

REGENT PACIFIC PROPERTIES INC.
Consolidated Financial Statements
December 31, 2023 and 2022
(Expressed in Canadian dollars)

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Regent Pacific Properties Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022 and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which indicates that at December 31, 2023 the Company had a negative working capital of \$1,849,932 and an accumulated deficit of \$658,281. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

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

Fair value of the investment properties

Description of the matter:

As reported in the statement of financial position, on December 31, 2023 the Company had investment properties with a carrying amount of \$21,951,000. As indicated in Notes 3, 4, and 5, the Company values the investment properties at fair value. The fair value is determined using a combination of income approach and direct comparison approach.

Why the matter is a key audit matter:

We determined that auditing the fair value of the investment properties is a key audit matter due to the relative significance of the amount and the judgements and estimates required to determine the amount.

Independent Auditors' Report (continued)

How the matter was addressed in the audit:

We reviewed the valuations prepared, and assessed the reasonableness of the approach, calculation methods, inputs and the overall result.

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based

Independent Auditors' Report (continued)

on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Kennedy Mack Stusarchuk Stewart LLP

Chartered Professional Accountants

April 24, 2024
Calgary, Alberta

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Financial Position
As at December 31, 2023 and 2022
(Expressed in Canadian dollars)

	2023	2022
ASSETS		
Non-current Assets		
Investment properties (Note 5)	\$ 21,951,000	\$ 21,550,000
Deposit (Note 23)	1,131,903	1,303,888
Furniture and fixtures (Note 6)	<u>10,786</u>	<u>13,482</u>
	<u>23,093,689</u>	<u>22,867,370</u>
Current Assets		
Accounts receivable (Note 7)	<u>23,651</u>	<u>13,908</u>
	<u>\$ 23,117,340</u>	<u>\$ 22,881,278</u>
LIABILITIES		
Non-current Liabilities		
Mortgages payable (Note 13)	\$ 15,188,617	\$ -
Prepaid rents	172,761	150,811
Deferred income taxes (Note 11)	<u>1,796,771</u>	<u>1,674,728</u>
	<u>17,158,149</u>	<u>1,825,539</u>
Current Liabilities		
Mortgages payable – current portion (Note 13)	751,567	16,275,951
CEBA Loan (Note 9)	40,000	37,383
Loan payable (Note 8)	-	75,791
Loan payable to related party (Note 10)	341,058	334,912
Prepaid rents	8,631	36,503
Accounts payable and accrued liabilities (Note 14)	430,201	281,109
Overdraft facility (Note 15)	<u>302,126</u>	<u>295,148</u>
	<u>1,873,583</u>	<u>17,336,797</u>
	<u>19,031,732</u>	<u>19,162,336</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 16)	4,167,624	4,167,624
Contributed surplus	576,265	560,530
Deficit	<u>(658,281)</u>	<u>(1,009,212)</u>
	<u>4,085,608</u>	<u>3,718,942</u>
	<u>\$ 23,117,340</u>	<u>\$ 22,881,278</u>
Going Concern (Note 2)		
Subsequent Events (Note 26)		

Approved on behalf of the Board of Directors:

“Eddie Yu” Signed _____ Director	“Ted Power” Signed _____ Director
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See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

	<u>2023</u>	<u>2022</u>
Rental revenue (Note 17)	\$ 1,416,754	\$ 1,532,947
Recovery of operating expenses	841,283	927,905
Direct operating expenses	<u>(986,198)</u>	<u>(1,041,753)</u>
Net rental income	<u>1,271,839</u>	<u>1,419,099</u>
Expenses		
General and administrative	176,179	180,180
Share-based compensation (Note 16)	15,735	-
Depreciation (Note 6)	<u>2,696</u>	<u>3,370</u>
	<u>194,610</u>	<u>183,550</u>
Income before fair value adjustment on investment properties and other income (expenses)	1,077,229	1,235,549
Fair value adjustment on investment properties (Note 5)	<u>(29,684)</u>	<u>(678,832)</u>
Income before other income (expenses)	<u>1,047,545</u>	<u>556,717</u>
Other income (expenses)		
Interest income	252	262
Fair value adjustment on CEBA loan	(2,617)	(2,445)
Finance costs (Note 18)	<u>(572,206)</u>	<u>(585,783)</u>
	<u>(574,571)</u>	<u>(587,966)</u>
Income (loss) before income taxes	472,974	(31,249)
Deferred income tax expense (Note 11)	<u>(122,043)</u>	<u>(89,277)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 350,931</u>	<u>\$ (120,526)</u>
Net income (loss) per share:		
Basic and diluted (Note 19)	<u>\$ 0.009</u>	<u>\$ (0.003)</u>
Weighted average number of common shares outstanding:		
Basic and diluted (Note 19)	<u>40,039,000</u>	<u>40,039,000</u>

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

	Share Capital (Note 16)		Contributed Surplus	Deficit	Total
	Number	Amount			
Balance, December 31, 2021	40,039,000	\$ 4,167,624	\$ 560,530	\$ (888,686)	\$ 3,839,468
Net loss and comprehensive loss	-	-	-	(120,526)	(120,526)
Balance, December 31, 2022	40,039,000	\$ 4,167,624	\$ 560,530	\$ (1,009,212)	\$ 3,718,942
Share-based compensation (Note 16)	-	-	15,735	-	15,735
Net income and comprehensive income	-	-	-	350,931	350,931
Balance, December 31, 2023	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 576,265</u>	<u>\$ (658,281)</u>	<u>\$ 4,085,608</u>

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

	2023	2022
Cash provided by (used in):		
Operating Activities		
Net income (loss)	\$ 350,931	\$ (120,526)
Adjustments for:		
Depreciation	2,696	3,370
Fair value adjustment to investment properties (Note 5)	29,684	678,832
Fair value adjustment on CEBA loan	2,617	2,445
Straight-line rent adjustment (Note 5)	(14,983)	19,758
Finance costs (Note 18)	549,152	569,578
Deferred income tax expense (Note 11)	122,043	89,277
Share-based compensation (Note 16)	15,735	-
Amortization of deferred costs (Note 5)	32,238	-
Net changes in non-cash working capital items (Note 20)	<u>133,427</u>	<u>102,566</u>
Net cash from operating activities	<u>1,223,540</u>	<u>1,345,300</u>
Financing Activities		
Proceeds from mortgage financing	179,258	-
Repayments of mortgage financing	(514,993)	(661,612)
Interest paid	(598,736)	(543,788)
Repayment of loan payable (Note 8)	-	(100,000)
Advances from related party	146,500	-
Repayment of loan payable to related party (Note 10)	<u>(166,594)</u>	<u>(49,500)</u>
Net cash used in financing activities	<u>(954,565)</u>	<u>(1,354,900)</u>
Investing Activities		
Acquisition of investment property (Note 5)	(179,014)	-
Addition of deferred costs (Note 5)	(96,939)	-
Reversal of addition to investment property (Note 5)	<u>-</u>	<u>1,410</u>
Net cash used in investing activities	<u>(275,953)</u>	<u>1,410</u>
Decrease in cash	(6,978)	(8,190)
Overdraft facility, beginning of year	<u>(295,148)</u>	<u>(286,958)</u>
Overdraft facility, end of year	<u>\$ (302,126)</u>	<u>\$ (295,148)</u>

See accompanying notes to the consolidated financial statements

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

1. Nature of Business

Regent Pacific Properties Inc. (the “Company”) is incorporated and domiciled in Canada and is a real estate development and investment Company that invests in residential and commercial properties located in Edmonton, Alberta. The address of the Company’s registered head office is 2607 Ellwood Dr SW, Edmonton, AB, T6X 0P7. The Company trades on the TSX Venture Exchange under the symbol “RPP”.

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on April 24, 2024.

2. Going Concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. 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.

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

3. Basis of Presentation

a) Statement of Compliance

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

b) Basis of Measurement

The consolidated financial statements have been prepared on a going concern and historical cost basis except for the measurement of the investment property, which is stated at fair value.

c) Functional Currency

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

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

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

d) Use of Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

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

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

i) Investment Properties

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

ii) Deferred Income Taxes

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

iii) Financial Instruments

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

iv) Leases

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

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

3. Basis of Presentation (Continued)

v) Deposit

The valuation of the deposit is subject to management judgment regarding the probability of default and management estimate regarding the recoverable amount of the balance which are factors used in determining the expected credit loss.

4. Summary of Material Accounting Policies

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

Basis of Consolidation

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

Revenue

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

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

Investment Properties

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

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

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

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

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

4. Summary of Material Accounting Policies (Continued)

Investment Properties (Continued)

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

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

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

Leasing Costs

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

Finance Costs

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

Furniture and Fixtures

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

Furniture and fixtures - 20%

Overdraft Facility

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

Income Taxes

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

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

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

4. **Summary of Material Accounting Policies** (Continued)

Basic and Diluted Net Income (Loss) Per Share

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

Provisions

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

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

Share-based payments

Share-based payments are comprised of common share purchase option awards granted to employees, directors and others which are equity-settled share-based payments and common shares issued in exchange for goods or services.

When granted to employees or those providing similar services, the equity instruments are measured at the fair value of the common share purchase options granted. The fair value of the common share purchase options is determined using the Black-Scholes Model. The common share purchase options are recognized as a share-based compensation expense with the offsetting credit as an increase to contributed surplus. Where common share purchase options are granted to non-employees, they are recorded at the fair value of the goods or services received. Where the fair value of goods or services received cannot be reliably measured, the common share purchase options are measured based on the fair value of the common share purchase options granted.

Upon exercise of the common share purchase option, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and the associated fair value amount is reclassified from contributed surplus to share capital.

When issued in exchange for goods or services, the equity instruments are recorded at the fair value of the goods or services received. Where the fair value of goods or services received cannot be reliably measured, the equity instruments are measured based on the fair value of the equity instruments granted.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

4. Summary of Material Accounting Policies (Continued)

Financial Instruments

i) Classification and Measurements

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

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

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

a) Financial assets at fair value through other comprehensive income

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

b) Financial assets and liabilities at amortized cost

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

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

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

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

4. Summary of Material Accounting Policies (Continued)

Financial Instruments (Continued)

ii) Impairment of Financial Assets at Amortized Cost

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

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

iii) Derecognition

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

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

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.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

5. Investment Properties

	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
Balance, December 31, 2021	\$ 22,250,000	\$ -	\$ 22,250,000
Straight-line rent adjustment	(19,758)	-	(19,758)
Fair value adjustment	(678,832)	-	(678,832)
Reversal of prior addition	<u>(1,410)</u>	<u>-</u>	<u>(1,410)</u>
Balance, December 31, 2022	21,550,000	-	21,550,000
Acquisition of investment property	-	351,000	351,000
Deferred costs	96,939	-	96,939
Amortization of deferred costs	(32,238)	-	(32,238)
Straight-line rent adjustment	14,983	-	14,983
Fair value adjustment	<u>(29,684)</u>	<u>-</u>	<u>(29,684)</u>
Balance, December 31, 2023	<u>\$ 21,600,000</u>	<u>\$ 351,000</u>	<u>\$ 21,951,000</u>

Commercial Investment Property

The Company leases space in its investment property to tenants under operating leases. The leases have various terms between approximately 1 and 10 years. The total future contractual minimum base rent lease payments expected to be received under non-cancellable leases as at December 31, 2023 are as follows:

One year or less	\$ 1,256,626
2 – 10 years	<u>3,916,590</u>
	<u>\$ 5,173,216</u>

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

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

5. **Investment Properties** (Continued)

Commercial Investment Property (Continued)

In applying the income approach via overall income capitalization, the stabilized net operating income is capitalized at an overall capitalization rate. The most appropriate income year to measure the value of the commercial property is the forthcoming twelve-month period, the “year one” income, as this year requires the fewest assumptions and provides the most certain net operating income over the investment horizon. An overall capitalization rate range of between 6.25% and 7.25% (2022 - 6.25% and 7.00%) was determined, and for the main floor the mid-rate of 6.50% (2022 – 6.50%) was applied to the year one net operating income of \$377,774 (2022 - \$363,479), and for the office tower the mid-rate of 7.00% (2022 – 6.75%) was applied to the year one net operating income of \$1,161,769 (2022 - \$1,117,059) to arrive at a final value (rounded) estimate of \$21,940,000 (2022 - \$21,580,000).

Values determined by the capitalization of income are most sensitive to changes in capitalization rate. A 0.50% increase in the capitalization rate would decrease the value arrived at by \$1,521,583, and a 0.50% decrease in the capitalization rate would increase the value arrived at by \$1,760,995.

In applying the income approach via discounted cash flow, a discount rate is selected and applied to the expected stream of future cash flows, and then a reversionary capitalization rate is applied to the discounted value to determine a value. A discount rate range of between 7.25% and 7.75% (2022 – 7.25% and 7.75%) and a reversionary capitalization rate range of between 6.50% to 7.00% (2022 - 6.50% and 7.00%) were used to arrive at a mid-point value (rounded) of \$20,970,000 (2022 - \$21,170,000).

In applying the direct comparison method, the property was compared to properties that have sold recently or are currently listed and considered to be relatively similar to the property. A unit of comparison, i.e. the sale price per square foot of leasable area is then used to facilitate the analysis. An estimated unit value of \$330 per square foot for the main floor bays, and \$300 per square foot for the office tower was considered achievable (2022 - \$315 and \$300 per square foot value range). \$330 per square foot applied to the leasable building area of the main floor bays of 17,220 square feet arrives at a final value (rounded) of \$5,700,000 (2022 - \$5,350,000). \$300 per square foot applied to the leasable building area of the tower of 54,100 square feet (less holding and lease up costs) arrives at a final value (rounded) of \$15,760,000 (2022 - \$15,740,000). The combined total value (rounded) arrived at is \$21,460,000 (2022 - \$21,090,000).

The three approaches were reconciled with the overall income capitalization method given primary emphasis. The discounted cash flow analysis was included due to the multi-tenant nature of the building, and the duration and escalation of the leases. The direct comparison approach was given secondary emphasis. The overall reconciled market value of the investment property as at December 31, 2023 was determined to be \$21,600,000 (2022 - \$21,550,000).

Residential Investment Property

On November 22, 2023, the Company acquired, subject to TSX Venture Exchange acceptance, one (1) residential condominium unit located in Edmonton, Alberta for a purchase price of \$351,000 from a company indirectly majority owned by the CEO, director and majority shareholder of the Company (Note 12). The purchase was funded with the use of \$171,985 of the Company’s deposit (Note 23) together with a mortgage of \$179,258 (Note 13).

The Company values its residential investment property using Level 3 inputs. The residential investment property was appraised by a third-party accredited valuation professional, on September 1, 2023, using a direct comparison approach.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

5. Investment Properties (Continued)**Residential Investment Property (Continued)**

In applying the direct comparison method, the property was compared to properties that have sold recently or are currently listed and considered to be relatively similar to the property. The sale price of these properties was then adjusted for various differences and a value between \$351,000 and \$361,400 was determined, with \$351,000 considered achievable based on the size, condition and current market conditions. There was no change to the assumptions used as at December 31, 2023.

6. Furniture and Fixtures

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

	Accumulated Depreciation						
	Balance at January 1, 2022	Additions	Disposals	Balance at December 31, 2022	Additions	Disposals	Balance at December 31, 2023
Furniture and fixtures	\$ 65,407	\$ 3,370	\$ -	\$ 68,777	\$ 2,696	\$ -	\$ 71,473

	Net Book Value	
	Balance at December 31, 2023	Balance at December 31, 2022
Furniture and fixtures	\$ 10,786	\$ 13,482

7. Accounts Receivable

Accounts receivable is comprised of the following items:

	2023	2022
Rents receivable	\$ 14,344	\$ 6,221
Goods and Services Tax receivable	9,307	7,687
	\$ 23,651	\$ 13,908

Included in accounts receivable is an amount of \$396 (2022 - \$Nil) receivable from an entity owned and controlled by the CEO, director, and majority shareholder of the Company.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

8. Loan Payable

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

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

9. CEBA Loan

On April 30, 2021, the Company was advanced \$60,000 of bank financing as part of the Government of Canada COVID-19 assistance for small business, to assist with the payment of eligible non-deferrable expenses. The loan bears interest at 0% until December 31, 2023 and has no terms of repayment until that date. Full repayment of loan balance before December 31, 2023 will result in debt forgiveness of \$20,000. After December 31, 2023, any unpaid balance is payable over a two-year term at interest of 5% per annum. On September 14, 2023, the Government of Canada extended the repayment deadline to January 18, 2024.

The Company recognized the \$20,000 forgivable portion of the loan as government assistance received during the year ended December 31, 2021.

10. Loan Payable to Related Party

	<u>2023</u>	<u>2022</u>
Loan payable is unsecured, bears interest at 8% per annum, with no regular payments, and principal repayment is due November 10, 2024	\$ 309,409	\$ 329,503
Interest accrued	<u>31,649</u>	<u>5,409</u>
	<u>\$ 341,058</u>	<u>\$ 334,912</u>

The loan payable is repayable to an entity owned and controlled by the CEO, director and majority shareholder of the Company. During the year ended December 31, 2023, the Company and the lender extended the maturity date from November 10, 2023 to November 10, 2024.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

11. Income Taxes

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

	<u>2023</u>	<u>2022</u>
Deferred tax assets (liabilities):		
Tax loss carry-forward	\$ 348,939	\$ 343,535
Tax basis of finance costs and other	3,186	3,697
Carrying value of investment properties in excess of tax basis	<u>(1,799,957)</u>	<u>(1,678,425)</u>
	(1,447,832)	(1,331,193)
Less tax assets not recognized	<u>(348,939)</u>	<u>(343,535)</u>
Net deferred income tax liability	\$ (1,796,771)	\$ (1,674,728)

As at December 31, 2023, the Company has non-capital loss carry forwards of \$1,517,126 which will expire as follows:

2030	\$ 7,523
2031	90,260
2032	80,556
2033	40,503
2034	52,596
2035	329,466
2036	130,407
2037	281,250
2039	77,160
2040	200
2041	214,739
2042	188,974
2043	23,492

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

	<u>2023</u>	<u>2022</u>
Income (loss) before income taxes	\$ 472,974	\$ (31,249)
Statutory tax rate	<u>23%</u>	<u>23%</u>
Expected tax expense (recovery)	108,784	(7,187)
Expenses not deductible for tax	3,619	-
Rate differential of capital items	3,414	94,685
Net effect of unrecognized non-capital losses	5,403	3,610
Impact of changes in tax rate and other	<u>823</u>	<u>(1,831)</u>
Deferred income tax expense	\$ 122,043	\$ 89,277

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

12. Related Party Transactions

Related party transactions not disclosed elsewhere in the financial statements:

Key management of the Company includes the Chief Executive Officer (“CEO”) and Interim Chief Financial Officer (“CFO”).

During the year ended December 31, 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 an entity owned and controlled by the CEO, director and majority shareholder of the Company 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 an entity owned and controlled by the CEO, director and majority shareholder of the Company (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, \$96,939 was paid, directly and indirectly, to entities owned and controlled by the CEO, director and majority shareholder of the Company for direct leasing costs (2022 - \$Nil) and amortization of \$32,238 was taken (2022 - \$Nil) and included in direct operating costs on the consolidated statement of comprehensive income (loss).

During the year ended December 31, 2023, the Company incurred interest expense of \$26,239 to an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$26,334) (Note 10).

During the year ended December 31, 2023, \$16,761 has been included in general and administrative expenses related to fees with a law firm where one of the directors of the Company is a partner (2022 - \$20,267). As at December 31, 2023, \$2,666 was included in accounts payable and accrued liabilities as owing to the law firm (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 an entity owned and controlled by the CEO, director and majority shareholder of the Company (2022 - \$92,502).

During the year ended December 31, 2023, \$32,076 has been included in general and administrative expenses related to rent with an entity owned and controlled by the CEO, director and majority shareholder of the Company (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 an entity owned and controlled by the CEO, director and majority shareholder of the Company (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).

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

12. **Related Party Transactions** (Continued)

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 a company indirectly majority owned by the CEO, director and majority shareholder of the Company for a total purchase price of \$3,229,762 subject to certain conditions to be satisfied by December 31, 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 (Note 5).

13. **Mortgages Payable**

	<u>2023</u>	<u>2022</u>
<u>Commercial Investment Property – Cassel Centre</u>		
Mortgage payable, with monthly blended instalments of \$100,450, interest at 3.25% per annum, with a term expiring on August 1, 2025, and secured by the commercial investment property with a carrying amount of \$21,600,000, general assignment of rent and a general security agreement	\$ 15,716,145	\$ 16,231,138
<u>Residential Investment Property – Condominium Unit</u>		
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 the CEO, director and majority shareholder of the Company	179,258	-
Accrued interest	<u>44,781</u>	<u>44,813</u>
	15,940,184	16,275,951
Less current portion of mortgages payable	<u>(751,567)</u>	<u>(16,275,951)</u>
	<u>\$ 15,188,617</u>	<u>\$ -</u>

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

13. Mortgages Payable (Continued)

As at December 31, 2023, the minimum contractual principal payments 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>

The commercial mortgage payable is subject to an annual debt service coverage ratio covenant of no less than 1:20:1 based on the operations of the commercial investment property (the "Covenant"). As at December 31, 2023, the Company was not in compliance with the Covenant. The default on the Covenant is primarily due to the shorter amortization period of the commercial mortgage payable, with approximately 17 years remaining, together with recent vacancies in the Commercial Investment Property. 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.

14. Accounts Payable and Accrued Liabilities

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

	<u>2023</u>	<u>2022</u>
Trade payables	\$ 228,919	\$ 167,782
Accrued liabilities	40,586	40,120
Goods and Services Tax payable	<u>160,696</u>	<u>73,207</u>
	<u>\$ 430,201</u>	<u>\$ 281,109</u>

Included in accounts payable and accrued liabilities as at December 31, 2023, is an amount of \$132,988 (2022 - \$90,265) owing to entities owned and controlled by one of the directors of the Company.

15. Overdraft Facility

The Company has a demand overdraft facility of up to \$300,000 (2022 – \$300,000) with a Canadian financial institution bearing an annual rate of interest equal to the financial institution's Prime Lending Rate plus 1.00%, floating, calculated daily and payable monthly in arrears, secured with a general security agreement, and personal guarantee by the CEO, director and majority shareholder of the Company.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

16. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value

Unlimited number of preferred shares without nominal or par value

The preferred shares may be issued in one or more series and the board of directors are authorized to fix the number of shares in each series and determine the rights, privileges and conditions of the preferred shares.

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, December 31, 2021, 2022 and 2023	<u>40,039,000</u>	<u>\$ 4,167,624</u>

Stock Options

The Company has adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time-to-time, in its discretion, and in accordance with securities exchange requirements, grant to directors, officers, and employees to the Company, non-transferable options to purchase common shares.

The maximum number of shares reserved for issue under the Stock Option Plan shall not exceed 10% of the issued and outstanding shares of the Company as at the date of the grant. The maximum number of shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of shares at the date of the grant, unless the Company has obtained disinterested shareholder approval. The maximum number of shares reserved for issue to a consultant or a person engaged in investor relations activities in any 12-month period cannot exceed 2% of the issued and outstanding shares at the date of the grant. The aggregate number of options available for issuance under the Stock Option Plan in any 12-month period to an employee conducting investor relations activities shall not exceed 2% of all issued shares calculated at the date of the grant.

The exercise price of each option granted under the Stock Option Plan shall be determined from time to time by the Board of Directors of the Company, but in any event, shall not be lower than the lowest exercise price permitted by the Exchange. Options may be granted for a maximum term of 10 years. Options shall have such equitable vesting provisions as determined by the Board of Directors of the Company from time to time, provided that any such options granted to individuals who perform investor relations activities must vest in stages over 12 months with no more than ¼ of the options vesting in any 3-month period. Options are non-assignable and expire immediately upon termination of employment or holding office as a director or officer of the Company and, in the case of death, expire within one year thereafter.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

16. **Share Capital** (Continued)**Stock Options** (Continued)

The following table summarizes the activity of the stock options as follows:

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

The following table summarizes information on stock options outstanding and exercisable as at 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>
	<u>\$ 0.08</u>	<u>3,203,900</u>	<u>3,203,900</u>	

As at December 31, 2023, the weighted average life remaining of the total number of outstanding and exercisable stock options was 1.98 years.

On January 16, 2023, the Company granted 1,048,900 common share purchase options to directors, officers and an employee of the Company. The common share purchase options vested immediately upon grant. The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted. The Company considered historical volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term, taking into account expected director, officer and employee exercise and expected post-vesting employment termination behaviour. The following assumptions were used to estimate the Black-Scholes fair value of the options granted during the year ended December 31, 2023:

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

On August 27, 2023, 800,000 common share purchase options expired unexercised.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

17. Rental Revenue

	<u>2023</u>	<u>2022</u>
Commercial tenant leases	\$ 1,339,970	\$ 1,461,070
Residential tenant leases	2,050	-
Parking and storage	74,734	71,877
	<u>\$ 1,416,754</u>	<u>\$ 1,532,947</u>

18. Finance Costs

	<u>2023</u>	<u>2022</u>
Interest on mortgages payable	\$ 520,712	\$ 537,450
Interest on loan payable	2,200	5,794
Interest on loan payable to related party	26,240	26,334
Interest on overdraft facility	21,554	14,705
Annual fees on loans	1,500	1,500
	<u>\$ 572,206</u>	<u>\$ 585,783</u>

19. Net Income (Loss) per Common Share

The basic and diluted net income (loss) per common share is based on the weighted average number of common shares outstanding as at December 31, 2023 of 40,039,000 (2022 - 40,039,000). The inclusion of the Company's stock options in the computation of the diluted net income (loss) per share would be anti-dilutive and are excluded from the computation.

20. Net Changes in Non-Cash Working Capital Items

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ (9,743)	\$ 71,337
Prepaid rents	(5,922)	(25,081)
Accounts payable and accrued liabilities	149,092	56,310
	<u>\$ 133,427</u>	<u>\$ 102,566</u>

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

21. Reconciliation of Liabilities Arising From Financing Activities

	<u>Mortgages Payable</u>	<u>Loan Payable</u>	<u>Loan From Related Party</u>	<u>CEBA Loan</u>
Balance, January 1, 2022	\$ 16,943,901	\$ 169,997	\$ 358,078	\$ 34,938
Repayments made	(661,612)	(100,000)	(49,500)	-
Fair value adjustment	-	-	-	2,445
Accrued interest	<u>(6,338)</u>	<u>5,794</u>	<u>26,334</u>	<u>-</u>
Balance, December 31, 2022	16,275,951	75,791	334,912	37,383
Proceeds received	179,258	-	146,500	-
Repayments made	(514,993)	(77,991)	(166,594)	-
Fair value adjustment	-	-	-	2,617
Accrued interest	<u>(32)</u>	<u>2,200</u>	<u>26,240</u>	<u>-</u>
Balance, December 31, 2023	<u>\$ 15,940,184</u>	<u>\$ -</u>	<u>\$ 341,058</u>	<u>\$ 40,000</u>

22. Financial Instruments

Financial instruments recognized in the statements of financial position include accounts receivable, CEBA Loan, mortgages payable, loan payable, loan payable to related party, accounts payable and accrued liabilities and overdraft facility.

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

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

There were no transfers between levels of the fair value hierarchy during the period.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

22. Financial Instruments (Continued)

Fair value

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

- The carrying amounts of accounts receivable, accounts payable and accrued liabilities and overdraft facility approximate their fair value due to the relatively short periods to maturity of these financial instruments.
- The fair value of the CEBA Loan, 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	2023	2022
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

Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

Market risk

Market risk includes currency risk and interest rate risk. The Company is not susceptible to any currency risk as all financial instruments are denominated in Canadian dollars.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is susceptible to interest rate fair value risk on its 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. In addition, 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).

REGENT PACIFIC PROPERTIES INC.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

22. **Financial Instruments** (Continued)

Financial risk

Credit and concentration risk

The Company is exposed to credit risk on its accounts receivable due to unexpected losses that could occur if a tenant fails to satisfy its lease obligations. The Company's maximum exposure to credit risk is equal to the carrying value of the accounts receivable. The Company mitigates its credit risk by attracting tenants with good credit, taking rental deposits from tenants, and by limiting exposure to any one tenant.

The aging of accounts receivable is as follows:

	<u>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 approximately 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%).

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 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 (Note 13) and the residential mortgage payable, including accrued interest, of \$180,658 (2022 - \$Nil) has terms which expire in fiscal 2028 (Note 13). 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 (Note 15).

23. **Deposit**

During the year ended December 31, 2023, the Company used \$171,985 of a deposit held by a company indirectly majority owned by the CEO, director and majority shareholder of the Company for the purchase of one (1) condominium unit in Edmonton, Alberta (Note 5 and 12).

As at December 31, 2023, the Company had a remaining deposit of \$1,131,903 (2022 - \$1,303,888) which could be used towards the purchase of a further nine (9) (2022 - ten (10)) condominium units in Edmonton, Alberta (Note 12).

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

24. Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include administrative costs and general expenditures.

The capital structure consists of the following components as at December 31:

	<u>2023</u>	<u>2022</u>
Mortgages payable	\$ 15,940,184	\$ 16,275,951
Loan payable	-	75,791
Loan payable to related party	341,058	334,912
CEBA Loan	40,000	37,383
Overdraft facility	302,126	295,148
Equity	<u>4,094,983</u>	<u>3,718,942</u>
	<u>\$ 20,718,351</u>	<u>\$ 20,738,127</u>

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities. Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required.

25. Segment Information

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

26. Subsequent Events

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.

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 (Note 15). 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 the CEO, director and majority shareholder of the Company to \$50,000 and amended the security on the commercial mortgage payable such that the personal guarantee provided by the CEO, director and majority shareholder of the Company 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.

REGENT PACIFIC PROPERTIES INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

26. Subsequent Events (Continued)

On March 27, 2024, the Company acquired, subject to TSX Venture Exchange acceptance, one (1) residential condominium unit located in Edmonton, Alberta for a purchase price of \$205,000 from a company indirectly majority owned by the CEO, director and majority shareholder of the Company. 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 the CEO, director and majority shareholder of the Company, see additional details below.

In addition, on March 27, 2024, the Company and the lender amended the mortgage security on the November 22, 2023 residential mortgage payable (Note 13) such that the personal guarantee provided by the CEO, director and majority shareholder of the Company was increased from \$200,000 to \$600,000 and applies to both the November 22, 2023 and March 27, 2024 residential mortgages payable.