



IMPERIAL  
EQUITIES  
INC.

# 2<sup>nd</sup> Quarter Report 2023

Ending March 31, 2023





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# President's Report

## 2nd Quarter

March 31, 2023



## Report to Shareholders

*I am pleased to provide a report on the progress of our Company during this second quarter of 2023 (Q2 2023).*

It's been a period of adaptation to new business conditions and a period of strategic reassessment as we seek to position ourselves for the future.

Over the quarter, we continued to invest internally, on key assets and adapting to shifting cost structures brought in by a higher interest environment. We remain nimble and efficient in our operations and our spending. This ensures maximum dollars are available to meet our needs, support our growth and sustain commitments to shareholders, all while sustaining an overall positive cash and growth position.

We have always focused on incremental growth in our Company, investing in assets that produce a strong, sustainable return. We have also invested heavily in our home market of Edmonton for similar reasons, being the long-term potential of the market here, and its strategic industrial and distribution base. When your investments are weighted within one geographic area, it's important to assess its ongoing potential.

Going forward, we are looking to adjust our strategy of holding multiple pieces of raw land in a particular geographical area. During Q3 2023 we will be going to market with some of our banked raw lands. The sale of some of these assets will reduce our property tax burden on properties for which we have no short-term plans, and will accrue investment capital which can be applied in higher priority directions, including debt repayment or reinvestment.

Our confidence in Edmonton has not waned. We continue to have a high confidence level in the assets we hold here. The Edmonton industrial marketplace continues to grow as a key distribution and cargo hub. The market is maintaining a 4 percent vacancy rate (Q4, 2022, Avison Young) and continues to absorb surplus capacity, even as significant new inventory comes on stream. Still with more than 3.6 million square feet under construction in Greater Edmonton, there is significant room for tenants to influence the market in their favour and we will have to continue to ensure we are competitive in every part of the city as we look to maintain our low vacancy rate.

Our performance within this market is strong and highly competitive. The best measure of this is our ability to attract and retain tenants and to achieve market competitive rates on the properties we own and acquire. With an occupancy rate of almost 98 percent, we have a clear indication of the attractiveness of our assets and our competitiveness. This year to date, we have had limited leasing activity but have renewed 36,982 square feet of leasable space. Rental rates in Greater

Edmonton average \$13.40/psf, and \$10.80/psf within the City (Avison Young). Our renewal rates are above market average overall (\$11.00/psf for Edmonton renewals and our only regional renewal was well above the regional average), reflecting the quality of our facilities, the specialized nature of some assets and our ongoing strong tenant relationships.

We finished our second quarter with only 2.1 percent of available lease space. However, with over 100,000 square feet in leases up for renewal over the next 12 months our focus will be on keeping our occupancy at this high level, and given the competitiveness of the market, there is no question our skills will be tested.

We are also working within a market that has a higher interest rate environment now fully settling and impacts on our cost structures are evident as the weighted average of mortgage financing continues to creep up in alignment with the new rate structure. Still, our overall position remains strong with our asset position showing growth and our debt position slightly down this quarter.

We have always worked hard to maintain the competitiveness of our assets. We are an experienced, specialized landlord and never a passive partner to our tenants. Our asset management skills are a key ongoing differentiator for us, one that is increasingly important in a marketplace that demands increased responsiveness to specialized business requirements, assumes focus on ESG requirements and are constantly adapting around shocks in the global environment means we have to be nimble.

We are close to completing two major internal investments. The most significant of these is the Wajax expansion in Fort McMurray, with the tenant now fully occupying the first 8,000 square foot addition to the original 25,000 square foot building. Phase II, a new 25,200 square foot industrial building which is co-located on the original property is expected to be complete in Q3 and turned over to the tenant for fixturing before the end of the quarter. The overall project more than doubles the leasable space onsite and significantly increases our rental income from this Class A industrial space. It is a major improvement for our tenant and our Company.

Our other major investment has been in readying one of our older assets for its next life. Our former NAIT facility, which served as an industrial education centre for decades, is almost ready to open with a new tenant, Big Box Outlet Stores, a major national retail and distribution facility. We look forward to seeing them operational inside of Q3.

Both of these projects have been financed with existing cash flows and related party financing. Following the completion of the expanded Wajax property, and as increased rental income begins to be earned, we expect to place conventional fixed rate financing that is aligned with an overall lease extension.

It's been a busy quarter and the results show the value of our efforts. With ongoing profitability and a consistent dividend payout to shareholders, this is the fifth consecutive quarter in which we paid out dividends to shareholders at the increased rate of \$0.02 per share.

Our second quarter is also when we have our annual meeting of shareholders, and I was pleased to have the chance to engage with our shareholders in March, 2023. The opportunity to hear feedback, share ideas and reflect on our journey is always valued by myself and our Board. Your feedback is welcome all throughout the year. Please don't hesitate to reach out.

Sincerely,



**Sine Chadi**  
President & CEO

# MD &A

## MANAGEMENT'S DISCUSSION & ANALYSIS

for the second quarter ending March 31, 2023

## **Imperial Equities Inc. MD&A May 17, 2023**

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The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. ("Imperial" or "Imperial Equities" or the "Company") and its subsidiaries. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the period ended March 31, 2023, and the related notes. Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol "IEI". Additional information on the Company may be obtained by visiting [www.sedar.com](http://www.sedar.com).

### **Responsibility of Management and the Board of Directors**

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Management is responsible for the information disclosed in the MD&A and is also responsible to ensure that appropriate procedures and controls exist internally that will provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with International Financial Reporting Standards ("IFRS"). In addition, the Company's Audit Committee and Board of Directors provide an oversight role for all public financial disclosures by the Company and have reviewed and approved this MD&A and the accompanying consolidated financial statements.

### **Forward-Looking Information**

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In our report to shareholders, Management may talk about the current economy and express opinions on future market conditions. This forward-looking information is based on Management's current assessments made based on internal expertise as well as the opinions of other professionals in this industry. While Management may consider these statements to be reasonably optimistic and favourable, the opinions and estimates of future trends are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in Note 20 of the audited consolidated financial statements for the fiscal year ending September 30, 2022. Any forward-looking statements in this report should not be relied upon as facts, as actual results may differ from estimates.

### **Additional Non-IFRS Measures**

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Debt, unencumbered properties, operating expense recoveries, and debt to asset ratios are non-IFRS financial measures and do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar calculations reported by other Canadian issuers.

Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies.

## **Business Overview**

Based in Edmonton, Alberta, Imperial Equities is a publicly traded company anchored by industrial, agricultural, and commercial properties in its targeted markets throughout Western Canada.

Annually, since operations began in 1998, Imperial Equities has achieved solid growth. The Board of Directors along with corporate Management are all vigorously and enthusiastically committed to the continued growth of the Company.

## **Strategic Direction**

Imperial's team of professionals is dedicated and motivated to grow its real estate portfolio and earn value for its shareholders. The Company is focused on the real estate market throughout western Canada and is committed to continue building a strong portfolio of investment properties, through careful, strategic movement. The Company is diligent in working towards meeting its strategic goals and objectives. For details about the Company's strategic goals and objectives, refer to the Management Discussion & Analysis for the fiscal year ended September 30, 2022.

## **Key Performance Drivers**

Imperial Equities continues to engage a dedicated team of professionals to manage and oversee business activities. There is a strong Board of Directors with significant real estate experience to guide and assess the Company's strategy and investment decisions. The dedication and professional experience of Imperial's Management team has helped the Company achieve positive earnings every year the Company has been in business.

Management monitors the success of Imperial by measuring how well the Company delivers on its strategies and executes due diligence. This assessment includes the size of the tenant, the length of time they have been in business, their operations, and exposure to the industry in which they operate. All the performance drivers used by the Company are consistent with those outlined in Management's Discussion & Analysis for the year ending September 30, 2022.

## Key Performance Indicators

	Period ending March 31, 2023	Year ending September 30, 2022
<b>Investment Properties</b>		
Total number of investment properties	42	42
Property acquisitions during the period	-	2
Property dispositions during the period	-	1
Raw land properties held for future development	9	9
Raw land properties under lease with tenants	5	4
Gross leasable area (GLA) in square feet	1,092,003	1,084,003
Property under development nearing completion	25,200	-
<b>Leasing Activities by Gross Leasable Area (GLA)</b>		
Lease retention	36,982	56,519
New tenant leases	8,000	98,316
GLA of leases expiring within twelve months	112,547	105,504
Space available for lease	23,267	23,267
Average lease term to maturity in years	5.05	4.83
Building occupancy	97.9%	97.9%
<b>Property Operations</b>		
% operating expense recoveries	80%	82%
Income from operations	\$ 6,361,460	\$ 13,458,786
Investment property improvements	\$ 3,043,537	\$ 5,205,210
<b>Financing</b>		
Debt to total assets ratio	50%	52%
Weighted average interest rates on mortgages	3.41%	3.23%



## Investment Properties

### Raw Land in Alberta

#### Available for development

- 12.90 acres Strathcona County, AB
- 2.24 acres NW Edmonton, AB
- 49.42 acres Hanna, AB
- 0.91 acres Edmonton, AB










#### Under lease with tenants

- 1.49 acres SE Edmonton, AB
- 2.00 acres NW Edmonton, AB
- 3.00 acres NW Edmonton, AB
- 1.70 acres SE Edmonton, AB
- 1.71 Acres SE Edmonton, AB

#### Gross leasable area (GLA)

at March 31, 2023 is 1,092,003 ft<sup>2</sup> with the completion of 8000 ft<sup>2</sup> of property that was under development and is now occupied.

#### Property Portfolio - GLA by Municipality (square feet)

Edmonton		786,227
Fort McMurray		59,424
Red Deer		78,196
Leduc		41,630
Nisku		37,200
Vegreville		33,295
Hanna		28,891
Fort Saskatchewan		6,000
Fort St. John		21,140

## Leasing Activities

Performance drivers of the Company include ensuring a low turnover of tenants through lease retentions and maintaining high occupancy.

The risk to the Company when a tenant does not renew a lease is that the Company has to absorb the ongoing operating costs of vacant space. These costs include property taxes, insurance, utilities, and any maintenance items. If a single-tenant building becomes vacant, additional vacancy costs could include mortgage payments, if applicable. Management works closely with tenants to maintain high retention rates, primarily through responsive and pro-active property management, which ensures their leased space in the building, and the exterior parking lot and landscaping, are all well maintained.

This work helps the Company meet its main goal of maximizing the revenue of each asset in its region.

### Lease Retention

*during the current year*

Location	GLA	Expiring Rate (PSF*)	Renewal Rate (PSF*)	Renewal Term (months)
Edmonton, AB	3,000	\$ 12.00	\$ 12.00	60
Edmonton, AB	24,855	\$ 9.00	\$ 9.00	60
Fort Saskatchewan, AB	6,000	\$ 38.32	\$ 42.15	60
Edmonton, AB	3,127	\$ 14.25	\$ 12.15	60
<i>* per square foot</i>	<b>36,982</b>			

### New Tenant Leases

*during the current year*

Location	GLA	Rate (PSF*)	Lease Term (months)
Fort McMurray, AB	8,000	\$ 31.88	186
<i>* per square foot</i>	<b>8,000</b>		

### GLA of leases expiring in the next twelve months

During the next twelve months there are an additional 112,547 ft<sup>2</sup> of leases expiring. The Company will work with the existing tenants to renew the leases as they come up for renewal.

### Space available for lease at March 31, 2023, unchanged from September 30, 2022

- 4,160 ft<sup>2</sup> in a multi-tenant mixed-use building
- 19,107 ft<sup>2</sup> in a single-tenant building

## Lease Terms

at March 31, 2023

### Single-Tenant Buildings

Square Feet	Maturity Year
3,097	Month to Month
112,547	2023
76,434	2024
33,295	2025
76,400	2026
178,172	2027
122,630	2028
70,224	2029
41,054	2030
118,305	2031
34,404	2033
34,800	2034
28,891	2038
<b>930,253</b>	

### Multi-Tenant Buildings

Square Feet	Maturity Year
-	2023
21,127	2024
62,903	2025
1,996	2027
3,127	2028
11,944	2030
38,015	2031
<b>139,112</b>	

Total average lease terms to maturity  
**5.05 years**

Total GLA  
of in-place leases  
**1,069,365**

GLA available  
for lease  
**23,267**

Total GLA at  
December 31, 2022  
**1,092,632**

## Average Annual Lease Rates per City, per square foot at March 31

	2023	2022
Edmonton, Alberta	\$ 11.33	\$ 10.40
Red Deer, Alberta*	\$ 26.61	\$ 22.75
Fort Saskatchewan, Alberta*	\$ 38.32	\$ 37.57
Fort McMurray, Alberta	\$ 41.42	\$ 46.98
Leduc, Alberta	\$ 17.66	\$ 17.66
Hanna, Alberta	\$ 19.95	\$ 19.55
Nisku, Alberta	\$ 13.39	\$ 13.26
Vegreville, Alberta	\$ 7.18	\$ 7.18
Fort St. John, British Columbia	\$ 14.75	\$ 14.75

\*Leases include a large land component which skews the average rate per square foot

## Property Operations at March 31

	2023	2022
Property tax and insurance recoveries	\$ 1,455,636	\$ 1,432,007
Operating expense recoveries	899,251	<b>668,452</b>
Total recoveries	<b>\$ 2,354,887</b>	<b>\$ 2,100,459</b>
Total property operating expenses	\$ 2,953,841	\$ 2,829,394
<b>% of property operating expense recoveries</b>	<b>80%</b>	<b>74%</b>

Property taxes, insurance, and operating expenses are budgeted annually and reconciled every 12 months on a tenant-by-tenant basis. All the Company's leases, except one, are triple net leases, which allows the landlord to recover all operating costs except for any structural repairs. In addition, Management decides how to treat the recovery from the tenant of expenses related to large maintenance items, so as not to impose hardship on the tenant's operations or cause large year over year cost fluctuations. In some cases, Management will amortize the expenditures over a year within the tenant's lease term. Some leases have lower management fees than other leases dependent upon the responsibility of performing maintenance remaining with the tenant or the landlord. Because of these variations, and because the landlord does invest in its structural assets, there will always be a percentage of operating expenses not recovered by the landlord in the current year. Historical optimal recovery percentages will be in the range of 80%-86%.

The recovery percentage at the fiscal year end of September 30, 2022, was 82%. In the prior year there were additional costs to bring two single-tenant buildings to leasable condition subsequent to their lease expiries. Total costs incurred relating to these two buildings were \$178,303 and these costs were not recoverable.

Recovery percentages may vary each period depending on property taxes, utilities, snow removal, lawn care, and other seasonal expenditures. Management ensures operating expense recoveries are accurately recorded, recovered, and budgeted for the subsequent year.

**Income from operations** is a measure of funds available to service the debt repayments on financing, provide cash for capital expenditures on the properties, and fund further growth.

	<b>March 31, 2023</b>	March 31, 2022
<b>Income from operations</b>	<b>\$ 6,361,460</b>	<b>\$ 6,707,141</b>
Less: Interest on financing*	2,496,038	2,053,055
Less: Principal instalments on mortgages	3,766,686	3,553,275
<b>Funds available for property improvements &amp; growth</b>	<b>\$ 98,736</b>	<b>\$ 1,100,811</b>

\*Interest on financing includes capitalized interest if any and excludes interest income and amortization of deferred finance fees. Increased interest expense this year is a result of a higher balance of debt relating to other financing and bank operating facilities.

The Company, working closely with third-party contractors, continues to ensure all properties are well-maintained in terms of maintenance, electrical, mechanical, structural, and cosmetic (which includes exterior maintenance of the buildings through painting, landscaping, parking lot striping, etc.). In addition, the Company undertook several upgrade projects in the last twelve months that will improve the energy efficiency of some of the properties.

<b>Investment in Property Improvements</b>	<b>March 31, 2023</b>	March 31, 2022
Total property improvements	<b>\$ 3,043,537</b>	<b>\$ 523,530</b>

Prior to the fiscal year end of September 30, 2022 the Company entered into a construction contract to build an additional 33,200 ft<sup>2</sup> of industrial space for one of its investment properties in Fort McMurray, Alberta. The total budgeted cost is \$9,200,000. At December 31, 2022 Phase 1 of the project being 8,000 ft<sup>2</sup> was completed and occupied by the tenant. The remaining 25,200 ft<sup>2</sup> is approximately 86% complete and scheduled to be occupied in Q3 2023.

The Company continues its efforts to replace all interior and exterior light fixtures throughout the portfolio with new energy-efficient LED lighting. Also, energy-efficient heating, ventilating, and air conditioning units are installed in several properties to replace outdated components and equipment. The impact of these improvements is the reduction of the operating costs to the tenants and the promotion of a greener environment through reduced emissions.

The Company's hands-on approach to maintaining its properties results in very high tenant retention with little turnover and shows a firm commitment by the Company to promote pride of ownership, which in turn attracts new prospective tenants, and possible future build-to-suit opportunities.

## Financing

Debt and unencumbered properties are non-IFRS financial measures and do not have any standardized meaning prescribed by IFRS, and therefore may not be comparable to similar calculations reported by other Canadian issuers.

Management considers the ratio of debt to total assets to be useful for evaluating the leverage the Company may have on its investment properties, assessing its debt position, and considering additional financing opportunities if any.

The Company continues to enjoy a good relationship with its lenders and has been able to renew mortgages as they come due and place new conventional financing on acquisitions. Unencumbered properties at March 31, 2023 have fair values of \$22,238,518 (September 30, 2022 - \$22,138,517).

	Six months ending March 31, 2023	Year ending September 30, 2022
<b>Total assets</b>	<b>\$ 261,490,486</b>	<b>\$ 257,175,623</b>
Mortgages excluding transaction fees	104,476,243	108,242,930
Other financing	4,675,000	3,000,000
Bank operating facilities	<b>21,628,160</b>	18,883,408
<b>Debt</b>	<b>\$ 130,779,403</b>	<b>\$ 132,897,110</b>
<b>Ratio of debt to assets</b>	<b>50%</b>	<b>52%</b>

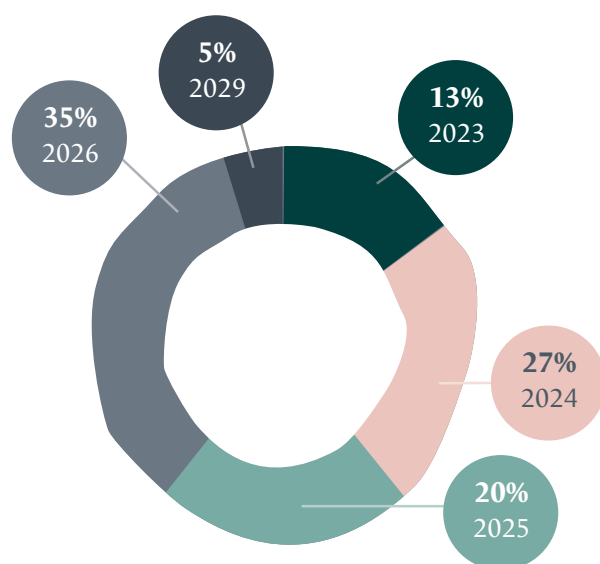
**Weighted average interest rates on the mortgages** is 3.41% at March 31, 2023. During the next twelve months, there are seven mortgages up for renewal.

## Mortgage Maturities (Calendar Years)

The following table details the mortgage activities during the current year.

All mortgages are secured by a first charge over the related investment property and a general assignment of rents, insurance, and site-specific goods and chattel paper.

The Company's two bank operating facilities are secured with specific revenue-producing properties and one operating facility has a general security agreement covering a first position on all present and after acquired property until a temporary increase in the facility expires May 13, 2023.



Maturity Date	Rate	Principal Balance Sep. 30'22	Mortgages Advanced/ Assumed	Y-T-D Principal Payments	Principal Paid on Maturity	Principal Balance 31-Mar-23
01-Jul-23	P + .95	\$ 1,595,085	\$ -	\$ 72,869	\$ -	\$ 1,522,216
01-Oct-23	3.950%	143,163	-	65,322	-	77,841
01-Oct-23	4.090%	5,004,237	-	180,701	-	4,823,536
01-Nov-23	4.330%	3,448,623	-	121,71	-	3,326,908
01-Dec-23	4.648%	4,133,419	-	141,923	-	3,991,496
01-Jan-24	4.300%	1,874,009	-	94,687	-	1,779,322
01-Jan-24	4.300%	1,487,309	-	75,149	-	1,412,160
01-Apr-24	2.110%	3,796,429	-	121,916	-	3,674,513
01-Aug-24	3.300%	8,491,306	-	293,699	-	8,197,607
01-Nov-24	3.555%	7,550,033	-	250,704	-	7,299,329
01-Dec-24	6.073%	3,034,362	-	116,053	-	2,918,310
01-Dec-24	6.073%	2,756,884	-	105,437	-	2,651,447
01-Feb-25	5.720%	1,671,265	-	65,222	-	1,606,044
01-Feb-25	3.310%	4,589,983	-	210,299	-	4,379,685
01-Feb-25	3.420%	4,311,765	-	140,822	-	4,170,943
01-Apr-25	5.290%	3,269,384	-	106,679	-	3,162,705
01-Apr-25	2.310%	4,565,410	-	157,356	-	4,408,054
01-Aug-25	2.837%	3,540,220	-	114,421	-	3,425,799
01-Apr-26	2.675%	2,404,956	-	110,912	-	2,294,044
01-Jul-26	2.710%	10,553,887	-	318,876	-	10,235,011
01-Jul-26	2.710%	5,522,655	-	166,862	-	5,355,793
01-Oct-26	2.940%	9,031,037	-	261,136	-	8,769,901
01-Nov-26	2.930%	10,506,586	-	301,840	-	10,204,746
11-Jun-29	3.480%	4,960,921	-	172,087	-	4,788,834
		<b>\$ 108,242,929</b>	<b>\$ -</b>	<b>\$ 3,766,686</b>	<b>\$ -</b>	<b>\$ 104,476,243</b>

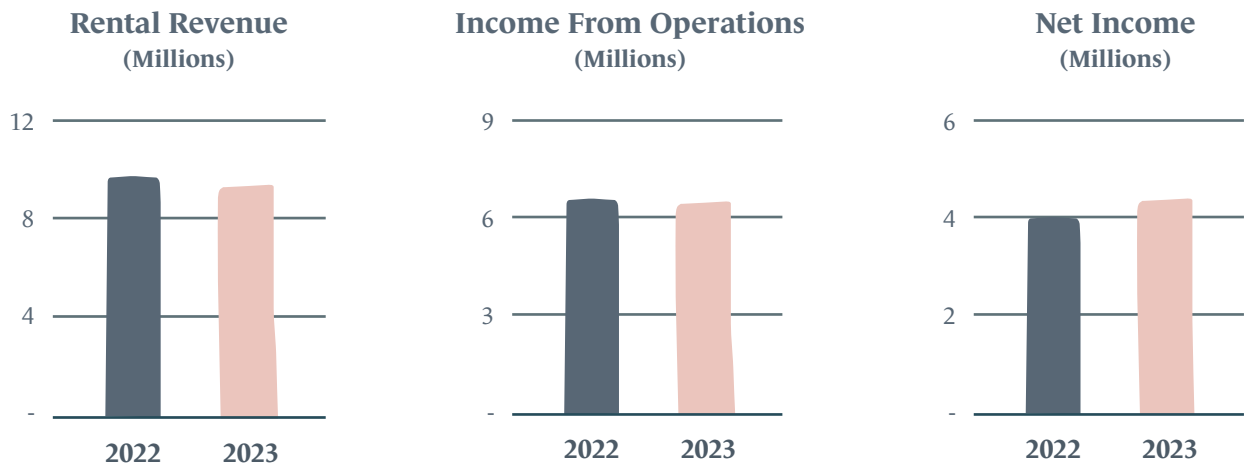
## Activity During the Period

Property under development in Fort McMurray, Alberta is nearing the final stages of completion. The current tenant is occupying 8,000 ft<sup>2</sup> of the total project build and the remaining 25,200 ft<sup>2</sup> is approximately 86% complete. This multi-national tenant has signed a lease agreement encompassing the entire leased space with an expiry date in 2038.

During the current period, the Company completed two large redevelopment projects for two properties resulting in new tenants taking occupancy and rent commencing in Q2 and Q3 2023.

During the current period, the Company renewed four leases and signed a new lease with an existing tenant to add increased square footage.

## Performance Results



Rental revenue is higher during the previous year as two large tenants that subsequently vacated were still paying rent.

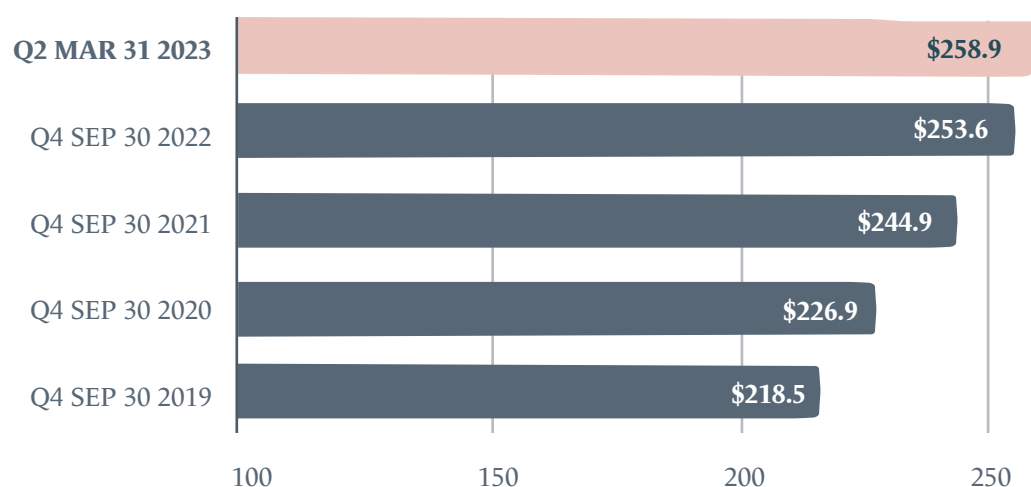
The decrease in income from operations is correlated to the decrease in rental revenue as noted above.

Net income is higher during the current period compared to the prior year due to the fair value gains of \$2,401,474 at March 31, 2023. The most significant gains were for the property under construction in Fort McMurray, Alberta which was appraised in Q2 2023. The tenant will take occupancy in Q3 2023. Other increases relate to two large renovation projects for new tenants.



## Results of Operations and Cash Flows

### Fair Market Value of Investment Properties (Millions)



**Increase in fair value of investment properties** at March 31, 2023 in the amount of \$5.3 million is largely due to valuation net gains and property improvements.

**Valuation net gains from investment property** are the result of valuing the properties at current fair market values at each reporting date. Values are determined by Management using the actual annual contracted subsequent year's revenue stream, less a vacancy, and structural reserve allowance, applying a capitalization rate to this normalized income, and deriving a fair value. Capitalization rates are used to estimate fair market value and consider many factors, including but not limited to: location, size of land, site coverage, strength of the tenant, term of the lease, lease rate, age of the building, size of the building, construction of the building and any unique features of the building. Given that not all industrial properties are the same, Management will apply these factors to each property in determining a capitalization rate. If a property has all favorable factors, the valuation will likely be calculated using the low end of the capitalization rate range.

Lower capitalization rates are applied to the Company's Class A buildings that have strong tenants and long-term leases and are typically newer construction. Higher capitalization rates apply to the Company's older buildings and take into consideration whether the property is multi-tenanted, the condition of the building, the strength of the tenants, the site coverage, and the location of the property.

At each reporting date, this calculation method is performed on all the investment properties except for vacant land and land under lease. Vacant land held for development is valued using Management's research of similar vacant lands that have been sold recently or are available for sale. Land under lease with tenants is valued at the fair value of similar vacant land in the area.

The Company continues to increase its investment property portfolio each year by acquiring properties with a view towards capital appreciation. Affecting operations for each quarter are the fair valuations of investment properties.

Net valuation gains (losses) per quarter:

2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3
\$ 204,436	\$ 2,197,038	\$ 667,538	\$ 866,337	\$ 379,994	\$ 594,100	\$ (714,103)	\$ 2,399,494

When valuing the investment properties at fair value, all other inputs being equal, an increase in property revenue for the ensuing twelve months will have a positive impact on the fair values and a decrease in revenue will have a negative impact. When interest rates are low, investors are more likely to expand their portfolios, creating a healthy, competitive environment in which to acquire property, which will keep the cap rates very competitive. Management marginally increases the cap rates on some of the properties where the Company believes property values and lease rates have decreased as a result of a lower demand and owners eager to lease up vacant buildings. Some properties' cap rates were increased to maintain existing values, despite increased contracted revenue streams which would otherwise drive the value upwards.

During the current period, increases in the fair value of properties reflect income generated by properties that were previously vacant, income from new leases, and the increased percentage complete of the building project in Fort McMurray, AB. There has been no significant change in the cap rates.

Investment Property Cap Rates	March 31, 2023			September 30, 2022	
	Total GLA sf	Range Cap Rates	Rate Change	Total GLA sf	Range Cap Rates
Edmonton, Alberta	762,960	4.50% - 7.00%	↔	762,960	4.50% - 7.00%
Red Deer, Alberta	78,196	6.10% - 6.63%	↔	78,196	6.10% - 6.63%
Fort Saskatchewan, Alberta	6,000	6.75%	↑	6,000	6.51%
Fort McMurray, Alberta	59,424	6.23% - 6.70%	↔	51,424	6.23% - 6.70%
Leduc, Alberta	41,630	6.50%	↔	41,630	6.50%
Vegreville, Alberta	33,295	8.00%	↔	33,295	8.00%
Nisku, Alberta	37,200	6.50%	↔	37,200	6.50%
Hanna, Alberta	28,891	7.00%	↔	28,891	7.00%
Fort St. John, British Columbia	21,140	8.50%	↔	21,140	8.50%
	<b>1,068,736</b>			1,060,736	
Available for lease, Edmonton AB	23,267			23,267	
<b>Total GLA square feet</b>	<b>1,092,003</b>			<b>1,084,003</b>	

**Income from operations** is \$6,361,460 compared to \$6,707,141 in the prior year quarter. The prior year included income from two properties before they were vacated. This quarter, two large renovation projects were completed. Revenue from one project commenced in Q2 and the second project revenue will commence in Q3 2023.

**Finance costs** include interest on financing and amortization of deferred finance fees and are net of interest income. Finance costs related to the project in Fort McMurray are capitalized until the project is complete and ready for occupancy. Finance costs have increased from the prior year because of increases in bank operating facilities and debt from related party financing.

## Changes in Cash Flows

**Cash provided by operating activities** was \$6,739,920 at Q2 2023 (Q2 2022 – \$7,819,123). The Company continues to generate positive cash from operations each quarter to cover day-to-day expenditures and provide reserves for future opportunities. The prior year had positive working capital changes of \$2,253,089 compared to \$1,307,214 this year. This large fluctuation is the result of increases in trade payables for construction costs.

**Cash used in investing activities** was \$4,474,587 at Q2 2023 (Q2 2022 – \$(507,980)). This year the Company has property improvements of \$3,043,537 while in the prior year, investing activities included funds received from a mortgage receivable of \$2,500,000 which offset property purchases of \$2,275,847.

**Net cash used in financing activities** was \$2,051,867 at Q2 2023 (Q2 2022 – \$6,821,270). During the prior year, the Company used proceeds from new mortgages as well as cash provided by investing activities to reduce high interest debt.

At March 31, 2023, there was a **net increase in cash** of \$213,466.

## Changes in Financial Position

**Investment properties** include the fair value of the properties at the reporting date as valued by Management, including the unamortized balance of straight-line rent receivables, the unamortized balance of deferred leasing costs and the unamortized balance of tenant inducements if any. Changes since the fiscal year-end of September 30, 2022, are detailed below.

	Income Producing Properties	Properties Under Development	Held for Development	Total Investment Properties
<b>Opening balance at October 1, 2022</b>	\$ 235,674,147	\$ 5,520,242	\$ 12,401,992	\$ 253,596,380
<i>Additions:</i>				
Property improvements and additions	407,428	2,540,469	-	2,947,897
Capitalized property taxes and other	-	-	1,139	1,139
Tenant inducements	94,501	-	-	94,501
Leasing commissions	376,728	-	-	376,728
Amortization of tenant inducements	(23,101)	-	-	(23,101)
Change in straight-line rental revenue	(292,136)	-	-	(292,136)
Revaluation gains (losses) net	1,825,600	577,013	(1,139)	2,401,474
Amortization of deferred leasing commissions	(235,361)	-	-	(235,361)
<b>Ending balance at March 31, 2023</b>	<b>\$ 237,827,806</b>	<b>\$ 8,637,724</b>	<b>\$ 12,401,992</b>	<b>\$ 258,867,520</b>

Property improvements and additions include structural improvements and additions to the Company's property under development. Leasing commissions were paid for lease renewals and new leases signed during the period.

**Receivables** decreased by \$217,898 since the year end with collection of occupancy cost reconciliations performed for the fiscal year ending September 30.

**Prepaid expenses and deposits** decreased by \$860,508 since the year end with the full amortization of property taxes and insurance.

**Current portion of mortgages** have increased because there are seven mortgages up for renewal in the next twelve months.

**Other financing** of \$1,675,000 was received from related parties during the current period to assist with the ongoing property under development in Fort McMurray, AB.

**Bank operating facilities** at March 31, 2023 have a balance of \$21,628,160 with two of the Company's major lenders (September 30, 2022 - \$18,883,408). The limit on one of the facilities was increased by \$2 million during Q1 2023. The second facility received a temporary increase of \$2 million which expires May 13, 2023.

<b>Credit Facilities</b>	<b>March 31, 2023</b>	<b>September 30, 2022</b>
Bank credit facilities	\$ 23,500,000	\$ 19,500,000
Amounts drawn on facilities	(21,628,160)	(18,883,408)
<b>Available credit facilities</b>	<b>\$ 1,871,840</b>	<b>\$ 616,592</b>

At March 31, 2023 the Company was in compliance with all loan covenants and requirements. Further details on the terms of the facilities are disclosed in Note 6 of the condensed consolidated interim financial statements.

## Summary of Consolidated Quarterly Results

	<b>2023 Q2</b>	<b>2023 Q1</b>	<b>2022 Q4</b>	<b>2022 Q3</b>	<b>2022 Q2</b>	<b>2022 Q1</b>	<b>2021 Q4</b>	<b>2021 Q3</b>
Revenue	<b>4,650,934</b>	4,664,367	4,772,001	4,758,558	<b>4,653,262</b>	<b>4,883,273</b>	4,860,652	4,540,224
Total Comprehensive Income	<b>1,321,039</b>	3,076,874	1,648,262	2,298,469	<b>1,910,112</b>	<b>1,996,828</b>	870,558	3,359,351
EPS-Basic	<b>\$ 0.14</b>	\$ 0.33	\$ 0.17	\$ 0.24	<b>\$ 0.20</b>	<b>\$ 0.21</b>	\$ 0.09	\$ 0.35
EPS-Diluted	<b>\$ 0.14</b>	\$ 0.33	\$ 0.17	\$ 0.24	<b>\$ 0.20</b>	<b>\$ 0.21</b>	\$ 0.09	\$ 0.35

## Quarterly Changes in Revenue

At Q2 2022 the Company was fully tenanted in two buildings that subsequently were vacated. Revenue was still earned until the vacancies at which date the Company commenced substantial property improvements to suit new tenants. One of the tenants rent commenced in Q2 2023 and the second tenant rent is to commence in Q3 2023.

The decrease in revenue in Q1 2023 compared to Q4 2022 is related to operating cost recovery increases at each fourth quarter. Increases in revenue in 2022 compared to 2021 reflects additional revenue from new tenant leases.

Fluctuations in revenue quarter-to-quarter will often be the result of one or more of the following:

- Revenue generated from new leases
- Amortization of tenant inducements
- Increases due to the reconciliation of operating costs to budget at each Q4
- Changes in straight-line revenue due to lease renewals, new leases, and rent deferrals

The Company reports straight-line revenue therefore, typically, quarterly changes in revenue are not material until new tenants begin paying rent.

## Quarterly Changes in Total Comprehensive Income and Earnings (Loss) Per Share (Basic And Diluted)

The significant fluctuations in total comprehensive income are largely caused by the revaluations of the investment properties.

Net valuation gains (losses) per quarter:

2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3
\$ 204,436	\$ 2,197,038	\$ 667,538	\$ 866,337	\$ 379,994	\$ 594,100	\$ (714,103)	\$ 2,399,494

In Q1 2023 there were gains on the property under development in Fort McMurray, AB and gains from new leases on renovated properties in Edmonton, AB. Large increases in the fair value of properties each quarter reflect increases in income generated by properties that were previously vacant. One property acquired in 2021 in Fort St. John, British Columbia had extensive deferred maintenance that was substantially improved during the year, resulting in a large valuation gain for the property.

The net decrease in valuations in Q4 of 2021 resulted from write downs of two properties where existing tenants renewed their leases at lower lease rates. The write-downs amounted to an aggregate of \$1.1M.

During Q3 2021, increases in the fair value of properties of \$2.4M reflected increases in income generated by the properties that had previously been vacant and leased as of June 30, 2021. Additionally, the Company invested a significant amount of funds in one of its properties to improve its exterior and interior design including a new showroom. The investment in the improvements increased the value of the building by \$1.3M in the quarter.

While some properties have increases in the contracted revenue stream, which increases the value when applying a capitalization (“cap”) rate, the Company has chosen to keep the values the same on some of the properties by adjusting the cap rates upward. Most of the values are adjusted slightly upward to offset the amortization of deferred charges, which includes straight-line rent, leasing fees, and tenant inducements if any.

*The fluctuations in earnings per share figures are directly related to the operational activities described herein. There have been no significant changes to the outstanding shares in the last eight quarters.*

## **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at March 31, 2023 is 9,451,242 unchanged from the fiscal year end.

There are currently no options outstanding.

## **Dividends**

Dividend distribution is determined by the Board of Directors after evaluating the earnings of the Company and the overall outlook for the economy. Dividends are declared and paid based on the common shares owned at the record date. Shareholders are cautioned that past issuance of dividends by the Company does not guarantee that future dividends will be issued.

The Company paid a total of \$378,050 in dividends to its shareholders during the current period representing \$0.02 per share.

## **Related Party Transactions**

### ***Paid to companies owned or controlled by a director, majority shareholder, and officer***

**Property management and maintenance fees** in Q2, 2023 were \$667,847 (Q2, 2022 - \$739,967) were paid to Sable Realty & Management Ltd. (“Sable”), a company controlled by Sine Chadi, a director and officer of the Company.

**Leasing fees** in Q2 2023 were \$91,975 (Q2 2022 – \$62,639) were paid to North American Realty Corp. (“NARC”), a company controlled by Sine Chadi.

**Acquisition fees** in the prior year paid to NARC were \$22,500.

**Leased office space and parking** total \$90,000 unchanged from the prior year.

**Consulting fees** are Nil at Q2 2023 compared to \$1,800 in the prior year.

**Rent collected from Sable** for commercial lease space was \$47,461 unchanged from the prior year.

*Contracts with Sable and NARC have been in place since 1999 with no changes to the terms. They can be viewed on-line at <[www.sedar.com](http://www.sedar.com)>. These contracts and the associated fees and rates are reviewed quarterly by the Company’s Board of Directors.*

The above transactions took place at amounts which, in Management’s opinion, approximate normal commercial rates and terms and occurred in the normal course of operations. The transactions have been recorded at the exchange amount.

### ***Paid to directors***

Directors’ fees paid for attending directors’ meetings during the quarter were \$27,500 unchanged from the prior year. The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

## ***Compensation to key Management personnel***

The Company's key Management personnel include President Sine Chadi, who is also a director and significant shareholder of the Company. The total compensation paid to Mr. Chadi during the period was \$150,000 (Q2 2022 - \$150,000). The Company's former COO, Patricia Misutka, was paid \$90,000 in Q2 2022 and the Company's CFO, Azza Osman, was paid \$35,582 during the current quarter (Q2 2022 - \$87,500).

In the prior year the Company announced the departure of its COO effective July 15, 2022.

## ***Unsecured financing from directors and shareholders***

As at March 31, 2023, unsecured financing from directors and shareholders amounts to \$4,675,000 with interest expense of \$131,628. These loans bear interest at an annual rate of 6% with no specified dates for repayment.

## **Liquidity, Capital Resources, and Solvency**

Income from operations or cash flows from operating activities is the primary source of liquidity measures to service debt and fund planned expenditures for maintenance and capital improvements on the investment properties. Net income is not used as a liquidity measure, as it includes non-cash fair value changes on investment properties.

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Income from operations	<b>\$ 6,361,460</b>	\$ 6,707,141
Cash provided by operating activities	<b>\$ 6,739,920</b>	\$ 7,819,123

The Company continues to generate cash from operating activities to meet the requirements of ongoing property maintenance, including capital improvements, and to meet its debt financing requirements. The Company relies on the existing credit facilities and related party financing to assist with short-term borrowing needs including funding a portion of property acquisitions. The Company has not breached any debt covenants and maintains a healthy relationship with its current lenders.

The Company primarily relies on its lenders to finance the majority cost of property acquisitions through conventional mortgage financing. Any further cash shortfalls are covered through related-party financing, or current cashflows. The Company has been very successful to date with financing its acquisitions and does not foresee any long-term impediments to obtaining the required financing to continue growth and to satisfy short-term borrowing needs and obligations.

Investment properties unencumbered with debt are valued at \$22,238,518 (September 30, 2022 - \$22,138,517). Overall, the ratio of debt to assets is 50% (September 30, 2022 - 52%), providing possible leverage opportunities in the future.

The Company has no other contractual commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 18 of the consolidated financial statements.

## Critical Estimates of the Current Economic Environment and Outlook

The economic environment in which Imperial operates could be adversely affected market risks such as product and service supply shortages, utility price increases, and property tax increases. These risk factors have a direct impact on the Company's costs, however they are mitigated through the Company's lease term structures which recover the majority of these costs from the respective tenants. An additional risk is the tenants' exposure to these risks and their impact on their economic performance; however, the Company's strong tenant portfolio and continuous communication with its tenants helps the Company in managing and mitigating these risks.

Vacancies at March 31, 2023 remain unchanged from the fiscal year end of September 30, 2022 and are 23,267 ft<sup>2</sup>. The Company continues to actively market current vacancies and remains optimistic in leasing prospects.

To date, the Company has been very successful with its financing requirements and diligently monitors risk factors when considering strategic plans.

## Risks and Risk Management

### *Portfolio of Tenants and Lease Roll-Over Risk*

One of the Company's internal performance drivers is to ensure the quality of its tenant base is strong. Most of the Company's tenants are large multi-national or national companies and are very likely to manage their operations sustainably during any economic turbulence. The Company has one large tenant occupying five properties in five different locations being Edmonton, Nisku, Red Deer, Fort McMurray, and Fort St. John in British Columbia. The revenue from this tenant now accounts for approximately 20% of Imperial's total revenue. The Company continuously carries out risk assessment activities with all its tenants to assess potential exposure associated with the tenant's performance. This tenant has been assessed to have strong financial performance and this is reflected through all property performance and in all financial matters between the Company and the tenant.

Mix of Tenant Base	Institutional	Multi-National	National	Regional Large	Regional Medium	Local Small	Totals
% of Occupied GLA	7%	37%	39%	8%	1%	7%	100%
% of Annual Rental Revenue	3%	45%	36%	12%	1%	3%	100%

The Company's annual rental revenue is the 12-month revenue stream from contracted rents, also called Minimum Rent or Basic Rent in the Company's leases, and excludes revenues from property taxes and insurance, operating expense recoveries, and month-to-month leases.

The Company's real estate portfolio is predominately comprised of large single-tenant industrial buildings that are leased to multi-national and national tenants.

Most tenants have been with the Company for many years and the Company conducts due diligence on all prospective tenants. Notwithstanding the size of each tenant, the Company's risks involve losing tenants due to unforeseen circumstances and poor economic conditions.

The risk of vacancy in any leased space is a risk to the Company's ability to continue to meet the mortgage obligations on the property, as well as carrying costs including property taxes, utilities, and insurance. If in an extreme case a property became vacant, the carrying costs and mortgage payments if any could be paid for with existing cash flows from operations. At March 31, 2023 Imperial's occupancy rate is 97.9%.



As with all the Company's past transactions, future opportunities will be evaluated through proper due diligence, assessment of industry conditions and geographical locations, and other external considerations.

**Market values of the investment properties** can decrease if the demand for industrial properties lease space decreases and rental rates are reduced, or capitalization rates increase. The Company's exposure to the market value of its real estate assets affects mortgages up for renewal. Properties with mortgages that are maturing in the next 12 months will be externally appraised for their current market value if the lender requires.

Factors that influence market values of investment properties are the income generated from the property, demand, vacancy rates, term of the current lease, the strength of the current tenant, age of the building and location. Imperial is not aware of any obstacles at this date that would negatively affect its ability to refinance its buildings as the mortgages come due.

The total fair value of the investment properties at March 31, 2023 is \$258,867,522 which includes \$22,238,517 of properties unencumbered with debt. The mortgages and bank operating facilities secured against specific properties total \$126,104,403 or 49% of the value of the Company's investment properties. Management believes the amount of debt against the properties is low enough to absorb any decline in values and support our ability to refinance.

**Lease rates** will likely adjust downward if the demand for comparable lease space decreases, which is expected in any economic downturn. As demand for lease space increases, so does the lease rate. Imperial is mindful of these risks, and Management believes that any further leases that are up for renewal in the next twelve months will likely be renewed at the same rates. Nonetheless, the Company will be responsive to economic conditions.

**Interest rates** on mortgages that are up for renewal are currently at the highest the Company has seen in a few years. The Company tries to mitigate the risk of rising interest rates by fixing rates for longer terms and by minimizing its exposure to floating-rate financing. All mortgages have fixed terms and fixed rates.

## ***Environmental risk***

The Company is subject to various federal, provincial and municipal laws relating to the environment and is increasingly responsible for accounting for its environmental impacts and those of its associated tenants, partners and supply chain. The Company is moving to ensure it can meet its accountability requirements as well as to set goals to ensure its environmental risks are managed, mitigated and its environmental footprint is reduced over time. The Company has set a goal of achieving Net Zero impact and in the coming months, will more directly determine a path and timeline to achieve this goal.

The Company manages its environmental impacts in three ways:

- 1) All new builds, or redevelopment of a property are assessed to ensure structures are designed to improve overall energy efficiency and to lower emissions.
- 2) All property purchases include commissioning of an environmental site assessment and increasingly rigorous assessment of environmental risks with the applicable financing body. The Company will reject potential investments if environmental factors are not manageable or will factor required mitigation into any purchase price. It will move to address or manage any remediation immediately upon purchase. The Company aims to ensure it has no sustaining environmental mitigation required at any of its properties.
- 3) Improving the energy efficiency of its assets is an ongoing endeavor. When the company renovates an existing site, it looks for opportunities to upgrade existing systems, especially in older properties. Roof maintenance, upgraded windows, and installation of LED lighting is prioritized to improve the overall environmental footprint of an older building, to a level of a newer build. In addition, effective asset management improves the overall longevity of a property to extend the life, rather than investing in the demolition and reconstruction of assets. In addition, the Company is investigating opportunities to introduce new systems into building to support its tenants' environmental goals, such as providing EV chargers for tenants' staff and visitors, environmental offsets, and on-site power generation.

The Company is following developments of the Canadian Securities Administrators current consultation on Climate-related disclosures, to ensure it will achieve timely compliance with any new requirements. In addition, it has chosen the Global Reporting Initiative (GRI) as a framework with which to account for its environmental, social and governance-related measures. The first report based on the GRI General Disclosures is integrated in this Annual Report. Starting in fiscal 2024, the Company will also report using the GRI's Construction and Real Estate Disclosures.

## ***Cybersecurity risk***

Cybersecurity has been identified as a risk to the Company, promoting regular reviews of security measures to take appropriate steps to reduce this risk. While the Company is aware it cannot protect against all types of attacks and human error, Management has an adequate defense against the most common ones. Policies to protect the Company's data from a breach include the following:

- limited access data; computer data is in locked offices with strictly limited access;
- strict username and password protection including frequently changing passwords which limits the access to Company information;
- only use trusted software to execute on the operating system;
- regular updates of anti-virus software, web browsing and email security software, malware security software and firewalls;
- employee vigilance against suspicious emails and attachments;
- update to new operating systems as they are made available to reduce the risk of unintentional and intentional computer infection;
- automatic software updates to ensure software currency, and reduce the risks associated with out-of-date, vulnerable software; and
- use of physical external hard drives to backup the system daily.

The Company has not experienced any breach of its data to date, and it will continue to regularly use third-party IT consultants to provide advice on hardware and security options.

## **Planned Expenditures**

There are opportunities to purchase other properties currently on the market. The Company continues to look at all opportunities and evaluate the best possible alternatives. Cash needed to fund an acquisition of property will be provided through cash flows from operations, available funds through current bank credit facilities, and securing long-term financing. Related-party financing is available to the Company, generally on a short-term basis.

The upcoming acquisitions and property construction will be funded with cash, conventional mortgage, and the existing lines of credit if necessary.

## Critical Accounting Estimates and Changes in Accounting Policies

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### *Future accounting standards*

The Company has performed an assessment of new standards issued by the International Accounting Standards Board (“IASB”) that are not yet effective. The Company has not yet determined the impact of the new standards on its consolidated financial statements.

### **(a) Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimation uncertainty, in applying the Company’s accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

#### **(i) Leases**

The Company has commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts with tenants as operating leases. In applying this policy, the Company makes judgements for the point in time at which revenue recognition under the lease commences.

The Company applies judgement in assessing whether an arrangement is, or contains, a lease in which the Company is a lessee, and in determining the lease term by considering the probability of an option being exercised to extend the term. Judgement was applied in determining the incremental borrowing rate and discount rate applied to the lease liability and right-of-use asset.

#### **(ii) Investment property**

The Company’s accounting policies relating to investment property are described in Note 2 (b) of the consolidated financial statements. In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property to be capitalized and, for properties under development, identifying the point at which practical completion of the property occurs, and the directly attributable borrowing costs are included in the carrying value of the development property. Capitalization of expenses ceases to occur when the investment property is available for use. This judgement is applied when the property is substantially complete and is typically concurrent with occupancy. Judgment is also applied in determining the extent and frequency of independent appraisals.

In the normal course of operations, the Company acquires investment properties. At the time of the acquisition, the Company considers whether the acquisition represents the acquisition of a business or a group of assets and liabilities. All acquisitions of investment properties acquired to date by the Company have been determined to be asset acquisitions.

#### **(iii) Income tax**

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by Management at the end of the reporting year to determine the likelihood that they will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

#### (iv) Classification of tenant incentives

Payments are sometimes made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16.

#### (b) Critical accounting estimates and assumptions

The Company makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the year. Actual results could differ from estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

##### Investment properties

The choice of the valuation method for fair valuing and the critical estimates and assumptions underlying the valuation of investment properties and investment properties under construction are set out in Note 3 in the consolidated financial statements.

Significant estimates used in determining the fair value of the investment properties include capitalization rates and normalized net operating income (which is influenced by the inflation rate, interest rates, vacancy rates, structural reserves, and standard costs) of the property, using property-specific capitalization rates.

Investment property under construction is also valued at fair value, unless such value cannot be reliably determined. In the exceptional case when a fair value cannot be reliably determined, such property is recorded at cost. The fair value of investment property under construction is determined using either the discounted cash flow method or the residual method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and capitalization rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment property under construction. These estimates are based on local market conditions existing at the reporting date. In arriving at estimates of market values, Management used their market knowledge and professional judgement and did not rely solely on historical transaction comparables. In estimating the fair values of investment property in these circumstances, there is more uncertainty than which exists in a more active market. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 3.

##### Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expense already recorded.

## Measures Not In Accordance With International Financial Reporting Standards

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Throughout the MD&A, Management will use measures that will include debt and unencumbered investment properties. These measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar calculations presented by other issuers. Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one year to another. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies.

## Disclosure Controls and Procedures

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### *Risks Associated with Disclosure Controls and Procedures & Internal Control over Financial Reporting*

The Company's major weakness in internal controls and procedures has always been the lack of segregation of duties in the accounting department. The potential impact of a material weakness in internal controls on the financial statements would be the possibility of a material misstatement going undetected. Management is responsible for the existence and effectiveness of systems, controls, and procedures to ensure that information used internally by Management and disclosed externally is reliable and timely. Management has initiated measures to mitigate such material weakness with the addition of new staff to segregate duties.

The Company is a Venture Issuer and is not required to certify the design and evaluation of the disclosure controls and procedures and internal control over financial reporting and has not completed such an evaluation. There are inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis DC&P and ICFR for the Company, and therefore there may be additional risks to the quality, reliability, transparency, and timeliness of and annual filings and other reports provided under securities legislation.

In addition to performing the accounting and reporting functions of the Company, the CFO also provides accounting functions to numerous other private companies owned and operated by the CEO. There is the potential for conflict of interest regarding related-party transactions. All related-party transactions are disclosed each quarter and the Audit Committee is provided with comparable figures for fees charged by other companies.

All proposed acquisitions are discussed at the Audit Committee stage. Once all internal conditions are met, an independent appraisal is ordered. Upon the successful closing of the transaction, acquisition fees charged by the asset manager, a related party, are disclosed to the Audit Committee. The Audit Committee provides oversight of financial statements and the MD&A released to the public on a quarterly basis.

The Company cannot guarantee that controls and procedures in place will prevent all errors or misstatements.

## Off-Balance Sheet Arrangements

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The Company has no off-balance sheet arrangements to report.

# FINANCIAL STATEMENTS

for the second quarter ending March 31, 2023

**IMPERIAL EQUITIES INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

	Notes	(Unaudited) March 31, 2023	(Audited) September 30, 2022
<b>Assets</b>			
Investment properties	3	\$ 258,867,522	\$ 253,596,382
Mortgage receivable	3	1,422,269	1,439,324
Right-of-use asset		437,615	512,639
<b>Total non-current assets</b>		<b>\$ 260,727,406</b>	<b>\$ 255,548,345</b>
Current portion of mortgage receivable	3	33,735	32,992
Receivables		216,640	434,538
Prepaid expenses and deposits	4	66,242	926,750
Cash and cash equivalents		446,463	232,998
<b>Total current assets</b>		<b>\$ 763,080</b>	<b>\$ 1,627,278</b>
<b>Total Assets</b>		<b>\$ 261,490,486</b>	<b>\$ 257,175,623</b>
<b>Liabilities</b>			
Mortgages	5	75,858,507	89,072,503
Lease liability		329,490	409,195
Security deposits		803,135	763,276
Deferred taxes	9(b)	16,165,053	15,410,921
<b>Total non-current liabilities</b>		<b>\$ 93,156,185</b>	<b>\$ 105,655,895</b>
Current portion of mortgages	5	28,450,854	18,969,418
Current portion of lease liability		157,476	155,543
Other financing	18 (b)	4,675,000	3,000,000
Bank operating facilities	6	21,628,160	18,883,408
Payables and accruals	7	3,311,898	3,754,446
Income taxes payable		220,217	886,079
<b>Total current liabilities</b>		<b>\$ 58,443,605</b>	<b>\$ 45,648,894</b>
<b>Total Liabilities</b>		<b>\$ 151,599,790</b>	<b>\$ 151,304,789</b>
<b>Equity</b>			
Issued share capital	12	5,947,346	5,947,346
Retained earnings		103,943,350	99,923,488
<b>Total Equity</b>		<b>\$ 109,890,696</b>	<b>\$ 105,870,834</b>
<b>Total Equity and Liabilities</b>		<b>\$ 261,490,486</b>	<b>\$ 257,175,623</b>

Guarantees, contingencies, and commitments (Note 15)

Post-reporting date events (Note 19)

See accompanying notes to the condensed consolidated interim financial statements.

**IMPERIAL EQUITIES INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**  
**Six months ending March 31,**  
**Unaudited**

	Notes	Current Quarter 2023	Prior Year Quarter 2022	6 Months March 2023	6 Months March 2022
Rental revenue	14	\$ 4,650,934	\$ 4,653,262	\$ 9,315,301	\$ 9,536,535
Property operating expenses	14	(1,600,152)	(1,344,572)	(2,953,841)	(2,829,394)
<b>Income from operations</b>		<b>3,050,782</b>	<b>3,308,690</b>	<b>6,361,460</b>	<b>6,707,141</b>
Finance costs	8	(1,212,955)	(1,037,330)	(2,436,132)	(2,097,513)
Administration expenses		(229,202)	(375,043)	(639,421)	(752,703)
Amortization of deferred leasing		(111,274)	(85,799)	(235,361)	(171,598)
Amortization of right-of-use asset		(37,510)	(37,510)	(75,020)	(75,020)
Valuation net gains from investment property	3	204,436	379,994	2,401,474	974,094
<b>Income before income tax</b>		<b>1,664,278</b>	<b>2,153,002</b>	<b>5,377,001</b>	<b>4,584,401</b>
Income tax expense	9 (a)	(343,238)	(242,889)	(979,087)	(677,460)
<b>Net income and comprehensive income</b>		<b>\$ 1,321,039</b>	<b>\$ 1,910,113</b>	<b>\$ 4,397,913</b>	<b>\$ 3,906,941</b>
<b>Earnings per share basic and diluted</b>	13	<b>\$ 0.14</b>	<b>\$ 0.20</b>	<b>\$ 0.47</b>	<b>\$ 0.41</b>

See accompanying notes to the condensed consolidated interim financial statements.



**IMPERIAL EQUITIES INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**Unaudited**

	Number of shares	Capital stock	Retained earnings	Total
<b>October 1, 2022</b>	9,451,242	\$ 5,947,346	\$ 99,923,488	\$ 105,870,834
Dividends paid	-	-	(378,050)	(378,050)
Net earnings	-	-	4,397,913	4,397,913
<b>Balance March 31, 2023</b>	9,451,242	\$ 5,947,346	\$ 103,943,350	\$ 109,890,696

	Number of shares	Capital stock	Retained earnings	Total
<b>October 1, 2021</b>	9,451,242	\$ 5,947,346	\$ 92,731,404	\$ 98,678,750
Dividends paid	-	-	(661,587)	(661,587)
Net earnings	-	-	7,853,671	7,853,671
<b>Balance September 30, 2022</b>	9,451,242	\$ 5,947,346	\$ 99,923,488	\$105,870,834

*See accompanying notes to the condensed consolidated interim financial statements.*

**IMPERIAL EQUITIES INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**Six months ending March 31,**  
**Unaudited**

	Notes	Current Quarter 2023	Prior Year Quarter 2022	6 Months March 31 2023	6 Months March 31 2022
<b>Operating activities</b>					
Net income from operations		\$ 1,321,039	\$ 1,910,112	\$ 4,397,913	\$ 3,906,940
Finance costs		1,212,955	1,037,331	2,436,132	2,097,514
Items not affecting cash:					
Amortization of right-of-use asset		37,510	37,510	75,020	75,020
Amortization of tenant inducements		11,551	16,551	23,101	33,101
Amortization of deferred leasing commissions		111,274	85,799	235,361	171,598
Fair value changes on investment properties		(204,436)	(379,994)	(2,401,474)	(974,094)
Straight-line rental revenue		238,361	54,856	292,136	141,239
Deferred income taxes		107,841	142,046	751,245	183,343
Leasing commissions		(5,699)	(62,639)	(376,728)	(68,627)
Net change in operating working capital	10	769,014	804,181	1,307,214	2,253,089
<b>Cash provided by operating activities</b>		<b>\$ 3,599,410</b>	<b>\$ 3,645,753</b>	<b>\$ 6,739,920</b>	<b>\$ 7,819,123</b>
<b>Investing activities</b>					
Purchase of investment properties		-	(2,275,847)	-	(2,275,847)
Improvements and additions to investment properties		(1,212,100)	(405,712)	(3,043,537)	(523,530)
Proceeds from mortgage receivable		8,202	-	16,312	2,500,000
Net change in investing working capital	10	(292,072)	150,000	(1,447,362)	(208,603)
<b>Cash used in investing activities</b>		<b>\$ (1,495,970)</b>	<b>\$ (2,531,559)</b>	<b>\$ (4,474,587)</b>	<b>\$ (507,980)</b>
<b>Financing activities</b>					
Proceeds from new mortgages		-	-	-	20,500,000
Repayment of mortgages on maturity		-	-	-	(13,695,362)
Repayment of mortgages through principal instalments		(1,875,543)	(1,853,370)	(3,766,686)	(3,553,275)
Amortization of deferred finance fees		21,472	28,794	42,778	51,322
Fees associated with new or renewed mortgages		(8,649)	(62,103)	(8,649)	(80,343)
Advances from other financing		1,135,000	-	2,715,000	-
Repayment of other financing		(740,000)	-	(1,040,000)	(3,800,000)
Principal repayments on lease liability		(38,880)	(38,018)	(77,772)	(72,359)
Finance costs		(1,212,955)	(1,037,331)	(2,436,132)	(2,097,514)
Dividends paid		(189,025)	(141,768)	(378,050)	(283,537)
Net advances (repayment) from bank operating facilities		964,265	2,314,147	2,744,752	(3,533,627)
Net change in financing working capital	10	76,996	(3,790)	152,892	(256,575)
<b>Cash used in financing activities</b>		<b>\$ (1,867,320)</b>	<b>\$ (793,439)</b>	<b>\$ (2,051,867)</b>	<b>\$ (6,821,270)</b>
<b>Increase in cash and cash equivalents</b>		<b>236,120</b>	<b>320,755</b>	<b>213,466</b>	<b>489,873</b>
Cash and cash equivalents, beginning of period		210,344	365,232	232,998	196,114
<b>Cash and cash equivalents, end of period</b>		<b>\$ 446,464</b>	<b>\$ 685,987</b>	<b>\$ 446,464</b>	<b>\$ 685,987</b>

See accompanying notes to the condensed consolidated interim financial statements

## 1. Description of the Company

Imperial Equities Inc. (“the Company”) was incorporated in Edmonton, Alberta, Canada. The registered and operating office of the Company is 2151, 10060 Jasper Avenue, Edmonton, Alberta T5J 3R8. The Company’s operations consist of the acquisition, development, and redevelopment of industrial, agricultural, and commercial properties primarily in Edmonton and throughout Alberta. All the operations of Imperial Equities Inc. are conducted in Canadian funds. The Company’s common shares trade on the TSX Venture Exchange (TSXV) under the symbol “IEI”. These condensed consolidated interim financial statements include the Company and its wholly owned subsidiaries, Imperial Equities Properties Ltd. (“IEPL”), Imperial One Limited, Imperial Two Limited, Imperial Three Limited, Imperial Four Limited, Imperial Five Limited, Imperial Six Limited, Imperial Seven Limited, and Imperial Eight Limited.

## 2. Significant accounting policies

### a) Statement of compliance, the basis of presentation and consolidation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Standards (“IAS”) 34 – Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company’s annual September 30, 2022 consolidated financial statements.

These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2022. The Company’s condensed consolidated interim financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair value, as explained in the accounting policies of the Company’s annual September 30, 2022, consolidated financial statements. Historical cost is generally based on the fair value of the consideration given in exchange for assets. These condensed consolidated interim financial statements are prepared on a going concern basis and have been presented in Canadian dollars which is the Company’s functional currency.

The condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, which are the entities over which the Company has control. The Company controls the entity when the Company is exposed to or has rights to variable returns from its involvement with the entity and can affect those returns. All significant intercompany balances and transactions have been eliminated.

### b) Significant accounting judgements, estimates, and assumptions

The preparation of the Company’s condensed consolidated financial statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the reported amounts of assets, liabilities, profit (loss), and related disclosures. The estimates and associated assumptions are based on historical experience and various other factors that are deemed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the Company’s September 30, 2022 annual consolidated financial statements.

### c) Future accounting policies

IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in January 2020. The amendments provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. The amendments specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months; provide that management’s expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and clarify when a liability is considered settled. On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance to annual reporting periods beginning on or after January 1, 2024, and is to be applied

retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been revised to define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty.” The amendments also emphasize that a change in an accounting estimate that results from new information or development is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes are an input or measurement technique that are not the result of an error correction. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

### 3. Investment properties

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at October 1, 2022</b>	\$ 235,674,147	\$ 5,520,242	\$ 12,401,992	\$ 253,596,381
<i>Additions:</i>				
Property improvements and additions	407,428	2,540,469	-	2,947,897
Capitalized property taxes and other	-	-	1,139	1,139
Tenant inducements	94,501	-	-	94,501
Leasing commissions	376,728	-	-	376,728
Amortization of tenant inducements	(23,101)	-	-	(23,101)
Change in straight-line rental revenue	(292,136)	-	-	(292,136)
Revaluation gains (losses), net	1,825,600	577,013	(1,139)	2,401,474
Amortization of deferred leasing commissions	(235,361)	-	-	(235,361)
<b>Ending balance at March 31, 2023</b>	<b>\$ 237,827,806</b>	<b>\$ 8,637,724</b>	<b>\$ 12,401,992</b>	<b>\$ 258,867,522</b>

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at October 1, 2021</b>	\$ 232,421,152	\$ 120,751	\$ 12,401,992	\$ 244,943,895
<i>Additions:</i>				
Property improvements and additions	119,692	5,085,518	-	5,205,210
Capitalized property taxes and other	-	-	130,872	130,872
Tenant inducements	217,639	-	-	217,639
Leasing commissions	319,964	-	-	319,964
Property acquisitions	2,285,534	-	-	2,285,534
Property dispositions	(1,422,078)	-	-	(1,422,078)
Amortization of tenant inducements	(66,201)	-	-	(66,201)
Change in straight-line rental revenue	(174,164)	-	-	(174,164)
Revaluation gains (losses), net	2,324,868	313,973	(130,872)	2,507,969
Amortization of deferred leasing commissions	(352,258)	-	-	(352,258)
<b>Ending balance at September 30, 2022</b>	<b>\$ 235,674,149</b>	<b>\$ 5,520,242</b>	<b>\$ 12,401,992</b>	<b>\$ 253,596,382</b>

#### Valuation methodology and processes

The fair value of investment properties at each reporting period is determined internally by management using assumptions and market information obtained from industry professionals and qualified external appraisers. Management uses inputs from external appraisers as additional sources of information when recording property-specific attributes. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs,

the investment properties are typically classified as Level 3 assets. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. Management's primary internal valuation model is based on a capitalization of the forecasted normalized net operating income approach. The Company determines the forecasted normalized net operating income using a one-year income forecast for each property based on current in-place rents and assumptions about occupancy, structural and vacancy reserves, less cash outflows expected to operate and manage each property within the portfolio. Capitalization rates used to estimate fair market value consider many factors including but not limited to; the location of the property, the size of the land parcel, site coverage, the quality and strength of tenants, whether lease rates are over or under current market rates, demand for the type and use of the property, the age of the building, any special use characteristics of the building or area, whether it is single-tenant or multi-tenanted and vacancy rates in the area. Market information related to the external sale of similar buildings within a similar geographic location is also taken into consideration. This method was applied in the valuation of properties under development, where management used the property's expected net operating income and a capitalization rate to prorate the fair value for the percentage complete as of the period end date.

Land held for development consisting of land, with holding income is valued based on sale data within the market area.

The Company's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation. Management, along with the Audit Committee, discusses the valuation process and key inputs every quarter.

The key level 3 valuation metrics for the investment properties are set out below.

	<b>March 31, 2023</b>	<b>September 30, 2022</b>
Range of capitalization rates applied to investment properties	4.50% - 8.50%	4.50% - 8.50%
Fair values of properties where cap rates were applied	\$ 241,554,776	\$ 230,757,797
Weighted average cap rates	6.60%	6.38%
Fair value impact of increasing average cap rate by 0.25%	\$ (9,142,477)	\$ (8,700,399)
Fair value impact of a 1% decrease in net operating income	\$ (2,401,418)	\$ (2,310,365)
<b>Land held for development</b>		
Average price per acre of land	\$ 170,130	\$ 157,274
Number of acres	65.55	64.55
Total fair values	\$ 11,152,036	\$ 10,152,036
Impact of a 10% decrease in average price per acre	\$ (1,115,204)	\$ (1,015,204)
<b>Land under lease agreements with tenants</b>		
Number of acres leased	7.90	8.90
Average price per acre	\$ 779,837	\$ 804,574
Total fair values of leased land	\$ 6,160,710	\$ 7,160,710
Impact of a 10% decrease in average price per acre	\$ (616,071)	\$ (716,071)

Included in the carrying amount of investment properties are the following:

	<b>March 31, 2023</b>	<b>September 30, 2022</b>
Straight line rent receivable	\$ 1,670,938	\$ 1,963,074
Tenant inducements	671,771	600,370
Leasing commissions	2,014,572	1,873,206
	<b>\$ 4,357,281</b>	<b>\$ 4,436,650</b>

All the above are amortized over the terms of the respective leases.

### Mortgage receivable

In the prior year the Company completed the sale of an investment property for total sale proceeds of \$1,675,000 and agreed to a VTB mortgage in the amount of \$1,475,000. The VTB bears interest at an annual rate of 4.5% with monthly blended payments of principal and interest of \$8,164. The mortgage maturity date is July 31, 2024. The VTB can be prepaid in whole or in part without penalty.

#### 4. Prepaid expenses and deposits

	March 31, 2023	September 30, 2022
Prepaid operating expenses	\$ 39,223	\$ 899,731
Security deposits with municipalities	27,019	27,019
<b>Total prepaid expenses and deposits</b>	<b>\$ 66,242</b>	<b>\$ 926,750</b>

Prepaid operating expenses include insurance at March 31, 2023. At September 30, 2022 prepaid amounts include property taxes and insurance.

#### 5. Mortgages

Maturity	Rate	March 31, 2023	September 30, 2022
July 1, 2023	P + .95	1,522,216	1,595,085
October 1, 2023	3.950%	77,841	143,163
October 1, 2023	4.090%	4,823,536	5,004,237
November 1, 2023	4.330%	3,326,908	3,448,623
December 1, 2023	4.648%	3,991,496	4,133,419
January 1, 2024	4.300%	1,779,322	1,874,009
January 1, 2024	4.300%	1,412,160	1,487,309
April 1, 2024	2.110%	3,674,513	3,796,429
August 1, 2024	3.300%	8,197,607	8,491,306
November 1, 2024	3.555%	7,299,329	7,550,033
December 1, 2024	6.073%	2,918,310	3,034,362
December 1, 2024	6.073%	2,651,447	2,756,884
February 1, 2025	5.720%	1,606,044	1,671,265
February 1, 2025	3.420%	4,170,943	4,311,765
February 1, 2025	3.310%	4,379,685	4,589,983
April 1, 2025	2.310%	4,408,054	4,565,410
April 1, 2025	5.290%	3,162,705	3,269,384
August 1, 2025	2.837%	3,425,799	3,540,220
April 1, 2026	2.675%	2,294,044	2,404,956
July 1, 2026	2.710%	5,355,793	5,522,655
July 1, 2026	2.710%	10,235,011	10,553,887
October 1, 2026	2.940%	8,769,901	9,031,037
November 1, 2026	2.930%	10,204,746	10,506,586
June 11, 2029	3.480%	4,788,835	4,960,921
<i>Total mortgages</i>		\$ 104,476,243	\$ 108,242,930
<i>Less: current portion of principal payments</i>		(28,450,854)	(18,969,418)
<i>Less: balance of unamortized finance fees</i>		(166,882)	(201,009)
		<b>\$ 75,858,507</b>	<b>\$ 89,072,503</b>
Weighted average rate		<b>3.41%</b>	<b>3.23%</b>

All mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property. All mortgages have a fixed rate with the exception of one with an

outstanding balance of \$1,522,216 at March 31, 2023.

## 6. Bank operating facilities

	March 31, 2023	September 30, 2022
Bank operating facilities	\$ 21,628,160	\$ 18,883,408

The Company has two credit facilities set out as follows:

- 1) One operating Line of Credit (LOC) with a limit of \$15,500,000 (September 30, 2022 - a limit of \$13,500,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at March 31 2023, of \$14,518,138 (September 30, 2022 - \$13,047,268). The credit facility has a fixed rate fixed term ("FRFT") component as described below while the revolver portion bears interest at prime plus 1% per annum (September 30, 2022 – prime plus 1% per annum). The LOC is secured by specific revenue-producing properties with combined fair values of \$38,261,979 (September 30, 2022- \$36,469,039).

On November 8, 2022 the Company entered into an amending agreement which increased the operating line to \$15,500,000 maintaining the \$8,000,000 FRFT component, and the balance as an interest only revolver.

On February 2, 2022, the Company entered into an amending agreement with the lender to designate \$8,000,000 of the \$13,500,000 limit as an FRFT with blended monthly principal and interest payments. The FRFT bears interest at 3.36% per annum with a three-year term ending February 1, 2025.

The lender may, on demand, require immediate payment of all amounts outstanding or accrued in connection with the facility as a whole.

Specific covenants of this credit facility are that there be a minimum of 90% occupancy of the secured buildings. Should a secured property fall below the Minimum Occupancy level, a 6-month grace period will commence subject to a reduced Loan to Value Test of 50%, and the existing Debt Service Test. As at March 31, 2023 and September 30, 2022, the Company was in compliance with all covenants.

- 2) A second operating LOC with a limit of \$8,000,000 (September 30, 2022 – a limit of \$6,000,000).

This credit facility bears interest at prime plus .95% per annum (unchanged from September 30, 2022) and is secured by specific revenue-producing properties with combined fair values at March 31, 2023, of \$32,192,048 (September 30, 2022 - \$32,052,336).

On March 24, 2023 the Company entered into an agreement to receive a \$2,000,000 temporary increase in the operating line of credit, creating a new limit of \$8,000,000. The temporary agreement includes a general security agreement covering a first position on all present and after acquired property. The temporary increase expires May 13, 2023 at which date the said security agreement will be discharged and the limit on the LOC will revert to \$6,000,000.

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at March 31, 2023 is \$7,110,022 (September 30, 2022 - \$5,836,140).

## 7. Payables and accruals

	March 31, 2023	September 30, 2022
Trade payables	\$ 1,805,779	\$ 2,712,226
Accrued loan interest	479,236	326,345
Accrued property taxes payable	688,505	-
Other	338,378	715,875
<b>Total</b>	<b>\$ 3,311,898</b>	<b>\$ 3,754,446</b>

Trade payables include construction costs for property under development. Other payables include prepaid rents and payroll accruals.

## 8. Finance costs

The components of finance costs are as follows:

	March 31, 2023	March 31, 2022
Interest on mortgages	\$ 1,702,612	\$ 1,792,177
Interest on bank operating facilities	599,190	238,994
Interest on other unsecured financing	131,715	4,243
Interest on lease obligations	12,229	17,641
Amortization of deferred finance fees	42,778	51,322
Interest income	(35,439)	(6,864)
	<b>\$ 2,436,132</b>	<b>\$ 2,097,513</b>

## 9. Income taxes

### a) Provision for income taxes

Components of income tax expense (recovery)

	March 31, 2023	March 31, 2022
Current tax (recovery) expense	\$ 227,842	\$ 494,118
Prior period adjustments	-	-
Deferred tax expense	751,245	183,342
	<b>\$ 979,087</b>	<b>\$ 677,460</b>

### b) Deferred taxes

Deferred tax assets are attributable to the following:

	March 31, 2023	September 30, 2022
Lease liability	\$ 112,002	\$ 129,890
Finance fees	2,717	-
Capital losses	-	2,889
Deferred tax assets	114,719	132,779
Offset of tax	(114,719)	(132,779)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax liabilities are attributable to the following:

	March 31, 2023	September 30, 2022
Straight-line rent receivable	\$ 384,316	\$ 451,507
Investment properties	15,314,548	14,512,133
Finance fees	6,245	13,551
Deferred leasing	463,352	430,835
Right-of-use asset	100,652	117,907
Capital gain reserve	10,660	17,767
Deferred tax liabilities	16,279,773	15,543,700
Offset of tax	(114,719)	(132,779)
<b>Net tax liabilities</b>	<b>\$ 16,165,054</b>	<b>\$ 15,410,921</b>

\$30,273,649 (September 30, 2022 - \$30,273,649) related to investments in certain subsidiaries was not recognized because it was not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized.



**10. Supplemental consolidated cash flow information**

	March 31, 2023	March 31, 2022
<b>Net change in operating working capital</b>		
Decrease in receivables	\$ 217,897	\$ 259,867
Decrease in prepaid expenses and deposits	860,396	840,423
Increase in payables and accruals	854,924	645,242
(Decrease) increase in income taxes payable	(683,218)	505,588
Net change in security deposits	39,860	1,969
	<b>\$ 1,289,859</b>	<b>\$ 2,253,089</b>
<b>Net change in investing working capital</b>		
Decrease in payables and accruals	<b>\$ (1,155,290)</b>	<b>\$ (208,603)</b>
<b>Net change in financing working capital</b>		
Increase (decrease) in accrued interest payable	<b>\$ 75,896</b>	<b>\$ (252,785)</b>
Interest paid	\$ 2,526,387	\$ 1,956,679
Income taxes paid	\$ 251,042	\$ 104,546

**11. Segmented information**

In the prior year, the Company reassessed the existence of operating segments as it has determined that its growth strategy will be assessed on its investment properties as whole as opposed to the industry that each investment property operates in. The Company concluded there is one operating segment and therefore the statements for March 31, 2022 have not been restated as the prior period disclosure includes the comparatives figures within the consolidated amounts disclosed.

**12. Share capital**

The Company has unlimited authorized common share capital.

	March 31, 2023	September 30, 2022
<b>Number of shares issued</b>		
Balance beginning and end of period	<b>9,451,242</b>	<b>9,451,242</b>
<b>Capital stock</b>		
Balance beginning and end of period	<b>\$ 5,947,346</b>	<b>\$ 5,947,346</b>

**13. Earnings per share**

The following are the weighted average number of shares outstanding:

	March 31, 2023	March 31, 2022
Net income and comprehensive income	\$ 4,397,913	\$ 3,906,941
Weighted average shares outstanding – basic and diluted	9,451,242	9,451,242
<b>Earnings per share basic and diluted</b>	<b>\$ 0.47</b>	<b>\$ .41</b>

#### 14. Rental revenue

The Company leases its commercial properties under operating leases with current terms ranging between 1 and 16 years. Some leases have options to extend for further five-year terms and several leases are month to month.

##### a) Rental revenue

	December 31, 2022	March 31, 2022
Rental revenue, contractual amount	\$ 7,250,650	\$ 7,610,417
Property tax and insurance recoveries	1,455,636	1,432,007
Operating expense recoveries	899,251	668,452
Amortization of tenant inducements	1,899	(33,101)
<u>Straight-line rental revenue</u>	<u>(292,135)</u>	<u>(141,240)</u>
<b>Rental revenue on statements of comprehensive income</b>	<b>\$ 9,315,301</b>	<b>\$ 9,536,535</b>

Future contracted minimum rent receivable from non-cancellable tenant operating leases is as follows:

	March 31, 2023	March 31, 2022
No later than one year	\$ 14,336,038	\$ 14,287,952
2 – 5 years	41,340,596	43,131,410
<u>Over 5 years</u>	<u>22,793,532</u>	<u>27,010,892</u>
	<b>\$ 78,470,167</b>	<b>\$ 84,430,255</b>

The month-to-month tenant revenue is not included in the above figures. The future contracted minimum rent receivable could be negatively impacted by a tenant having financial difficulties and being unable to meet their rent obligations. The future rent receivable assumes all tenants will honor the financial obligations of their leases, to the terms of their leases, with no defaults or variations in the contracted amounts.

#### 15. Guarantees, contingencies, and commitments

a) In the normal course of operations, the Company and its subsidiaries may execute agreements that provide for indemnification and guarantees to third parties, such as engagement letters with advisors and consultants, and service agreements. The Company has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Company's bylaws. Certain agreements may not contain any limits on the Company's liability and, therefore, it is not possible to estimate the Company's potential liability under these indemnities, and as such, no provision has been included in these financial statements. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

b) The Company maintains insurance on its properties. The all-risk property insurance includes replacement cost and rental value coverage (including coverage for the perils of flood and earthquake).

c) The Company has contracts in place with related parties to provide property management and asset management. Both contracts have been in place since 1999 and have been renewed on an annual basis with no changes to the terms. Further information can be found in the Related Party Transactions in Note 18.

d) During the prior year, the Company entered into a construction contract to build an additional 33,200 ft<sup>2</sup> of industrial space adjacent to one of its investment properties in Fort McMurray, Alberta. The total budgeted price is \$9,200,000. At March 31, 2023 construction is approximately 86% completed.

#### 16. Capital risk management

The Company defines capital that it manages as the aggregate of its equity and interest-bearing debt. The Company's objectives when managing capital are to ensure that the Company will continue as a going concern so that it can sustain daily operations and provide adequate returns to its shareholders. The Company is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced, or may not be

refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Company mitigates these risks by its continued efforts to stagger the maturity profile of its long-term debt, enhance the value of its real estate properties, and maintain high occupancy levels. The Company manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

	<b>March 31, 2023</b>	<b>September 30, 2022</b>
Mortgages	\$ 104,476,243	\$ 108,041,921
Lease liability	486,966	564,738
Bank operating facilities	21,628,160	18,883,408
Other financing	4,675,000	3,000,000
Total debt financing	131,266,369	130,490,067
Equity	109,890,696	105,870,834
<b>Total capital</b>	<b>\$ 241,157,065</b>	<b>\$ 236,360,901</b>

#### 17. Financial instruments

	<b>March 31, 2023</b>	<b>September 30, 2022</b>
<b>Financial assets</b>		
Cash and cash equivalents	\$ 446,463	\$ 232,998
Receivables	216,640	434,538
Mortgage receivable	1,456,004	1,472,316
	<b>\$ 2,119,107</b>	<b>\$ 2,139,852</b>
<b>Financial liabilities</b>		
Bank operating facilities	\$ 21,628,160	\$ 18,883,408
Payables and accruals	3,311,898	3,754,446
Other financing	4,675,000	3,000,000
Lease liability	486,966	564,738
Security deposits	803,135	763,276
Mortgages	104,476,243	108,041,921
	<b>\$ 135,381,402</b>	<b>\$ 135,007,789</b>

The carrying value of cash and cash equivalents, receivables, mortgage receivable, bank operating facilities, other financing, payables and accruals, and security deposits approximate their fair value because of the near-term maturity of those instruments. The fair value of mortgages payable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable at March 31, 2023 is \$98,106,829 (September 30, 2022 - \$100,675,995). These estimates are subjective as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible. The interest rate used for this calculation is 6.49% (September 30, 2022 – 6.40%).

The Company's activities expose it to risks arising from financial instruments including credit risk, interest rate risk, and liquidity risk, and most recently, the risk associated with the coronavirus. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed.

#### Credit risk

The Company is exposed to credit risk equivalent to the balance of its tenant receivables of \$216,640 at March 31, 2023 (September 30, 2022 - \$434,538), and cash and cash equivalents of \$446,463 (September 30, 2022 - \$232,998). Credit risk on tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss with a policy of credit assessment for all new lessees and by limiting its exposure to any one tenant. For tenant accounts receivable, the Company applies the general approach to recognize expected credit losses ("ECL") in the next twelve months.

Management uses historical credit losses adjusted for current and forward-looking information which may affect the ability of the customers to settle receivables. Historically the Company has very little credit losses as most tenants have been able to meet their financial obligations. At March 31, 2023 there is no loss provision for tenant receivables (September 30, 2022 - \$nil).

Accounts receivable are written off when there is no reasonable expectation of recovery. During the current period, there were no revenue write downs. (September 30, 2022 – \$nil)

Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions.

#### Interest rate risk

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities that are not at a fixed rate and fixed term at March 31, 2023 is \$13,857,632 (September 30, 2022 - \$10,883,408). Under the assumption any balance of the debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$138,576 (September 30, 2022 - \$108,834). The Company minimizes its exposure to interest rate risk to the extent that all mortgages except one have fixed rates with terms of 2-5 years.

#### Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. The Company actively monitors its financing obligations and cash and cash equivalents to ensure that it has enough available funds to meet current and foreseeable future financial requirements at a reasonable cost. Management manages its liquidity risk with the use of the lines of credit available to the Company as well as short term financing from related parties and private parties. Management estimates that cash flows from operating activities will provide enough cash requirements to cover normal operating and budgeted expenditures.

During the current period, there were three mortgages that were up for renewal which were renewed with the same lenders. There are an additional seven mortgages up for renewal in the next twelve months.

During the prior year, the Company renewed three mortgages for a further 2-5 years at fixed rates and one mortgage was renewed for a further one year with a variable interest rate. Upon the renewals, the Company received \$20,500,000 in cash proceeds and repaid \$13,695,362 of the existing mortgage balances.

#### Contractual obligations at March 31, 2023

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 26,241,637	\$ 51,459,748	\$30,987,146	\$ 4,212,288	\$ 112,900,819
Payables and accruals	3,311,898	-	-	-	3,311,898
Lease liability	157,476	314,552	14,938	-	486,966
Security deposits	1,450	81,340	117,731	602,614	803,135
	29,712,461	51,855,640	31,119,815	4,814,902	117,502,818
Operating facilities	21,628,160	-	-	-	21,628,160
	<b>\$ 51,340,621</b>	<b>\$ 51,855,640</b>	<b>\$ 31,119,815</b>	<b>\$ 4,814,902</b>	<b>\$ 139,130,978</b>

## Contractual obligations at September 30, 2022

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 22,111,557	\$ 58,082,537	\$ 32,682,601	\$ 4,633,766	\$ 117,510,461
Payables and accruals	3,754,446	-	-	-	3,754,446
Lease liability	155,543	335,064	74,131	-	564,738
Security deposits	40,810	81,340	99,856	582,079	804,085
	<u>26,623,356</u>	<u>58,498,941</u>	<u>32,856,588</u>	<u>5,215,845</u>	<u>\$ 123,194,730</u>
Other financing	3,000,000	-	-	-	\$ 3,000,000
Operating facilities	18,833,408	-	-	-	18,883,408
	<u>\$ 48,506,764</u>	<u>\$ 58,498,941</u>	<u>\$ 32,856,588</u>	<u>\$ 5,215,845</u>	<u>\$ 145,078,138</u>

### 18. Related party transactions

The following are the related party transactions of the Company.

#### a) *Management agreements*

Sable Realty & Management Ltd. provides property management services to Imperial Equities Inc. The company is controlled by the President and CEO of the Company, Sine Chadi. North American Realty Corp. is also controlled by Mr. Chadi and provides asset management services to the Company.

Refer to the September 30, 2022 audited consolidated financial statements for the property management, maintenance, and project fee structures.

<b>Payments for the period ending March 31,</b>	<b>2023</b>	<b>2022</b>
Property management and maintenance fees	\$ 667,847	\$ 739,967
Acquisition fees	-	22,500
Leasing fees	91,975	62,639
<b>Total payments</b>	<b>\$ 759,822</b>	<b>\$ 825,106</b>

#### b) *Other related party transactions*

##### i) Payments made to (received from) Sable Realty & Management Ltd.

<b>Period ending March 31,</b>	<b>2023</b>	<b>2022</b>
Leased office space and parking	\$ 90,000	\$ 90,000
Fees for Accounting/Consulting Services	-	1,800
Rent at Sable Centre	(47,461)	(47,461)
<b>Net payments for the period</b>	<b>\$ 42,539</b>	<b>\$ 44,339</b>
Amounts payable at March 31,	\$ 55,128	

ii) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the period were \$27,500 (2022 – \$27,500).

iii) Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The Company's key management personnel include President Sine Chadi, who is also a director of the Company, the former Chief Operating Officer, Patricia Misutka, and the Chief Financial Officer, Azza Osman.

<b>Period ending December 31,</b>	<b>2023</b>	<b>2022</b>
Sine Chadi	\$ 150,000	\$ 150,000
Patricia Misutka	-	90,000
Azza Osman	35,582	87,500
	<b>\$ 185,582</b>	<b>\$ 327,500</b>

iv) Other financing, unsecured

<b>Related Parties</b>	<b>Balance 1-Oct-22</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 31-Mar-23</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ 1,200,000	\$ 1,350,000	\$ (350,000)	\$ 2,200,000
Sine Chadi, Shareholder <sup>1</sup>	\$ 750,000	800,000	(200,000)	1,350,000
NAMC <sup>2</sup>	\$ 350,000	565,000	(490,000)	425,000
Diane Buchanan, Shareholder <sup>1</sup>	\$ 700,000			\$ 700,000
<b>Total</b>	<b>\$ 3,000,000</b>	<b>\$ 2,715,000</b>	<b>\$ (1,040,000)</b>	<b>\$ 4,675,000</b>

<b>Related Parties</b>	<b>Balance 1-Oct-21</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 30-Sep-22</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ 2,100,000	\$ 1,200,000	\$ (2,100,000)	\$ 1,200,000
Sine Chadi, Shareholder <sup>1</sup>	\$ 700,000	750,000	(700,000)	750,000
NAMC <sup>2</sup>	\$ -	350,000	-	350,000
Diane Buchanan, Shareholder <sup>1</sup>	\$ 1,000,000	700,000	(1,000,000)	\$ 700,000
<b>Total</b>	<b>\$ 3,800,000</b>	<b>\$ 3,000,000</b>	<b>\$ (3,800,000)</b>	<b>\$ 3,000,000</b>

- Loans received from shareholders bear interest at an annual rate of 6%. Total interest expense during the period was \$118,130 (2022 -\$4,243).
- North American Mortgage Corp. ("NAMC") is controlled by Mr. Sine Chadi, President of the Company. Total interest expense in the current period is \$13,498 (2022 – Nil).

All related party financing is unsecured with no specified dates of repayment and therefore are due on demand. The fair value of the related party loans at the reporting dates approximates their carrying value as the amounts are due on demand.

#### 19. Post-reporting date events

Subsequent to the period ending, the Company has declared a quarterly dividend of \$0.02 per share totalling \$189,025 paid on May 3, 2023, to shareholders of record effective April 20, 2023.

Subsequent to the period ending, the Company received a two month extension on the expiry date for a temporary increase on one of the lines of credit.

#### 20. Authorization of the consolidated financial statements

The condensed consolidated interim financial statements for the six month period ending March 31, 2023 (including comparatives) were authorized for issue by the Board of Directors on May 17, 2023.

Signed "Sine Chadi", Director

Signed "Kevin Lynch", Director



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