

**REGENT PACIFIC PROPERTIES INC.**  
(Unaudited)  
Interim Condensed Consolidated  
Financial Statements  
For the Three Months Ended  
March 31, 2017  
(Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, Collins Barrow Edmonton LLP, have not performed a review of these interim condensed consolidated financial statements.

"Eddie Yu"  
Signed  
**Eddie Yu**  
Chief Executive Officer

"David Yu"  
Signed  
**David Yu**  
Chief Financial Officer

May 29, 2017

**REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

## Interim Condensed Consolidated Statement of Financial Position

(Expressed in Canadian dollars)

	March 31, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property (Note 4)	\$ 26,100,000	\$ 26,100,000
Loan receivable from related party (Note 6)	1,052,722	1,035,010
Furniture and fixtures (Note 5)	<u>37,270</u>	<u>39,231</u>
	<u>27,189,992</u>	<u>27,174,241</u>
<b>Current Assets</b>		
Accounts receivable (Note 7)	15,897	14,756
Prepaid expenses	4,906	8,583
Cash	<u>94,661</u>	<u>256,611</u>
	<u>115,464</u>	<u>279,950</u>
	<u>\$ 27,305,456</u>	<u>\$ 27,454,191</u>
<b>LIABILITIES</b>		
<b>Non-current Liabilities</b>		
Debentures payable (Note 8)	\$ 2,413,329	\$ 2,428,498
Loans payable (Note 9)	25,081	24,725
Prepaid rents	178,678	178,678
Deferred income taxes	<u>1,715,231</u>	<u>1,715,231</u>
	<u>4,332,319</u>	<u>4,347,132</u>
<b>Current Liabilities</b>		
Mortgages payable (Note 11)	18,200,370	18,381,362
Current portion of debentures payable (Note 8)	---	679,846
Current portion of loans payable (Note 9)	507,295	---
Prepaid rents	24,660	24,660
Accounts payable and accrued liabilities (Note 12)	<u>103,400</u>	<u>105,912</u>
	<u>18,835,725</u>	<u>19,191,780</u>
	<u>23,168,044</u>	<u>23,538,912</u>
<b>EQUITY</b>		
Share capital (Note 13)	4,167,624	4,167,624
Warrants (Note 8)	135,185	135,185
Contributed surplus	274,210	274,210
Deficit	<u>(439,607)</u>	<u>(661,740)</u>
	<u>4,137,412</u>	<u>3,915,279</u>
	<u>\$ 27,305,456</u>	<u>\$ 27,454,191</u>

Approved on behalf of the Board of Directors:

"Eddie Yu"

Signed

Director

"David Yu"

Signed

Director

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Comprehensive Income

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

	March 31, 2017	March 31, 2016
Rental revenue	\$ 452,331	\$ 451,686
Recovery of operating expenses	195,917	192,488
Direct operating expenses	<u>(181,840)</u>	<u>(175,493)</u>
<b>Net rental income</b>	<b><u>466,408</u></b>	<b><u>468,681</u></b>
<b>Other expenses</b>		
General and administrative	38,218	36,194
Amortization	<u>1,961</u>	<u>2,452</u>
	<b><u>40,179</u></b>	<b><u>38,646</u></b>
<b>Income before interest income and finance costs</b>	<b><u>426,229</u></b>	<b><u>430,035</u></b>
Interest income	17,712	---
Finance costs (Note 14)	<u>(221,808)</u>	<u>(207,583)</u>
	<b><u>(204,096)</u></b>	<b><u>(207,583)</u></b>
Net income and comprehensive income	<b><u>\$ 222,133</u></b>	<b><u>\$ 222,452</u></b>
<b>Net income per share:</b>		
<b>Basic net income per common share (Note 15)</b>	<b><u>\$ 0.01</u></b>	<b><u>\$ 0.01</u></b>
<b>Diluted net income per common share (Note 15)</b>	<b><u>\$ 0.01</u></b>	<b><u>\$ 0.01</u></b>

*See accompanying notes*

**REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Equity

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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	Share Capital (Note 13)		Contributed Surplus	Warrants	Deficit	Total
	Number	Amount				
<b>Balance, January 1, 2017</b>	40,039,000	\$ 4,167,624	\$ 274,210	\$ 135,185	\$ (661,740)	\$ 3,915,279
Warrant	---	---	---	---	---	---
Net income	---	---	---	---	<b>222,133</b>	<b>222,133</b>
<b>Balance, March 31, 2017</b>	<b><u>40,039,000</u></b>	<b><u>\$ 4,167,624</u></b>	<b><u>\$ 274,210</u></b>	<b><u>\$ 135,185</u></b>	<b><u>\$ (439,607)</u></b>	<b><u>\$ 4,137,412</u></b>

	Share Capital		Contributed Surplus	Warrants	Deficit	Total
	Number	Amount				
<b>Balance, January 1, 2016</b>	40,039,000	\$ 4,167,624	\$ 274,210	\$ ---	\$ (1,318,001)	\$ 3,123,833
Net income	---	---	---	---	<b>222,452</b>	<b>222,452</b>
<b>Balance, March 31, 2016</b>	<b><u>40,039,000</u></b>	<b><u>\$ 4,167,624</u></b>	<b><u>\$ 274,210</u></b>	<b><u>\$ ---</u></b>	<b><u>\$ (1,095,549)</u></b>	<b><u>\$ 3,346,285</u></b>

See accompanying notes

**REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

	March 31, 2017	March 31, 2016
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net income	\$ 222,133	\$ 222,452
Adjustments for:		
Accrued interest income	(17,712)	---
Finance costs (Note 14)	221,808	207,583
Amortization (Note 5)	1,961	2,452
Net changes in non-cash working capital items (Note 16)	<u>24</u>	<u>(110,409)</u>
	<u>428,214</u>	<u>322,078</u>
<b>Financing Activities</b>		
Repayments to related parties	---	(30,000)
Repayments of mortgage financing	(181,815)	(170,072)
Interest paid	(340,349)	(162,074)
Proceeds from loans payable	502,000	---
Repayment of debentures (Note 8)	<u>(570,000)</u>	<u>---</u>
	<u>(590,164)</u>	<u>(362,146)</u>
<b>Decrease in cash</b>	<b>(161,950)</b>	<b>(40,068)</b>
<b>Cash, beginning of period</b>	<b><u>256,611</u></b>	<b><u>75,191</u></b>
<b>Cash, end of period</b>	<b><u>\$ 94,661</u></b>	<b><u>\$ 35,123</u></b>

*See accompanying notes*

# **REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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## **1. Nature of Business**

Regent Pacific Properties Inc. (the "Company") is incorporated and domiciled in Canada and is a real estate development company with an investment property located in Edmonton, Alberta. The address of the Company's registered head office is 2607 Ellwood Dr SW, Edmonton, AB, T6X 0P7. The Company trades on the TSX Venture Exchange under the symbol "RPP".

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on May 29, 2017.

## **2. Basis of Presentation**

### **a) Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of May 31, 2017, the date the Board of Directors approved the interim condensed consolidated financial statements.

### **b) Basis of Measurement**

The interim condensed consolidated financial statements have been prepared on a going concern and historical cost basis except for financial instruments classified as fair value through profit or loss and investment property, which are stated at fair value.

### **c) Functional Currency**

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

### **d) Use of Estimates and Judgements**

The preparation of interim condensed 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 judgments that are critical to the determination of the amounts reported in the interim condensed consolidated financial statements relate to the following:

## **REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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### **2. Basis of Presentation (Continued)**

#### d) Use of Estimates and Judgements (Continued)

##### Investment Property

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.

##### Convertible debentures

The allocation of convertible debentures between liability and equity components is based on the market interest rate available to the Company on non-convertible, unsecured debt instruments with similar terms. The critical estimates and assumptions underlying the allocation of convertible debentures are described in Note 8.

##### Unsecured debenture with Warrants

The allocation of unsecured debentures between liability and equity components is based on the market interest rate available to the Company on non-convertible, unsecured debt instruments with similar terms. The critical estimates and assumptions underlying the allocation of the unsecured debenture is described in Note 8.

##### 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.

##### Financial Instruments

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

##### 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.

## REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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### 2. Basis of Presentation (Continued)

#### d) Use of Estimates and Judgements (Continued)

##### Share Based Compensation

The valuation of stock options and warrants issued is based on management's best estimate of the future volatility of the Company's share price, estimated market price of the Company's shares at grant date, expected lives of the options and warrants, expected dividends and other relevant assumptions. Future volatility of the Company's share price is estimated based on the historical volatility of the Company's share price.

### 3. Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements for the year ended December 31, 2016.

### 4. Investment Property

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Opening balance, beginning of year	\$ 26,100,000	\$ 26,060,000
Additions to existing investment property:		
Capital expenditures	---	33,304
Straight-line rents included in revenue	---	(23,699)
Fair value adjustment	---	30,395
	<u>\$ 26,100,000</u>	<u>\$ 26,100,000</u>

The investment property was appraised as at December 31, 2016 by third party accredited valuation professionals. The investment property was valued using a combination of the direct capitalization of income method and the direct comparison approach.

**REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

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For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

**5. Furniture and Fixtures**

	<b>Cost</b>						<b>Balance at March 31, 2017</b>
	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016	Additions	Disposals	
Furniture and fixtures	\$ 73,588	\$ ---	\$ ---	\$ 73,588	\$ ---	\$ ---	<b>\$ 73,588</b>

	<b>Accumulated Depreciation</b>						<b>Balance at March 31, 2017</b>
	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016	Additions	Disposals	
Furniture and fixtures	\$ 24,549	\$ 9,808	\$ ---	\$ 34,357	\$ 1,961	\$ ---	<b>\$ 36,318</b>

	<b>Net Book Value</b>	
	<b>Balance at March 31, 2017</b>	Balance at December 31, 2016
Furniture and fixtures	<b>\$ 37,270</b>	\$ 39,231

**6. Loan Receivable from Related Party**

	<b>March 31, 2017</b>	December 31, 2016
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	\$ 1,026,154	\$ 1,026,154
Interest accrued	<b>26,568</b>	8,856
	<b>\$ 1,052,722</b>	\$ 1,035,010

The loan receivable was repayable from an entity owned or controlled by one of the directors of the Company.

**7. Accounts Receivable**

Accounts receivable is comprised of the following items:

	<b>March 31, 2017</b>	December 31, 2016
Rents receivable	\$ 7,467	\$ 7,199
Other receivable	---	1,057
Goods and Services Tax receivable	<b>8,430</b>	6,500
	<b>\$ 15,897</b>	\$ 14,756

Included in accounts receivable is an amount of \$nil (December 31, 2016 - \$1,303) which is rents receivable from entities owned or controlled by one of the directors of the Company.

## REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

### 8. Debentures Payable

Convertible debentures in the amount of \$570,000 were issued on February 4, 2014. The convertible debentures bear interest at 7.00% compounded annually, maturing in three years from the date of issue. The principal amount of each debenture may, at the option of the debenture holder, be convertible, in whole or in part, during the term, into common shares of the Company at a conversion price of \$0.25 per common share before February 4, 2017. There was no equity component determined for this convertible debenture. There was \$nil (December 31, 2016 - \$109,847) of interest payable included in the balance at period-end and \$14,700 (December 31, 2016 - \$38,211) of interest expense included in finance costs. The debentures were repaid February 4, 2017.

Convertible debentures in the amount of \$502,000 were issued on October 30, 2015. These debentures bear interest at 6.00% compounded annually, maturing in three years from the date of issue. The principal amount and interest earned on each debenture may, at the option of the debenture holder, be convertible, in whole or in part, during the term, into common shares of the Company at a conversion price of \$0.30 per common share before October 30, 2018. There was no equity component determined for this convertible debenture. There was \$46,513 (December 31, 2016 - \$38,532) of interest payable included in the balance at period-end and \$7,982 (December 31, 2016 - \$30,596) of interest expense included in finance costs.

A redeemable unsecured debenture and a warrant certificate in the amount of 6,666,667 warrants was issued on November 10, 2016 for proceeds of \$2,000,000. This debenture bears interest at 6.50% compounded annually, maturing in two years from the date of issue. The principal amount and interest earned on the debenture may, upon mutual agreement of both the Company and the debenture holder, be redeemed in whole or in part during the term without penalty or bonus. Each of the share purchase warrants is exercisable into one common share of the Company at \$0.30 per common share for a period of two years from the date of issuance. The common share purchase warrants are subject to a four-month resale restriction. There was \$nil (December 31, 2016 - \$23,151) of interest payable included in the balance at period-end and \$32,054 (December 31, 2016 - \$23,151) of interest expense included in finance costs.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Convertible debentures:		
7.00% debentures matured February 4, 2017	\$ ---	\$ 679,846
6.00% debentures maturing October 30, 2018	<u>548,514</u>	<u>540,532</u>
	<b>548,514</b>	1,220,378
Unsecured debenture:		
6.50% debenture maturing November 10, 2018	<u>1,864,815</u>	<u>1,887,966</u>
	<b>2,413,329</b>	3,108,344
Less current portion	<u>---</u>	<u>(679,846)</u>
	<b><u>\$ 2,413,329</u></b>	<b><u>\$ 2,428,498</u></b>
Portion issued and outstanding to related parties at period end	<b>\$ 1,930,661</b>	\$ 2,080,362

Related parties consist of directors and family members of the directors.

## REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

### 8. Debentures Payable (Continued)

The fair value of each convertible debenture was estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. Since the fair value of the liability component was equal to the fair value of the financial instruments as a whole, no equity component has been recognized.

The fair value of the unsecured non-convertible debenture with a warrant certificate was estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without attached warrants. The fair value of the liability component was determined to be \$1,864,815 resulting in a residual value of \$135,185 being allocated to the equity component and recognized as warrants.

### 9. Loans Payable

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Loan payable is unsecured, bears interest at 6%, and matures on October 30, 2018	\$ 25,081	\$ 24,725
Loans payable are unsecured, bear interest at 7%, and mature on February 4, 2018	446,663	---
Loan payable to a director of the company which is unsecured, bears interest at 7%, and matures on February 22, 2018	<u>60,632</u>	<u>---</u>
	532,376	24,725
Less current portion of loans payable	<u>507,295</u>	<u>---</u>
	<u>\$ 25,081</u>	<u>\$ 24,725</u>

Included in loans payable are \$80,844 (2016 – \$nil) of loans payable to a director of the Company.

### 10. Related Party Transactions

Related party transactions not disclosed elsewhere in the financial statements:

Key management of the Company includes the Chief Executive Officer and Chief Financial Officer. Interest expense on loans payable and debentures paid to key management of the Company for the period ended March 31, 2017 of \$1,372 (December 31, 2016 - \$60,430).

During the period, the Company received a total of \$26,867 (December 31, 2016 - \$106,978) from two entities owned or controlled by one of the directors of the Company for recovery of operating expenses.

## REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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### 10. Related Part Transactions (Continued)

During the period, the Company received rental income, before straight-line adjustment, of \$72,720 (December 31, 2016 - \$290,880) from an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid rent expense of \$7,420 (December 31, 2016 - \$29,678) to an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid interest of \$219 (December 31, 2016 - \$40,665) to entities owned or controlled by one of the directors of the Company.

During the period, the Company accrued interest expense of \$nil (December 31, 2016 - \$1,593) to one of the directors of the Company.

During the period, the Company accrued interest income of \$17,712 (December 31, 2016 - \$8,856) from an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid legal fees of \$6,935 (December 31, 2016 - \$14,673) to a law firm where one of the Directors of the Company is a Partner.

During the period, the Company paid administration fees of \$17,726 (December 31, 2016 - \$70,902) to an entity owned or controlled by one of the directors of the Company.

### 11. Mortgage Payable

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Mortgage payable with a maximum borrowing limit of \$18,875,000, due on demand with monthly blended instalments of \$114,065, interest at 3.56% per annum, with term expiring September 1, 2020, secured by the investment property with a carrying amount of \$26,100,000, general assignment of rent and a general security agreement	\$ 18,145,500	\$ 18,327,315
Accrued interest	<u>54,870</u>	<u>54,047</u>
	<b>18,200,370</b>	18,381,362
Less current portion of mortgage payable	<u>(18,200,370)</u>	<u>(18,381,362)</u>
	<u>\$ ---</u>	<u>\$ ---</u>

## REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

### 11. Mortgage Payable (Continued)

The Company's mortgage of \$18,875,000 contains a holdback of \$345,839 which is dependent on the completion of tenant improvements. The holdback is to be funded based on the confirmation of paid invoices against the construction budget of one of the Company's existing tenants.

As at March 31, 2017, the minimum contractual principal payments due are as follows:

2017	\$	492,299
2018		754,511
2019		781,814
2020		<u>16,116,876</u>
	\$	<u>18,145,500</u>

### 12. Accounts Payable and Accrued Liabilities

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Trade payables	\$ 61,200	\$ 61,863
Accrued liabilities	<u>42,200</u>	<u>44,049</u>
	<u>\$ 103,400</u>	<u>\$ 105,912</u>

Included in accounts payable and accrued liabilities is an amount of \$24,609 (December 31, 2016 - \$11,356) owing to entities owned or controlled by one of the directors of the Company.

### 13. 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, January 1, 2017 and 2016	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	<u>---</u>	<u>---</u>
Balance, March 31, 2017 and December 31, 2016	<u>40,039,000</u>	<u>\$ 4,167,624</u>

**REGENT PACIFIC PROPERTIES INC.**

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Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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

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 technical consultants 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. Upon death, the options may be exercised by legal representatives or designated beneficiaries of the holder of the option.

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

	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period	<b>3,466,000</b>	<b>\$ 0.10</b>	3,466,000	\$ 0.10
Granted	---	---	---	---
Expired	<b>(1,311,000)</b>	---	---	---
Exercised	---	---	---	---
Outstanding, end of period	<b><u>2,155,000</u></b>	<b><u>\$ 0.10</u></b>	<b><u>3,466,000</u></b>	<b><u>\$ 0.10</u></b>
Exercisable, end of period	<b><u>2,155,000</u></b>	<b><u>\$ 0.10</u></b>	<b><u>3,466,000</u></b>	<b><u>\$ 0.10</u></b>

**REGENT PACIFIC PROPERTIES INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

For the Three-Month Period Ended March 31, 2017

(Expressed in Canadian dollars)

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

The following table summarizes information on stock options outstanding and exercisable as at March 31, 2017:

	<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry Date</u>
October 17, 2014	\$ 0.10	2,155,000	2,155,000	October 16, 2019

**14. Finance Costs**

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Interest on mortgages	\$ 161,203	\$ 162,074
Interest on amount due to related parties	219	28,046
Interest on debentures	54,736	17,108
Interest on loans payable	<u>5,650</u>	<u>355</u>
	<u>\$ 221,808</u>	<u>\$ 207,583</u>

**15. Net Income per Common Share**

The basic and diluted net income per common share is based on the weighted average number of common shares outstanding as at March 31, 2017 of 40,039,000 (December 31, 2016 - 40,039,000). The inclusion of the Company's stock options and convertible debentures in the computation of the diluted net income per share would be anti-dilutive and are excluded from the computation.

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### 16. Net changes in Non-Cash Working Capital Items

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Accounts receivable	\$ (1,141)	\$ (101,454)
Prepaid expenses	3,678	4,035
Prepaid rents	---	(24,508)
Accounts payable and accrued liabilities	<u>(2,513)</u>	<u>11,518</u>
	<u>\$ 24</u>	<u>\$ (110,409)</u>

### 17. Financial Instruments

#### Fair Value Measurement

Financial instruments include cash, accounts receivable, loan receivable from related party, mortgage payable, debentures payable, loans payable and accounts payable and accrued liabilities.

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 not 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.

As at March 31, 2017, the Company had only cash classified as “fair value through profit and loss”, measured at fair value – Level 1. There were no transfers between levels of the fair value hierarchy during the year.

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### 17. Financial Instruments (Continued)

The following table summarizes the Company's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value:

	Fair Value Hierarchy	March 31, 2017	December 31, 2016
<b>Financial Assets:</b>			
Cash	Level 1	\$ 94,661	\$ 256,611
<b>Financial Liabilities:</b>			
Loans payable	Level 3	\$ 532,376	\$ 24,725
Debentures payable	Level 3	\$ 2,426,284	\$ 3,111,539
Mortgage payable	Level 3	\$ 18,147,961	\$ 18,322,530

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

- The carrying amounts of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments.
- The fair value of debentures payable 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 debt instruments with similar terms to maturity (Level 3).
- The fair value of loan receivable from related party cannot be determined as there is no market for financial instruments which have no terms of repayment.
- The fair value of mortgage payable and loans payable 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).

#### Financial risk management

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

#### Market risk

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is susceptible to interest rate fair value risk on its mortgage payable, debentures payable, and loans payable that bear a fixed interest rate.

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### 17. Financial Instruments (Continued)

#### Credit and concentration risk

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

The aging of accounts receivable is as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current	\$ 5,374	\$ 9,668
31-90 days	6,963	2,938
91 + days	<u>3,560</u>	<u>2,150</u>
	<u>\$ 15,897</u>	<u>\$ 14,756</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the period ended March 31, 2017, rent earned from four key tenants represents 81% (December 31, 2016 – 84%) of total revenues. At March 31, 2017 receivables from these tenants total 20% of total accounts receivable (December 31, 2016 – 20%).

#### 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. The Company's contractual obligation consists of accounts payable and accrued liabilities of \$103,400 (December 31, 2016 - \$105,912) that have a current contractual maturity. Mortgage payable of \$18,200,370 (December 31, 2016 - \$18,381,362) is due on demand and has terms which expire in fiscal 2020 (Note 11). The loan payable of \$25,081 (December 31, 2016 - \$24,725 ) and current portion of loans payable of \$507,295 (December 31, 2016 - \$nil) have terms which expire in fiscal 2018.

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### 18. 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 March 31, 2017:

	<b>March 31, 2017</b>	December 31, 2016
Mortgage payable	<b>\$ 18,200,370</b>	\$ 18,381,362
Debentures payable	<b>2,413,329</b>	3,108,344
Loans payable	<b>532,376</b>	24,725
Equity	<b><u>4,137,412</u></b>	<u>3,915,279</u>
	<b><u>\$ 25,283,487</u></b>	<u>\$ 25,429,710</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.