

REGENT PACIFIC PROPERTIES INC.
(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the Three Months Ended
March 31, 2018
(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, 2018

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	March 31, 2018	December 31, 2017
ASSETS		
Non-current Assets		
Investment properties (Note 4)	\$ 30,680,683	\$ 30,717,310
Loan receivable from related party (Note 6)	34,101	33,614
Furniture and fixtures (Note 5)	<u>29,816</u>	<u>31,385</u>
	<u>30,744,600</u>	<u>30,782,309</u>
Current Assets		
Accounts receivable (Note 7)	169,442	154,527
Prepaid expenses	5,016	8,778
Cash	<u>254,542</u>	<u>23,794</u>
	<u>429,000</u>	<u>187,099</u>
	<u>\$ 31,173,600</u>	<u>\$ 30,969,408</u>
LIABILITIES		
Non-current Liabilities		
Prepaid rents	\$ 178,678	178,678
Mortgages payable (Note 11)	2,342,988	2,360,502
Deferred income taxes	<u>1,840,389</u>	<u>1,840,389</u>
	<u>4,362,055</u>	<u>4,379,569</u>
Current Liabilities		
Current portion of mortgages payable (Note 11)	18,005,239	17,721,066
Current portion of debentures payable (Note 8)	2,477,007	2,436,608
Current portion of loans payable (Note 9)	208,597	559,936
Prepaid rents	26,756	26,756
Accounts payable and accrued liabilities (Note 12)	<u>117,993</u>	<u>87,394</u>
	<u>20,835,592</u>	<u>20,831,760</u>
	<u>25,197,647</u>	<u>25,211,329</u>
EQUITY		
Share capital (Note 13)	4,167,624	4,167,624
Warrants	135,185	135,185
Contributed surplus	274,210	274,210
Retained earnings	<u>1,398,934</u>	<u>1,181,060</u>
	<u>5,975,953</u>	<u>5,758,079</u>
	<u>\$ 31,173,600</u>	<u>\$ 30,969,408</u>

Contingencies (Note 20)

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 Statements of Comprehensive Income

For the Three-Month Periods Ended March 31, 2018 and 2017

(Expressed in Canadian dollars)

	March 31, 2018	March 31, 2017
Rental revenue (Note 14)	\$ 493,045	\$ 452,331
Recovery of operating expenses	210,660	195,917
Direct operating expenses	<u>(229,337)</u>	<u>(181,840)</u>
Net rental income	<u>474,368</u>	<u>466,408</u>
Other expenses		
General and administrative	34,932	38,218
Amortization	<u>1,569</u>	<u>1,961</u>
	<u>36,501</u>	<u>40,179</u>
Income before interest income and finance costs	<u>437,867</u>	<u>426,229</u>
Interest income	487	17,712
Finance costs (Note 15)	<u>(220,480)</u>	<u>(221,808)</u>
	<u>(219,993)</u>	<u>(204,096)</u>
Net income and comprehensive income	<u>\$ 217,874</u>	<u>\$ 222,133</u>
Net income per share:		
Basic net income per common share (Note 16)	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted net income per common share (Note 16)	<u>\$ 0.01</u>	<u>\$ 0.01</u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Changes in Equity

For the Three-Month Periods Ended March 31, 2018 and 2017

(Expressed in Canadian dollars)

	Share Capital (Note 13)		Contributed		Retained	
	Number	Amount	Surplus	Warrants	Earnings	Total
Balance, January 1, 2018	40,039,000	\$ 4,167,624	\$ 274,210	\$ 135,185	\$ 1,181,060	\$ 5,758,079
Net income	---	---	---	---	217,874	217,874
Balance, March 31, 2018	<u>40,039,000</u>	<u>\$ 4,167,624</u>	<u>\$ 274,210</u>	<u>\$ 135,185</u>	<u>\$ 1,398,934</u>	<u>\$ 5,975,953</u>

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

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Interim Condensed Consolidated Statements of Cash Flows

For the Three-Month Periods Ended March 31, 2018 and 2017

(Expressed in Canadian dollars)

	March 31, 2018	March 31, 2017
Cash provided by (used in):		
Operating Activities		
Net income	\$ 217,874	\$ 222,133
Adjustments for:		
Accrued interest income	(487)	(17,712)
Finance costs (Note 15)	220,480	221,808
Amortization	1,569	1,961
Straight-line rent adjustment (Note 4)	36,627	---
Net changes in non-cash working capital items (Note 17)	<u>19,446</u>	<u>24</u>
	<u>495,509</u>	<u>428,214</u>
Financing Activities		
Proceeds from mortgage financing	17,877,237	---
Repayments of mortgage financing	(17,616,181)	(181,815)
Interest paid	(171,768)	(340,349)
Repayment of loans payable	(354,049)	---
Proceeds from loan payable	---	502,000
Repayment of expired debentures	<u>---</u>	<u>(570,000)</u>
	<u>(264,761)</u>	<u>(590,164)</u>
Increase (decrease) in cash	230,748	(161,950)
Cash, beginning of period	<u>23,794</u>	<u>256,611</u>
Cash, end of period	<u><u>\$ 254,542</u></u>	<u><u>\$ 94,661</u></u>

See accompanying notes

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(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 unaudited interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on May 29, 2018.

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 29, 2018, 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 properties, which are stated at fair value.

c) Functional Currency

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

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:

Investment Properties

The determination of the fair value of the investment properties 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 properties are described in Note 4.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

Convertible debentures and Unsecured debenture with Warrants

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.

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.

Accounting for Acquisitions

The Company assesses whether an acquisition transaction is an asset acquisition or a business combination under IFRS 3, Business Combinations ("IFRS 3"). This assessment requires management to make judgements about whether the assets acquired and liabilities assumed constitute a business combination as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, are capable of being conducted and managed as a business and the Company obtains control of that business. When the acquisition does not meet the definition of a business combination, the Company accounts for the acquisition as an asset acquisition.

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.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

3. Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are consistent with those applied by the Company in its audited consolidated financial statements for the year ended December 31, 2017, except as noted below.

On January 1, 2018, the Company implemented IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". The impact on implementation of IFRS 9 and IFRS 15 is described below.

a) IFRS 9, Financial Instruments

i) Classification of Financial Assets

The Company has classified cash as fair value through profit and loss (FVTPL). Accounts receivable and loan receivable from related party are classified as "loans and receivables". Under IAS 39, loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at fair value upon initial recognition plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary.

IFRS 9 uses a business model test to classify financial assets among three classifications: amortized cost, fair value through other comprehensive income (FVTOCI) and FVTPL. There are two possible business models, the first business model has the objective of holding and collecting the financial asset's contractual cash flows. These financial assets are to be measured at amortized cost. The effective interest rate method is used to recognize interest.

The second business model is to have contractual cash flows with an objective of both collecting contractual cash flows and for sale. These financial assets are to be classified as FVTOCI. Under FVTOCI, the financial asset would be accounted for at amortized cost, with the interest, premium, discount, etc. being recognized in profit and loss. The difference between the fair value and amortized cost would be recognized in OCI. The amounts accumulated in OCI for these financial assets would be recycled to profit and loss on derecognition of the financial asset.

Financial assets that do not have contractual cash flows that are solely principal and interest are to be measured at FVTPL.

Under IFRS 9, cash will continue to be classified as FVTPL. The Company's accounts receivable would primarily be outstanding rents receivable or outstanding recoveries of operating expenses which are to be held to collect contractual cash flows until such time as the rents or recoveries are collected, and as such will continue to be measured at amortized cost using the effective interest rate method. The loan receivable from related party is to be held to collect contractual cash flows until such time as the loan is repaid, as such it will continue to be measured at amortized cost using the effective interest rate method.

ii) Classification of Financial Liabilities

The Company has the following liability financial instruments on its statement of financial position which are measured at amortized cost using the effective interest rate method:

- Mortgages payable
- Debentures payable
- Loans payable
- Accounts payable and accrued liabilities

REGENT PACIFIC PROPERTIES INC.

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Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

Under IFRS 9 there are two main classifications for financial liabilities: other liabilities measured at amortized cost and FVTPL measured at fair value. Most financial liabilities will be accounted for using amortized cost. The fair value model is to be applied if:

- The financial liability meets the definition of held-for-trading (HFT) or
- The entity has elected, under the irrevocable option, to classify a financial liability at fair value as it eliminates an accounting mismatch or a group of financial instruments is managed and its performance evaluated based on fair value.

None of the financial liabilities on the Company's statement of financial position meet either of the two above-noted criteria, so under IFRS 9 they will continue to be measured at amortized cost using the effective interest rate method.

iii) Impairment of Financial Assets

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company records the expected credit loss to comply with IFRS 9's simplified approach for accounts receivable where its loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit losses (ECL)

In determining lifetime ECLs for accounts receivables without a significant financing component, the time value of money does not need to be considered as it is insignificant. As such the ECL's are not discounted, or if they were to be discounted, it would be at a rate of 0%.

The Company's loan receivable from related party is considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses. These financial assets are considered by management to be "low credit risk" when the financial assets have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

This assessment has determined that there was no material impact to financial assets in connection with the change from the incurred loss model to the ECL model.

b) IFRS 15

The Company's revenue is derived primarily in the form of rental revenue from lease agreements. Leases are currently dealt with under IAS 17 and for accounting periods beginning on or after January 1, 2019 under IFRS 16 Leases. The Company also receives non-lease component revenue primarily in the form of recovery of costs relating to common area maintenance recoveries recorded as "Recovery of operating expenses", and these revenues are recognized as services are provided. The implementation of IFRS 15 did not have a significant impact on the Company's financial statements.

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

4. Investment Properties

	<u>Residential</u>	<u>Commercial</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Balance, beginning of period	\$ 3,917,310	\$ 26,800,000	\$ 30,717,310	\$ 26,100,000
Acquisitions	---	---	---	3,518,150
Straight-line rent adjustment	---	(36,627)	(36,627)	---
Fair value adjustments	---	---	---	1,099,160
Balance, end of period	<u>\$ 3,917,310</u>	<u>\$ 26,763,373</u>	<u>\$ 30,680,683</u>	<u>\$ 30,717,310</u>

The Company values its investment properties using Level 3 inputs. The investment properties were appraised by third party accredited valuation professionals as at December 31, 2017. For the commercial property a combination of income approach via overall income capitalization, income approach via discounted cash flow and direct comparison approach were used. For the residential properties a combination of the income approach via overall income capitalization and the direct comparison approach were used.

5. Furniture and Fixtures

Cost						
	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017	Additions	Disposals
Furniture and fixtures	\$ 73,588	\$ ---	\$ ---	\$ 73,588	\$ ---	\$ ---
						Balance at March 31, 2018
						<u>\$ 73,588</u>

Accumulated Depreciation						
	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017	Additions	Disposals
Furniture and fixtures	\$ 34,357	\$ 7,846	\$ ---	\$ 42,203	\$ 1,569	\$ ---
						Balance at March 31, 2018
						<u>\$ 43,772</u>

Net Book Value	
	Balance at March 31, 2018
Furniture and fixtures	<u>\$ 29,816</u>
	Balance at December 31, 2017
	<u>\$ 31,385</u>

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

6. Loan Receivable from Related Party

	March 31, 2018	December 31, 2017
Loan receivable is unsecured, bears interest at 7% and has no specified terms of repayment	\$ 28,208	\$ 28,208
Interest accrued	<u>5,893</u>	<u>5,406</u>
	<u>\$ 34,101</u>	<u>\$ 33,614</u>

The loan receivable is 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:

	March 31, 2018	December 31, 2017
Rents receivable and recovery of operating expenses	\$ 168,788	\$ 141,238
Other receivable	---	4,089
Goods and Services Tax receivable	<u>654</u>	<u>9,200</u>
	<u>\$ 169,442</u>	<u>\$ 154,527</u>

Included in accounts receivable is an amount of \$115,811 (December 31, 2017 - \$84,396) which is rents receivable from entities owned or controlled by one of the directors of the Company.

8. Debentures Payable

	March 31, 2018	December 31, 2017
Convertible debentures:		
6.00% debentures maturing October 30, 2018	<u>\$ 580,138</u>	<u>\$ 571,793</u>
Unsecured debenture:		
6.50% debenture maturing November 10, 2018	<u>1,896,869</u>	<u>1,864,815</u>
	2,477,007	2,436,608
Less current portion	<u>(2,477,007)</u>	<u>(2,436,608)</u>
	<u>\$ ---</u>	<u>\$ ---</u>
Portion issued and outstanding to related parties at period-end	\$ 1,948,694	\$ 1,915,901

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

REGENT PACIFIC PROPERTIES INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

9. Loans Payable

	March 31, 2018	December 31, 2017
Loan payable is unsecured, bears interest at 6%, and matures on October 30, 2018	\$ 26,521	\$ 26,165
Loans payable are unsecured, bears interest at 7%, and matured on February 4, 2018	---	533,771
Loans payable are unsecured, bears interest at 7%, and have no fixed terms of repayment	182,076	---
	208,597	559,936
Less current portion of loans payable	208,597	559,936
	\$ ---	\$ ---

Included in loans payable is an amount of \$nil (December 31, 2017 - \$85,063) which is payable to one of the directors 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. Amounts paid to key management of the Company for the period ended March 31, 2018, consisted of interest expense on loans payable and debentures of \$798 (December 31, 2017 - \$137,465). No remuneration was paid.

During the period, the Company charged a total of \$28,305 (December 31, 2017 - \$112,704) from two entities owned or controlled by one of the directors of the Company for recovery of operating expenses.

During the period, the Company received rental income, before straight-line adjustments, of \$73,545 (December 31, 2017 - \$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, 2017 - \$29,678) 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, 2017 - \$3,059) to a director of the Company, a member of senior management and an immediate relative of key management.

During the period, the Company accrued interest income of \$487 (December 31, 2017 - \$35,633) from an entity owned or controlled by one of the directors of the Company.

During the period, the Company paid legal fees of \$nil (December 31, 2017 - \$14,929) 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, 2017 - \$70,902) to an entity owned or controlled by one of the directors of the Company.

REGENT PACIFIC PROPERTIES INC.

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Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

11. Mortgages Payable

	March 31, 2018	December 31, 2017
Mortgage payable with a maximum borrowing limit of \$18,200,000, due on demand with monthly blended instalments of \$117,380, interest at 3.60% per annum, with term expiring August 1, 2020, secured by the commercial investment property with a carrying amount of \$26,763,373, general assignment of rent and a general security agreement	\$ 17,889,130	\$ ---
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 August 1, 2020, secured by the commercial investment property with a carrying amount of \$26,800,000, general assignment of rent and a general security agreement	---	17,599,214
15 mortgages payable, to an entity owned or controlled by one of the directors of the Company, due June 30, 2019, with monthly blended payments of \$655 to \$996, interest at 2.95%, secured by 15 residential investment properties with a carrying value of \$3,917,310	2,412,175	2,429,142
Finance fee	(1,353)	---
Accrued interest	<u>48,275</u>	<u>53,212</u>
	20,348,227	20,081,568
Less current portion of mortgages payable	<u>(18,005,239)</u>	<u>(17,721,066)</u>
	<u>\$ 2,342,988</u>	<u>\$ 2,360,502</u>

The Company's mortgage of \$18,200,000 contains a holdback of \$310,870 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, 2018, the minimum contractual principal payments due are as follows:

2018	\$ 665,887
2019	3,141,934
2020	<u>16,499,414</u>
	<u>\$ 20,307,235</u>

REGENT PACIFIC PROPERTIES INC.

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(Expressed in Canadian dollars)

12. Accounts Payable and Accrued Liabilities

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

	March 31, 2018	December 31, 2017
Trade payables	\$ 74,293	\$ 38,211
Accrued liabilities	43,700	48,171
Goods and Services Tax payable	---	1,012
	<u>\$ 117,993</u>	<u>\$ 87,394</u>

Included in accounts payable and accrued liabilities is an amount of \$3,916 (December 31, 2017 - \$10,482) 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.

	Number of Common Shares	Amount
Balance, January 1, 2018 and 2017	40,039,000	\$ 4,167,624
Options exercised	---	---
Share issuance costs	---	---
	<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.

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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 $\frac{1}{4}$ of the options vesting in any 3-month period. Options are non-assignable and expire immediately upon termination of employment or holding office as a director or officer of the Company and, in the case of death, expire within one year thereafter.

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

	March 31, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,155,000	\$ 0.10	3,466,000	\$ 0.10
Granted	---	---	---	---
Expired	---	---	(1,311,000)	---
Exercised	---	---	---	---
Outstanding, end of period	<u>2,155,000</u>	<u>\$ 0.10</u>	<u>2,155,000</u>	<u>\$ 0.10</u>
Exercisable, end of period	<u>2,155,000</u>	<u>\$ 0.10</u>	<u>2,155,000</u>	<u>\$ 0.10</u>

The following table summarizes information on stock options outstanding and exercisable as at March 31, 2018:

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

14. Rental Revenue

	March 31, 2018	March 31, 2017
Commercial tenant leases	\$ 410,031	\$ 425,719
Residential tenant leases	53,320	---
Parking and storage	<u>29,694</u>	<u>26,612</u>
	<u>\$ 493,045</u>	<u>\$ 452,331</u>

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15. Finance Costs

	March 31, 2018	March 31, 2017
Interest on mortgages	\$ 172,843	\$ 161,203
Interest on debentures	40,400	54,736
Interest on amount due to related parties	---	219
Amortization of deferred financing fees on mortgages	47	---
Interest on loans payable	<u>7,190</u>	<u>5,650</u>
	<u>\$ 220,480</u>	<u>\$ 221,808</u>

16. 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, 2018 of 40,039,000 (December 31, 2017 - 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.

17. Net changes in Non-Cash Working Capital Items

	March 31, 2018	March 31, 2017
Accounts receivable	\$ (14,915)	\$ (1,141)
Prepaid expenses	3,762	3,678
Accounts payable and accrued liabilities	<u>30,599</u>	<u>(2,513)</u>
	<u>\$ 19,446</u>	<u>\$ 24</u>

18. Financial Instruments**Fair Value Measurement**

Financial instruments include cash, accounts receivable, loan receivable from related party, mortgages 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;

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- 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, 2018, 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 period.

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, 2018	December 31, 2017
Financial Assets:			
Cash	Level 1	\$ 254,542	\$ 23,794
Financial Liabilities:			
Loans payable	Level 3	\$ 208,597	\$ 559,936
Debentures payable	Level 3	\$ 2,472,423	\$ 2,430,688
Mortgages payable	Level 3	\$ 20,324,147	\$ 19,618,556

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

- The carrying amounts of cash, accounts receivable, loan receivable from related party, 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 mortgages 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.

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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 mortgages payable, convertible debentures and loans payable that bear a fixed interest rate.

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:

	March 31, 2018	December 31, 2017
Current	\$ 82,596	\$ 109,535
31-90 days	86,846	41,434
91 + days	---	3,558
	<u>\$ 169,442</u>	<u>\$ 154,527</u>

The Company is subject to concentration risk through the volume of revenues derived from certain key tenants. For the period ended March 31, 2018, rent earned and operating costs recovered from four key tenants represents 79% (December 31, 2017 – 83%) of total revenues. At March 31, 2018, receivables from these tenants total 88% of total accounts receivable (December 31, 2017 – 80%).

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 \$117,993 (December 31, 2017 - \$87,394) that have a current contractual maturity. The mortgage payable of \$17,899,130 (December 31, 2017 - \$17,599,214) is due on demand and has terms which expire in fiscal 2020 and the mortgages payable of \$2,412,175 (December 31, 2017 - \$2,429,142) has terms which expire in fiscal 2019 (Note 11). The loans payable of \$208,597 (December 31, 2017 - \$559,936) have terms which expires in fiscal 2018.

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19. 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:

	March 31, 2018	December 31, 2017
Mortgages payable	\$ 20,348,227	\$ 20,081,568
Debentures	2,477,007	2,436,608
Loans payable	208,597	559,936
Equity	<u>5,975,953</u>	<u>5,758,079</u>
	<u>\$ 29,009,784</u>	<u>\$ 28,836,191</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.

20. Contingencies

An entity (the "Trustee") owned or controlled by one of the directors of the Company acts as the trustee of the 15 condominiums acquired by the Company on July 1, 2017. Under the terms of the trust agreement, the Company is the beneficial title holder of the 15 condominium units and has full rights and obligations of the related rental revenue and operating expenses. The Trustee, prior to sale of the units, entered into a loan agreement with a financial institution and pledged title to these 15 condominium units. This encumbrance was not removed on the date of sale and is still in effect as of quarter-end.