

Going Concern

The 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 December 31, 2023, the Company had negative working capital of \$1,849,932 (2022 - \$17,322,889). The negative working capital during the year ended December 31, 2022, was primarily due to the Company's commercial term mortgage which commenced on July 31, 2012, and has been renewed on a term basis from time to time, with the existing term expiring on August 1, 2025. The Company has made all of the mortgage payments, throughout the term of the commercial mortgage, in accordance with the commercial mortgage terms. In addition, the Company has an accumulated deficit of \$658,281 (2022 - \$1,009,212). The Company's ability to continue as a going concern is dependent on generating a profit from operations, and obtaining additional financing as required.

The 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)

	2023	2022	2021
Total Assets	\$ 23,117,340	\$ 22,881,278	\$ 23,655,985
Total Current Liabilities	\$ 1,873,583	\$ 17,336,797 ⁽¹⁾	\$ 18,028,618 ⁽²⁾
Total Long-term Liabilities	\$ 17,158,149	\$ 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) 2022 Total Current Liabilities included a \$16,275,951 mortgage payable which is due on demand on a 5 year term, with a fixed interest rate of 3.25% per annum.
- (2) 2021 Total Current Liabilities included a \$16,943,901 mortgage payable which is due on demand on a 5 year term, with a fixed interest rate of 3.25% per annum.

Discussion of Annual Operations and Financial Condition:

Revenue

Due primarily to the strategic relocation and transitioning of certain tenants of the commercial investment property, total revenue of \$2,258,037 in 2023 was lower by \$202,815 or 8.2% as compared to total revenue of \$2,460,852 in 2022. Current year revenue is comprised of \$1,414,704 of commercial rental income from Cassel Centre and \$2,050 of residential rental income from 333 Griesbach (2022 - \$1,532,947 and \$Nil, respectively) and \$841,283 of operating cost recoveries from tenants of Cassel Centre (2022 - \$927,905).

During the year ended December 31, 2023, the Company signed a lease agreement with a new tenant for 5,760 square feet on the main floor and an existing tenant has expanded its overall lease space.

Expenses

Overall expenses for the year ended December 31, 2023 were \$1,180,808, a decrease of \$44,495 or 3.6% as compared to \$1,225,303 in 2022. Expenses include direct operating expenses, general and administrative expenses, share-based compensation and depreciation.

Direct operating costs during the year ended December 31, 2023 decreased by \$55,555, or 5.3%, to \$986,198 as compared to \$1,041,753 in 2022. The decrease was primarily due to fewer repairs and maintenance expenses and a decrease in property taxes.

General and administrative expenses during the year ended December 31, 2023 were \$176,179 and relatively consistent with 2022 general and administrative expenses of \$180,180.

Share based compensation was \$15,735 during the year ended December 31, 2023 and arises from the grant, on January 16, 2023, of 1,048,900 stock options to directors, officers, consultants and an employee of the Company. The stock options have an exercise price of \$0.07 per common share for a term of five (5) years and vested immediately upon grant.

Amortization expense was not significant in the years ended December 31, 2023 and 2022.

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 in the years ended December 31, 2023 and 2022.

Finance costs decreased by \$13,577, or 2.3%, to \$572,206 in 2023 as compared to \$585,783 in 2022. The decrease in finance costs is primarily due to the continued paydown of the Company's commercial mortgage payable. This was partially offset by the addition of a new mortgage payable obtained in connection with the purchase of 333 Griesbach during 2023 and an increase in the variable interest rate on the bank 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 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. The Company recorded a fair value reduction on its investment properties totaling \$29,684 during 2023 (2022 - \$678,832).

Summary of Quarterly Results (in accordance with IFRS)

	Dec 31, 2023 \$	Sep 30, 2023 \$	Jun 30, 2023 \$	Mar 31, 2023 \$	Dec 31, 2022 \$	Sep 30, 2022 \$	Jun 30, 2022 \$	Mar 31, 2022 \$
Revenues	570,729	561,669	561,945	563,694	586,954	627,242	609,524	637,132
Expenses	(314,768)	(243,527)	(311,124)	(311,389)	(304,417)	(304,907)	(327,037)	(288,942)
Deferred Income Tax Expense	(122,043)	-	-	-	(89,277)	-	-	-
Fair Value Adjustment on Investment Properties	(36,909)	2,408	2,409	2,408	(725,390)	16,009	29,139	1,410
Other Expenses	(144,193)	(145,166)	(142,909)	(142,303)	(135,094)	(157,599)	(147,394)	(147,879)
Net Income (Loss)	(47,184)	175,384	110,321	112,410	(667,224)	180,745	164,232	201,721
Income (Loss) per Share	(0.00)	0.00	0.00	0.00	(0.02)	0.00	0.00	0.01
Fully Diluted Income (Loss) per Share	(0.00)	0.00	0.00	0.00	(0.02)	0.00	0.00	0.01

Discussion of Fourth Quarter Operations and Financial Condition:

Revenue

Total revenue during the three months ended December 31, 2023 was \$570,729, a decrease of \$16,225 or 2.8% from 2022 which totaled \$586,954. The decrease was due to the strategic relocation and transitioning of certain tenants of the commercial investment property and partially offset by new rental revenue from the residential investment property.

Expenses

Total expenses for the three-month period ending December 31, 2023 were \$314,768, an increase of \$10,351 or 3.4%, as compared to \$304,417 in the same period of 2022. Expenses include direct operating expenses, general and administrative expenses, share-based compensation and amortization.

Direct operating costs for the three months ending December 31, 2023 were \$292,095 which was an increase of \$23,612 or 8.8%, as compared to \$268,483 in the same period of 2022. This increase was primarily due to adjustments in the period to record certain building repair and maintenance cost and accounting fees for the 2023 year.

General and administrative expenses for the three months ending December 31, 2023 were \$23,179 which was a decrease of \$12,755 or 35.5%, as compared to \$35,934 in the same period of 2022. The decrease was due to a decrease in administrative accounting fees.

Amortization expense was not significant during the three months ended December 31, 2023 and 2022.

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 in the three months ended December 31, 2023 and 2022.

Finance costs increased by \$9,041, or 6.7%, to \$143,765 in the three months ending December 31, 2023 as compared to \$134,724 in the same period in 2022. The increase is due to higher interest costs on the variable rate bank overdraft facility, an adjustment to accrued interest during the three months ended December 31, 2022 for the loan payable principal repaid in 2022, and the addition of a new mortgage payable obtained in connection with the purchase of 333 Griesbach during the three months ended December 31, 2023. These increases were offset by a decrease in the commercial mortgage interest due to the continued paydown of the Company's commercial mortgage payable.

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 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. The Company recorded a fair value reduction on its investment properties totaling \$36,909 during the three months ended December 31, 2023 (2022 - \$725,390).

Liquidity and Capital Resources

As at December 31, 2023, the Company had bank indebtedness of \$302,126 (2022 - \$295,148) through its overdraft facility and a working capital deficiency of \$1,849,932 (2022 - \$17,322,889). Working capital is calculated as current assets less current liabilities. The \$15,759,526 commercial mortgage payable (2022 - \$16,275,951) 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, 2023, the Company was not in compliance with the Covenant. The commercial mortgage lender is aware that the Company is not in compliance with the Covenant and has agreed not to demand repayment on this loan as a consequence of the covenant breach. Accordingly, the entire commercial mortgage has not been presented as a current liability in the consolidated statement of financial position as at December 31, 2023.

The lender is aware that the Company is not in compliance with the commercial mortgage covenant 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 commercial mortgage payments in full and on time, in accordance with the commercial mortgage terms. During the years ended December 31, 2023 and 2022, the Company has paid down the mortgage principal by \$514,993 and \$661,612, respectively. The default on the covenant 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 is considering extending the amortization period to the more standard 25 or 30 years 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. In 2023, the Company commenced a lease with a new tenant and expanded a lease with an existing tenant and expects to see a corresponding increase in its rental revenue and its debt service coverage ratio, starting in 2024.

Net cash from operations was \$1,223,540 during the year ended December 31, 2023 (2022 - \$1,345,300). Cash used in financing activities during the year ended December 31, 2023 was \$954,565 (2022 - \$1,354,900) and included scheduled repayments on the mortgages of \$514,993 (2022 - \$661,612), repayment on the loan payable to related party of \$166,594 (2022 - \$49,500), and interest payments of \$598,736 (2022 - \$543,788); and was partially offset by advances from a related party of \$146,500 (2022 - \$nil) and proceeds from the new mortgage payable of \$179,258 (2022 - \$Nil). The decrease in the scheduled repayments on the mortgage are due to a payment deferral agreement between the Company and the lender whereby the Company did not make principal repayments on the mortgage payable for three months in order to fund tenant improvements provided to a new tenant. Cash used in investing activities during the year ended December 31, 2023 was \$275,953 (2022 - \$1,410) and included \$179,014 for the

acquisition of 333 Griesbach and \$96,939 in additions to the commercial investment property for direct leasing costs.

The Company expects to manage its working capital deficiency through a combination of cash flow generated from its operating activities 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. The loan bears interest at 0% until December 31, 2023, and has no terms of repayment until that date. Full repayment of the 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. On September 14, 2023, the Government of Canada extended the repayment deadline to January 18, 2024. Subsequent to December 31, 2023, the Company obtained a new term loan facility of \$40,000 to facilitate the payout of the CEBA loan and obtain the loan forgiveness. The new term loan facility bears interest at a rate of 7.10% per annum and is repayable in monthly blended instalments of \$795 over a five (5) year period. The Company may prepay the balance at any time without penalty.

As at December 31, 2023, the Company had a loan payable to related party of \$341,058 (2022 - \$334,912). 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, 2024. The Company 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 December 31, 2023, the Company had mortgages payable of \$15,940,184 (2022 - \$16,275,951). The mortgages payable are composed of:

- A commercial mortgage payable with a maximum borrowing limit of \$17,706,249, 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 December 31, 2023 (2022 - \$21,550,000), general assignment of rent and a general security agreement. The mortgage payable is subject to an annual debt service coverage ratio covenant and the Company is not in compliance with this covenant (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, 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, general

assignment of rent, a general security agreement and a personal guarantee of \$200,000 provided by Eddie Yu. 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 December 31, 2023, the minimum contractual principal payments on the mortgages payable are as follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2024	\$ 706,787
2025	15,014,723
2026	3,020
2027	3,255
2028	<u>167,618</u>
	<u>\$ 15,895,403</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 refinance a portion of the overdraft facility. The term loan facility is payable in monthly instalments of \$5,250, bears interest at a fixed rate of 7.10% per annum, is amortized over 10 years and has a term of 60 months. In connection with the term loan facility, the lender amended the overdraft facility to decrease the maximum borrowing limit to \$50,000, amend the interest rate to an annual rate equal to the financial institution's Prime Lending Rate plus 1.50%, and amend the personal guarantee provided by Eddie Yu to \$50,000 and amended the security on the commercial mortgage payable such that the personal guarantee provided by Eddie Yu is \$3,500,000. In addition, the overdraft facility and the commercial mortgage payable will be subject to an annual debt to equity ratio covenant which is not to exceed a ratio of 3.00:1, based on the Company's most recent year end financial statements.

On March 27, 2024, the Company acquired, subject to TSX Venture Exchange acceptance, 237 Griesbach for a purchase price of \$205,000 from 1784338 Alberta Ltd. The purchase was funded with the use of \$61,508 of the Company's deposit together with a mortgage of \$143,500. The mortgage is payable in monthly blended instalments of \$950, bears interest at a fixed rate of 6.25% per annum, is amortized over 25 years, has a term of 60 months and is secured by the residential investment property, general assignment of rent, a general security agreement and a personal guarantee provided by Eddie Yu, see additional details below.

In addition, on March 27, 2024, the Company and the lender amended the 333 Griesbach residential mortgage payable security such that the personal guarantee provided by Eddie Yu was increased from \$200,000 to \$600,000 and applies to both the 333 Griesbach and 237 Griesbach residential mortgages payable.

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. During the year ended December 31, 2023, the Company acquired, subject to TSX Venture Exchange acceptance, 333 Griesbach for a purchase price of \$351,000 from 1784338 Alberta Ltd. (see "Related Party Transactions" section below for additional details). The purchase was funded with the use of \$171,985 of the Company's deposit (see "Related Party Transactions" section below for additional details) together with a mortgage of \$179,258, see details in paragraphs above. There were minimal capital expenditures in 2022.

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 year ended December 31, 2023, the Company incurred \$63,960 in tenant improvement allowance costs (2022 - \$Nil) and \$32,979 in direct leasing costs (2022 - \$Nil).

Another significant use of cash could be the acquisition of or investment in new properties. The Company is actively and continuously seeking new investment opportunities and as at December 31, 2023 maintains a deposit of \$1,131,903 (2022 - \$1,303,888) with 1784338 Alberta Ltd. (see "Related Party Transactions" section below for additional details), which can be used towards the purchase of nine (9) (2022 – ten (10)) additional condominium units in Edmonton, Alberta. Subsequently, on March 27, 2024, the Company acquired 237 Griesbach and used an additional \$61,508 of the deposit. Following the acquisition of 237 Griesbach, the Company maintains a deposit of \$1,070,395 with 1784338 Alberta Ltd. which can be used towards the purchase of eight (8) additional 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 manages this risk by having multiple tenants, retaining security deposits on leases, staggering lease expiry dates, and screening tenants for longevity and credit worthiness.

The aging of accounts receivable is as follows:

	<u>2023</u>	<u>2022</u>
Current	\$ 17,498	\$ 12,231
31-90 days	-	-
91 + days	<u>6,153</u>	<u>1,677</u>
	<u>\$ 23,651</u>	<u>\$ 13,908</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the year ended December 31, 2023, revenue earned from three (3) (2022 – four(4)) key tenants represents 91% (2022 – 91%) of total revenues. As at December 31, 2023, receivables from these key tenants total approximately 21% of total accounts receivable (2022 – Nil%).

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, 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 and residential mortgage payable bear interest at variable rates and for the year ended December 31, 2023, all else being equal, the increase or decrease in net earnings for each 1% change in market interest rates is not expected to be significant (2022 – 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 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 December 31, 2023, the Company's contractual obligation consists of accounts payable and accrued liabilities of \$430,201 (2022 - \$281,109) that have a current contractual maturity. Repayment of the \$40,000 CEBA loan is required by January 18, 2024. The commercial mortgage payable, including accrued interest, of \$15,759,526 (2022 - \$16,275,951) has terms which expire in fiscal 2025 and the residential mortgage payable, including accrued interest, of \$180,658 (2022 - \$Nil) has terms which expired in fiscal 2028. The loan payable of \$Nil (2022 - \$75,791) was due on demand. The loan payable to related party of \$341,058 (2022 - \$334,912) has terms which expire in November 2024. The overdraft facility of \$302,126 (2022 - \$295,148) is due on demand 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, loan payable to related party, loan payable, accounts payable and accrued liabilities and overdraft facility.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

There were no transfers between levels of the fair value hierarchy during the 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 the CEBA Loan, mortgages 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>2023</u>	<u>2022</u>
Financial Liabilities:			
Loan payable	Level 3	\$ -	\$ 75,791
Loan payable to related party	Level 3	\$ 341,058	\$ 334,912
CEBA Loan	Level 3	\$ 40,000	\$ 37,383
Mortgages payable	Level 2	\$ 15,940,184	\$ 16,275,951

Off – Balance Sheet Arrangements

As at December 31, 2023, the Company did not enter into any off-balance sheet arrangements.

Contingencies

Management of the Company is aware of no contingent liabilities as at December 31, 2023.

Share Structure

The Company has 40,039,000 common shares outstanding at December 31, 2023. There are 3,203,900 stock options exercisable and outstanding as at December 31, 2023 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 December 31, 2023:

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

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

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 43,242,900.

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.

During the year ended December 31, 2023, the Company incurred \$13,732 in consulting fees due to the CFO of the Company (2022 - \$16,095). As at December 31, 2023, \$5,000 was included in accounts payable and accrued liabilities as owing to the CFO (2022 - \$10,990).

During the year ended December 31, 2023, the Company charged a total of \$203,821 to Cassel Properties Ltd., an entity owned and controlled by Eddie Yu for recovery of operating expenses (2022 - \$150,403).

During the year ended December 31, 2023, the Company received rental income, before straight-line adjustments, of \$340,010 from Cassel Properties Ltd. (2022 - \$268,140) and as at December

31, 2023, \$19,928 was included in prepaid rent for rent paid in advance and rental deposits (2022 - \$46,928).

During the year ended December 31, 2023, \$63,960 was paid to Cassel Properties Ltd. and \$32,979 was paid to a Royal LePage Summit Realty brokerage, of which Eddie Yu is a director, for direct leasing costs (2022 - \$Nil) and amortization of \$32,238 was taken (2022 - \$Nil) and included in direct operating costs on the Financial Statements.

During the year ended December 31, 2023, the Company incurred interest expense of \$26,239 to Cassel Properties Ltd. (2022 - \$26,334) in connection with the outstanding balance on the loan payable to related party.

During the year ended December 31, 2023, \$16,761 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 (2022 - \$20,267). As at December 31, 2023, \$2,666 was included in accounts payable and accrued liabilities as owing to Parlee McLaws LLP (2022 - \$13,471).

During the year ended December 31, 2023, \$74,502 has been included in general and administrative expenses related to administration fees with Cassel Properties Ltd. (2022 - \$92,502).

During the year ended December 31, 2023, \$32,076 has been included in general and administrative expenses related to rent with Cassel Properties Ltd. (2022 - \$32,076).

During the year ended December 31, 2023, \$69,733 has been included in direct operating costs related to property management fees with Cassel Properties Ltd. (2022 - \$77,170).

During the year ended December 31, 2023, the Company incurred \$14,791 in share-based compensation expense for directors and key management (2022 - \$Nil).

As at December 31, 2023, \$396 (2022 - \$Nil) is receivable from and \$132,988 (2022 - \$90,265) 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, 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, 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.

During the year ended December 31, 2023, pursuant to the Purchase Contract, the Company acquired one (1) condominium unit for a purchase price of \$351,000.

IFRS Accounting Policies

A summary of the Company's material accounting policies under IFRS are disclosed in the Financial Statements.

Application of New and Revised IFRS

The following amended standards are effective for year-ends starting after January 1, 2023 and have been adopted by the Company:

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.

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.

The adoption of the above standards did not have significant financial reporting implications.

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.

Shareholder communications information may be obtained here:

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

Email: 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 office is located at 2607 Ellwood Drive SW, Edmonton, Alberta, T6X 0P7.