1ST QUARTER REPORT

Ending December 31, 2018

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1st Quarter ending December 31, 2018

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MD&A

MANAGEMENT'S DISCUSSION & ANALYSIS

for the First Quarter
ending December 31, 2018

PRESIDENT'S REPORT
2019 CEO MESSAGE

Report to Shareholders
1st Quarter December 31, 2018

For over sixty years the Alberta economy has been largely based on a single commodity and for these past six decades we've experienced the consequences of several boom and bust cycles. A strong Alberta economy not only depended on a robust world oil price but also the ability to sell and deliver its products anywhere in the world.

Being landlocked and having only one major market for its product can have a detrimental effect the likes of which we've seen in Alberta during the past several years. A resolution to the landlocked issue has long been debated and the most preferred outcome is the development of pipelines sufficient to carry Alberta oil to tidewater.

During the early part of the last two decades, as world oil prices rose to levels never before reached, exploration and development of Alberta's natural resources was in high gear and production began to flow. Unfortunately, pipelines that would deliver the new increased production to tidewater as well as to markets in North America were not yet built. Approvals required to commence construction of these pipelines proved to be difficult to obtain. In 2013, Kinder Morgan, the owners of the existing Trans Mountain Pipeline that stretches from Edmonton, Alberta to Burnaby, British Columbia, announced that the company had applied to the National Energy Board (NEB) to triple the capacity from 300,000 bpd to 890,000 bpd.

In 2016 the NEB finally approved the Kinder Morgan expansion along with 157 recommendations which Kinder Morgan promptly accepted. Several months later, in the latter part of 2016, the Prime Minister announced that the federal government had sanctioned the Trans Mountain Pipeline expansion. Opposition to the approvals of any increased pipeline capacity was immediate and fierce. Provincial and Federal Court challenges were launched by the government of British Columbia, anti-carbon environmentalists and some Indigenous groups.

The arduous and lengthy process along with the continuous court challenges had taken its toll on the ownership of the Trans Mountain Pipeline and it was announced that Kinder Morgan would no longer proceed with the expansion. The Canadian government promptly announced that Canada would buy the Trans Mountain Pipeline and itself deal with any court challenges by those opposed to the expansion.

These challenges eventually ended with the Federal Appeal Court quashing the NEB's environmental permits. In October 2018, the Federal Court of Appeal said Canada's efforts to meaningfully consult with Indigenous people, as required by law, fell short, and criticized the lack of attention given to how increased tanker traffic off the coast of British Columbia would affect the environment. Notwithstanding the positive measures taken by Canada's federal government, the price of our Western Canadian Select began to plummet to levels not seen in recent history. Stakeholders and Canadians alike began to label the situation a crisis and demanded the federal and Provincial governments to do everything possible to resolve the impasse.

The federal government immediately announced that it would not appeal the Federal Court ruling on the Trans Mountain Pipeline expansion but instead moved quickly to comply with the ruling: firstly, by instructing the NEB (federal pipeline regulator) to review the Trans Mountain Pipeline expansion and to consider the project's impact on the marine environment, and secondly, by announcing it will re-engage with First Nations and Metis communities impacted by the project. To that end, the federal government appointed former Supreme Court of Canada Justice Frank Iacobucci to design and oversee a new consultation process in which Canada will work to address concerns of First Nations and Metis communities and to move forward on the expansion project in accordance with the Court's direction. The timeline to complete the investigations and consultations and to report back to the federal government was 22 weeks. The reports are expected near the end of February 2019.

There is no doubt that the oil and gas sector is the lifeblood of our Alberta economy. It is very likely that both the NEB and Justice Iacobucci will complete their tasks on time and construction of the Trans Mountain Pipeline expansion will resume shortly thereafter. There is no doubt that the temper of Albertans, like most Canadians, is elevated at the moment but that will likely change in a heartbeat when the expansion project gets the green light.

Despite the current challenges facing the oil and gas sector of the Alberta economy, Imperial's portfolio of industrial buildings remains 99.9% occupied. This bodes well for Imperial Equities as we continue building on a solid foundation of first-class industrial properties. Imperial's industrial real estate portfolio now consists of hundreds of thousands of leasable square feet throughout Alberta and our asset management team is continually vigilant in seeking out potential investment properties worthy of being included in our portfolio. Our commitment to expand our real estate portfolio can be demonstrated by Imperial's growth year over year. During the past several years the board of directors along with management, have made a conscious effort to diversify our portfolio and tenant base into several subsectors of the real estate market but remain true to the industrial nature of the company.

In 2017 we began negotiations with an international company headquartered in Calgary, Alberta who asked Imperial to build them a new John Deere dealership in Hanna, Alberta. Within weeks a framework to move forward was agreed upon and a new long-term lease agreement signed. Construction began in late 2017 and was completed almost 11 months later. Occupancy was granted during this Q1 2019 and the new agricultural implement dealership is open for business. This type of property channels well with Imperial's diversification plans.

Building on the success of the John Deere Hanna project, management has been very active identifying new potential opportunities in the industrial agricultural sub-sector. Properties in several rural communities throughout the provinces of Alberta and Saskatchewan have been identified as potential investment opportunities.

In this Q1 we completed the acquisition of the ALS building located in the Edmonton Research Park just south of 23 Avenue and Parsons Road (99 Street) and just metres away from the incredibly popular South Edmonton Common, Canada's largest retail power centre. Positioned prominently in the Edmonton Research Park, the building is situated on 3.78 acres of beautifully landscaped land with ample paved parking and easy access to anywhere in the city. Construction of this 29,450 ft^2 single occupant industrial/office building was completed in 2004. Markedly, this state-of-the-art laboratory facility is constructed using a steel superstructure and a combination of precast concrete, decorative split faced block, stucco and a liberal amount of glazing. The 12,225 ft^2 office component which is situated on one level, features exceptionally high-quality finishes with a workmanship to match. The 17,225 ft^2 of built out laboratory space incorporates a host of specifically technical work stations and equipment that will rival any laboratory on the globe.

The tenant, ALS Canada, is part of the largest environmental laboratory network in the world. ALS provides a full range of environmental testing services, specializing in the analysis of air, soil, sediment, water, and much more. Worldwide, the ALS network employs over 13,000 people in over 65 countries. The Edmonton ALS branch is a premier full-service organic, inorganic, and industrial hygiene laboratory in Western Canada. As one of the largest laboratories in the ALS Global network, the Edmonton location has been delivering reliable testing services with unsurpassed quality for more than 30 years. The ALS building is a perfect addition to Imperial's portfolio and further demonstrates our objective in diversifying our tenant base.

In this Q1 the Company completed the acquisition of a 7,313 ft^2 building located along the highly popular Yellowhead Trail in Edmonton. With a daily traffic count over 80,000 vehicles, this property offers excellent exposure for any occupant of the building. Construction of the building is concrete block with a masonry brick and plate glass facade. The building features a 6,000 ft^2 warehouse

that is accessed by three overhead doors and a full vehicle wash bay. The 1,313 ft^2 office component features a large customer service area and several smaller offices. The yard is fully serviced, paved and a security fence around the entire perimeter. The current tenant, Budget Rent A Car has operated in this facility for over two decades. The quality, size and location of the property would be very attractive to any future potential tenants.

The rationale behind the acquisition of raw land and holding for future development has largely been for the build to suit opportunities that may arise from time to time. To hold in inventory, an appropriately sized piece of land in the right location at the right time will almost always place our Company in a position of advantage. Acquiring raw land that is hard surfaced and easily accessible to truck traffic can also have the potential to generate holding revenue. In this Q1 we completed the purchase of a 3-acre parcel of industrial land in northwest Edmonton. The property is level and compacted to accommodate large trucks and equipment. Within days of taking possession of the property, management completed several land leases and is now generating some much sought after holding revenue.

The newest addition to our Coppertone Industrial Common is the very attractive Coppertone III building. Construction of the Coppertone III building was completed in this Q1 and by all accounts it is the striking property we envisioned. Developed by Imperial Equities, this innovative 12,124 ft^2 building has incorporated many of the LEEDS building standards and is situated on 1.25 acres of completely serviced and surfaced land. The ultra modern 3,500 ft^2 office component is positioned on 2 levels and features two separate stairwells each with exterior access. The warehouse/shop boasts elements that will rival most LEEDS certified buildings with fully automated LED lighting, energy efficient mechanical systems and even a built-in oil separator.

This new building is another jewel within our own Coppertone Industrial Common which was created by Imperial back in 2004. Coppertone I and Coppertone II have been completed and are fully occupied with international tenants. The common theme among these buildings is the copper cladding and curtain wall finishes that make these industrial buildings superior to any other buildings in the area.

In 2015 as a response to plummeting oil prices, the Bank of Canada (BOC) twice lowered its key lending rate by 0.25% in each interval which brought the interest rates down from 1.0% to 0.5%. Financial institutions followed suit by reducing their prime lending rates and in turn provided mortgage financing at the lowest levels our company has ever experienced. Despite some minor fluctuations, for every quarter in each year that we've been reporting our weighted average interest rate, Imperial's average rates had been declining. In 2017, notwithstanding oil prices had begun a modest recovery, the BOC argued that the stimulative power of the two rate cuts had achieved its intended goal and it was time to raise rates.

For the past two decades the BOC has followed a system whereby announcements are made to the official interest rate it uses to implement monetary policy. These announcements take place at pre-specified dates, eight times per year. During the past 2 years we have experienced a measured but continuous rise in Canadian interest rates. Starting in July of 2017, for the first time in seven years, the BOC raised the interest rate by 0.25% to 0.75%. During the subsequent ten announcements ending on October 24, 2018, the BOC, over 4 different interest rate announcements, raised Canadian interest rates by a further 1% to the current set rate of 1.75%. With every increase announced by the BOC, financial institutions were quick to react and raise their rates accordingly.

The BOC has been using its key interest rate in an attempt to keep inflation at around 2 percent. Economic growth in Canada has improved throughout much of 2017 and 2018 which in turn has triggered increased inflation. Lower rates that were in place to encourage individuals and companies to borrow more have increased the demand for goods and services which consequently creates higher prices thus increasing the inflation rates. For several decades, the BOC has been following its inflation fighting policies and has recently agreed with Canadians that its one size fits all policy has exposed many problems and a rewriting of the policy may be due. Recently, the BOC announced that it will launch the most sweeping review into alternatives to its current 2 percent inflation policy as it prepares for the expiration of the existing policy in 2021.

Borrowing is an integral component to our industry and for years Imperial has taken every advantage available to it and the ability for a company to finance its real estate assets at the lowest rates possible is as prudent as negotiating the highest priced lease rate. Despite the recent increases in interest rates, Imperial has experienced a marginal increase but continues to maintain a relatively low weighted average interest rate of 3.36 percent.

Management is extremely vigilant and maintains a close watch on fluctuations in interest rates.

Imperial's real estate portfolio remains the cornerstone of the company. Since its inception, Imperial has been resolute in ensuring the quality of its assets are superior and the scale of its tenant base being primarily international, national or large regional. Our steadfast resolution to stay committed to these principals has certainly allowed us to forge forward on a solid foundation which should hold Imperial in good stead despite an economic downturn. Our entire portfolio remains 99.9% occupied and in some cases our tenants are asking for expanded space which we will gladly oblige. Continuing to expand our real estate portfolio with quality tenants is a priority for management. Our growth will not abate and is expected to increase throughout 2019 and 2020. Several opportunities are currently being explored and will likely be acted upon in our upcoming Q2, 2019.

Maintaining a standard worthy of being included in the portfolio requires continuous care and upkeep of each property. Our asset management team is continually vigilant of potential maintenance problems and recommends the appropriate corrective actions when identified. This process serves to ensure that our properties remain in good condition with contented tenants. Ensuring that our properties are fully leased and generating revenue is paramount.

Each year we convene an Annual General Meeting of the shareholders of Imperial Equities. The Meeting is an opportunity for Management to provide shareholders as well as any stakeholders and observers, a comprehensive overview of the Company's progress during the past 12 months as well as the events that will likely occur in the ensuing fiscal year. This year the Meeting will take place on Thursday, March 7, 2019 and all Shareholders are encouraged to attend.

We are optimistic about the continued growth of Imperial Equities and as always, we would like to thank our shareholders for their ongoing support and do invite you to contact any of the directors with comments, concerns or investment opportunities. Additional information on our Company can be viewed on line at our website www.imperialequities.com or at www.sedar.com.

Sincerely,

Sine Chadi
Chief Executive Officer and Chairman of the Board

IMPERIAL EQUITIES INC. MD&A AS AT FEBRUARY 7, 2019

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 the "Company" or "Imperial Equities") and its subsidiaries. This MD&A should be read in conjunction with the consolidated interim financial statements for the quarter ended December 31, 2018 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.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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. In addition, the Company's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company and have reviewed and approved this MD&A and the accompanying consolidated annual financial statements.

FORWARD-LOOKING INFORMATION

In our report to shareholders, management may talk about the current economy and express opinions on future interest rates and capitalization rates that we might experience or speculate on future market conditions. This forward-looking information is based on management's current assessment of market conditions based on their expertise as well as the opinions of other professionals in this industry. While management may consider these statements to be reasonably optimistic and favorable, the opinions and estimates of future trends are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in Note 21 of our 2018 annual consolidated financial statements and this MD&A. Any forward-looking statements in our report should not be relied upon as facts, as actual results may differ from estimates.

ADDITIONAL NON-IFRS MEASURES

Throughout the MD&A, management will use measures that may include Adjusted EBITDA (net income from operations before interest, taxes, depreciation and amortization, valuation gains (losses), straight-line rental revenue and other non-recurring items) and NOI (net operating income from properties which includes property revenue less direct property operating expenses and excludes non-cash and all non recurring items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property, stock based compensation, finance costs and income taxes). Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one period to another period. 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. Management believes its use of Adjusted EBITDA and NOI provides the shareholders and prospective investors with an additional performance measure to show the cash flow from operations that is available to finance debt and further growth of the Company. A detail of the calculation and a further description can be found in this MD&A.

BUSINESS OVERVIEW

Imperial Equities Inc. ("Imperial" or "the Company") is an Edmonton, Alberta based business with a focus on the acquisition, development, and redevelopment of commercial and industrial properties in its targeted Edmonton and Alberta markets. The Company's common shares are traded on the TSX Venture Exchange under the symbol "IEI".

Since operations began in 1998, Imperial Equities has achieved solid growth each year for the past 21 years. The Board of Directors along with corporate Management are all committed to the continued growth of the Company with much vigor and enthusiasm.

STRATEGIC DIRECTION

Imperial's Board of Directors along with Management are focused on the real estate market throughout Alberta and Canada and are committed to continue building a strong portfolio of investment properties.

The fundamental strategic goals that drive our Company are:

- Acquire industrial properties in the most sought-after areas for capital appreciation
- Acquire fully occupied, single tenant or multi tenant industrial properties with long term lease agreements and rental rates commensurate with the location
- Finance acquisitions with the lowest cost of capital available
- Achieve a defined rate of return on each asset
- Maximize the revenue potential of each asset in its region
- Dispose of older assets that may have reached their maximum earning potential to reduce the overall age of the properties in the portfolio
- Charitable giving in the communities where the Company does business

Imperial's team of professionals are dedicated and motivated to grow our real estate portfolio and earn value for our shareholders. With a relatively small share base for a real estate company of our size, Management has no immediate plans to issue new shares which would dilute an investor's holdings. We believe in building value in those shares through a commitment to acquire and develop high quality properties and gain capital appreciation to benefit our shareholders. As part of our strategy, we would consider the disposition of a property where the Company believes that we have maximized the potential of that property and its disposition would be beneficial to the Company.

KEY PERFORMANCE DRIVERS

Imperial Equities continues to engage a dedicated team of professionals to manage and oversee the business activities. The CEO and CFO have been with the Company since becoming publicly traded 21 years ago. There is a strong Board of Directors with significant real estate experience to guide decisions surrounding strategic direction and achieving the goals and objectives of the Company. This 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 we are meeting our strategic directives. External performance drivers that affect our business include the overall economic health of industries operating in the province of Alberta. Alberta is still largely reliant on the oil industry and we are careful to select tenants that we feel are best able to weather an economic downturn. This assessment will include the size of the tenant, the length of time they have been in business, their operations and exposure to the oil and gas industry; all these factors will be a part in our evaluation of the strength of their lease covenant. Another external driver to our success is interest rates related to financing of our properties. The investment properties are financed with conventional mortgages that leave the Company with an exposure to possible increases in interest rates, affecting our operating income and cash flow. The Company had experienced consistently lower weighted average interest rates throughout each quarter, until Q1 2018 where the weighted average rate began to marginally increase. With Canada's economy improving and consequently giving rise to higher inflation, interest rates will likely continue upward in the foreseeable future. The Company, in the short term, does not consider rising interest rates to have a significant impact on the operating cash flows, as commercial lease terms associated with new acquisitions and lease renewals will reflect changing market conditions.

Internal performance drivers that measure our strategic objectives include the following:

- Comprehensive due diligence on all acquisitions including evaluating the strength of the tenant(s) before entering into contracts
- Maximize the revenue per property and secure long lease terms to reduce the turnover of tenants
- Maintain high occupancy rates to recover carrying costs of the properties
- Monitoring the quality of tenants in the portfolio to reduce the risk of defaults on leases
- Maintain our assets to high standards including structural, mechanical and cosmetic to showcase our existing properties to prospective tenants or purchasers
- Preventative maintenance on the properties to reduce operating costs and to maximize longevity of the buildings
- Ensure that maintenance on the properties is done to exacting standards involving monitoring the quality of work provided by our business partners while ensuring the costs are competitive
- Maximizing the cash flow from operations to ensure funding for growth opportunities
- Selecting mortgage terms that provide a low cost of capital and utilizing debt leverage opportunities
- Minimize higher rate short term borrowings to reduce the cost of capital
- Provide donations to a wide variety of charities in the community

SUMMARY OF PERFORMANCE INDICATORS

	Three months ending **December 31, 2018**	Year ending **September 30, 2018**
Number of leased properties	**32**	29
Number of properties under development	**-**	2
Number of properties held for future development	**4**	3
Total leased square feet	**863,342**	810,018
Total land under lease with tenants	**7.9 acres**	4.9 acres
Occupancy year to date	**99.9%**	99.9%
Average lease term to maturity in years	**4.73**	4.53
Total square footage of leases expiring within twelve months	**36,440**	81,735
% operating cost recoveries to operating costs	**81%**	81%
Weighted average interest rates on mortgages	**3.36%**	3.13%
Other financing	**$4,020,000**	$4,020,000

Total increase in leasable square feet during Q1 2019

- Acquisition of ALS Canada building 29,450 ft^2 November 2018
- Acquisition of Sable building 7,313 ft^2 November 2018
- Completed construction for Cervus in Hanna, AB. 28,891 ft^2 at December 31, 2018
- Completed construction in Edmonton, AB. Coppertone III, 12,124 ft^2 at December 31, 2018

Land acquisition during Q1 2019

- 3 acres in NW Edmonton, Alberta with four tenant leases

Current lease expiries and vacancies

There are three tenant leases expiring during the next twelve months totalling 36,440 ft^2. The tenant in the newly acquired Sable building will not be renewing their lease. Upon the building becoming vacant, the Company will renovate the 7,313 ft^2 building for a new tenant that will take occupancy in Q2 2019.

A tenant currently occupying 21,127 ft^2 has already commenced the renewal process and the remaining tenant lease encompassing 8,000 ft^2, does not expire until December 2019.

There is vacant space of 32,762 ft^2 in one of the Company's multi tenant buildings. The Company has completed major improvements to the space and it is expected to be leased in the coming months. The newly constructed building called Coppertone III is being actively marketed for lease. Negotiations with a prospective tenant are ongoing and occupancy is expected to take place in Q2 2019.

AVERAGE ANNUAL LEASE RATES
PER SQUARE FOOT

	December 31, 2018	December 31, 2017
Edmonton, Alberta	**$ 11.84**	$ 10.53
Red Deer, Alberta*	**$ 25.07**	$ 24.89
Fort Saskatchewan, Alberta*	**$ 35.40**	$ 42.80
Fort McMurray, Alberta	**$ 43.25**	$ 47.39
Leduc, Alberta	**$ 15.70**	$ -
Hanna, Alberta	**$ 18.24**	$ -

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

LEASE PROFILES
AT DECEMBER 31, 2018

Single Tenant Buildings	
Square Feet	**Expiry Year**
15,313	2019
25,580	2020
40,766	2021
240,207	2022
75,151	2023
66,335	2024
26,400	2026
29,450	2027
116,630	2028
25,024	2029
28,891	2038
689,747	

Weighted Average Remaining Lease Terms: **7.07 years**

Multi Tenant Buildings	
Square Feet	**Expiry Year**
4,798	Month to Month
21,127	2019
80,970	2020
2,941	2021
9,037	2022
9,836	2023
128,709	

Weighted Average Remaining Lease Terms: **3.12 years**

The risks to the Company when a tenant does not renew a lease is to absorb the ongoing operating costs of a 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 ensure retention rates remain high, through responsive property management to ensure their leased space and the building is well maintained. Management also ensures operating cost recoveries are maximized for our shareholders.

Operating cost recoveries are budgeted annually and reconciled every 12 months on a tenant by tenant basis. All the Company's leases are triple net leases which allows the landlord to recover operating costs. Management will decide on large maintenance items as to how it will treat the recovery of those costs from the tenant, so as not to incur hardship on their operations. In some cases

management will amortize the costs over a period of time 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, there will always be a percentage of operating costs not recovered by the landlord in the current fiscal year. Historical optimal recovery percentages will be in the range of 80%-86%. At December 31, 2018 recoveries are 81% unchanged from September 30, 2018. Affecting recoveries at September 30, 2018 was a new lessee that was granted six months of free rent while the landlord absorbed the operating costs.

Weighted average interest rates on our mortgages have increased to 3.36% at Q1 2019 from 3.13% at September 30, 2018 with rates rising for new, and renewed financing from the Company's lenders. During Q1 2019 the Company received two new mortgages and renewed three mortgages at their term dates.

In the prior year, the Company commenced construction of Coppertone III; a 12,124 ft^2 building on 1.25 acres in the Coppertone Industrial Common in NW Edmonton. Construction was completed in Q1, 2019 and the Company is actively marketing the building for lease. During Q1 2019 construction was also completed on a 16.5 acre site in Hanna, Alberta. The site includes a building of 24,454 sf^2 as well as a 4,044 sf^2 ancillary building. The tenant, an international company involved in the agribusiness, took occupancy in Q1 2019 allowing the Company to place conventional mortgage financing against the property.

PERFORMANCE HIGHLIGHTS
DURING Q1 2019

In Q1 the Company completed an agreement to **purchase a 29,450 sf^2 building situated on 3.78 acres** in the southeast Edmonton Research and Development park. The total purchase price was $6,150,000. The tenant, ALS Canada Inc. is an international company with operations in 70 countries.

In Q1 the Company completed an agreement to **purchase 3 acres of vacant land** in west Edmonton for a total purchase price of $1,650,000.

In Q1 the Company completed an agreement to **purchase a 7,313 sf^2 building** situated along the Yellowhead Trail in northeast Edmonton. The total purchase price was $975,000.

During Q1 the Company completed the **build to suit, 24,454 sf^2 building** in Hanna, Alberta on 16.5 acres along with an additional 4,044 sf^2 ancillary building. The tenant, Cervus Equipment, is an international company that provides sales and service of John Deere equipment to the agricultural sector. The tenant took occupancy in Q1 2019.

During Q1 construction of the **12,124 ft^2 Coppertone III** building in the Coppertone Industrial Common, in NW Edmonton was completed and the Company is actively marketing the property for lease.

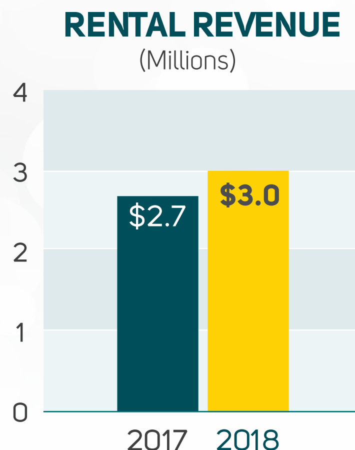
In Q1 the Company received **conventional mortgage** financing for the Hanna property in the amount of **$5,100,000** from one of the Company's major lenders.

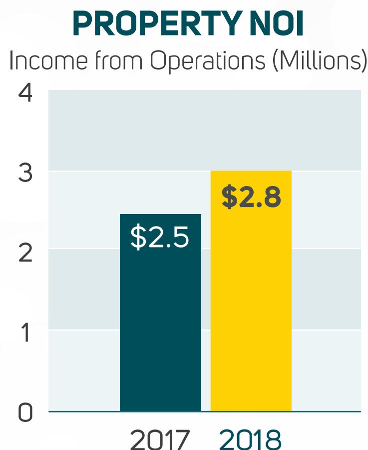
During Q1 two mortgages were renewed for further five-year terms and one mortgage was renewed for a one-year term. An increase in the interest rates during the quarter affected the **weighted average rate of interest on all mortgages which is now 3.36%** at December 31, 2018 (September 30, 2018 – 3.13%).

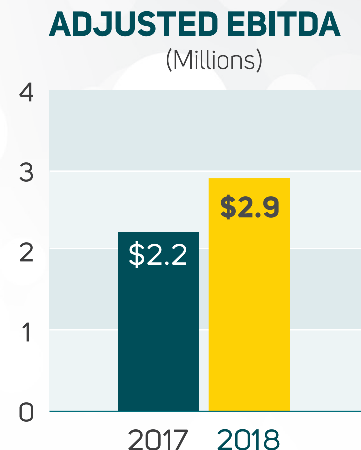
In Q1 the Company received a **new mortgage** on the acquisition of the ALS Canada building in southeast Edmonton. Total funds received were **$4,300,000** from one of the Company's major lenders.

During Q1 the Company signed month to month **leases with four individual tenants** to lease sections of the 3 acres of vacant land acquired in NW Edmonton. Annual revenue of over $61,000 will offset property taxes while the Company pursues development opportunities.

PERFORMANCE RESULTS FOR Q1 2019
ENDING DECEMBER 31, 2018







Property net operating income ("NOI") for the real estate segment is defined as net operating income from properties which includes property revenue less direct property operating expenses and excludes non-cash and non-recurring items, administrative expenses, amortization, valuation gains or losses, finance costs and income taxes. Management believes that this is a useful measure of cash available from operations to assess performance of the real estate portfolio and measure the income generated by properties to support finance repayments. Commercial property net operating income, together with capitalization rates applied on a property by property basis, is widely used to value investment property in the real estate industry.

Management is of the opinion that ADJUSTED EBITDA as calculated below is another useful measure for investors to use when evaluating the ability of the Company to generate cash to service interest on debt, and facilitate growth in the Company. Income taxes are removed from the earnings because they often include deferred taxes which are non-cash. Removing the interest expense also allows an investor to see the operating cash flows from properties without the influence of how the Company has financed its properties. When comparing other real estate companies, the differences in how companies finance their assets, together with their individual tax situations, are taken out of the equation.

NOI and ADJUSTED EBITDA are non-IFRS financial measures used by most Canadian real estate companies and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities, or any other measure prescribed under IFRS. This measure does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

ADJUSTED EBITDA AT DECEMBER 31

	2017	2018
Net income (loss) and total comprehensive income (loss)	**$ 661,438**	**$ (886,496)**
Add (subtract):		
Valuation (gains) losses on investment property	(185,145)	1,453,502
Straight-line rental revenue	(31,980)	169,846
Finance costs	706,777	990,742
Amortization of loan discount	(3,586)	-
Amortization of deferred leasing	58,116	66,707
Amortization of tenant inducements	9,091	-
Income taxes	1,021,438	1,000,727
Unrealized losses on short term investments	-	136,500
ADJUSTED EBITDA at December 31	**$ 2,236,149**	**$ 2,931,528**

For over five years the Company has enjoyed better than 99% occupancy in its properties. There have been no significant changes in operations for each quarter during 2018 or 2017, except for fluctuations in earnings resulting from the fair valuations of investment properties.

Net valuation (losses) gains per quarter:

2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
$ (1,453,502)	$ 805,792	$ (4,702,567)	$ 235,704	$ 185,145	$ 280,967	$ (197,446)	$ 363,625

When valuing the investment properties to 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 eager to expand their portfolios creating a healthy, competitive environment in which to acquire property, which will keep the cap rates very competitive. Since 2016 Management decided to marginally increase the cap rates on some of the properties where the Company believes property values and lease rates have decreased slightly; the result of more product coming on stream from developers eager to lease up vacant buildings. Some properties' cap rates were increased to maintain existing values, despite increasing contracted revenue streams which would otherwise drive the value upwards.

During Q1 2019, the Company lowered the values on two properties which contributed significantly to the net valuation losses of $1,453,502. One property where a tenant occupying 32,762 ft2 vacated after paying out their lease obligations, represents 34% of the square feet of the building. The Company made significant improvements to this space after the tenant vacated and it is being actively marketed for lease. The decrease in value represents the lost revenue and the expected costs to lease it. The second property is where a tenant requested a reduction in their rent to the term of their lease. The loss in revenue is reflected in a lower valuation of the property.

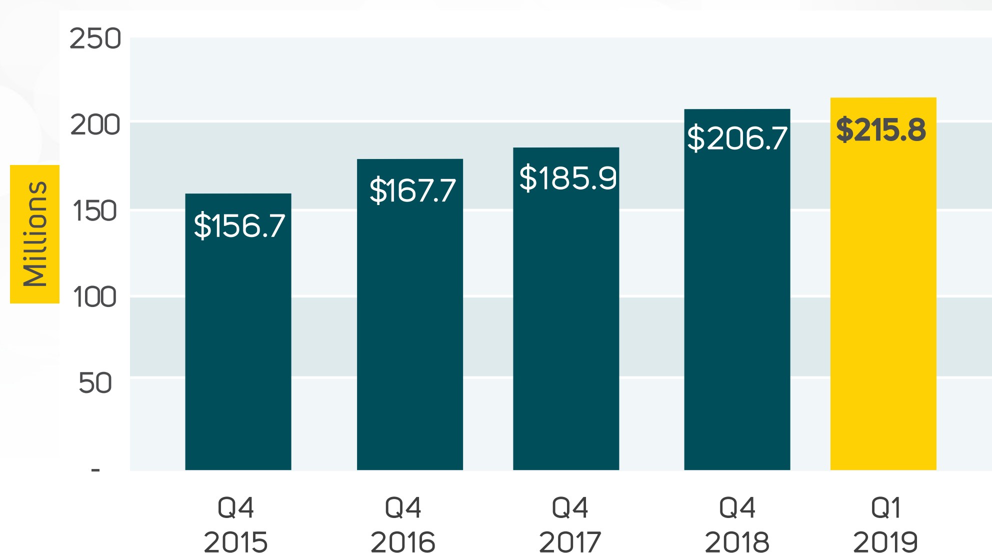
At Q4 2018 the Company increased the cap rates on several properties to avoid large fair value increases that may not be indicative of the current market price. The positive valuation during the quarter was the result of the build to suit project in Hanna, Alberta. The building was substantially complete at Q4 2018 and with a current lease in place the tenant took occupancy in Q1 2019. The property was recorded at fair value, less the construction costs to complete at Q4 2018.

At Q3 2018 the Company agreed to an early lease termination for a tenant in Fort McMurray Alberta. An accelerated rent adjustment in the amount of $1,992,928 was reported as income in Q4 2018. Concurrent with the negotiations to release the tenant from their lease obligations, Management agreed to a new lease with a large national tenant that took occupancy of the building on July 1, 2018. The new lease rental revenue is lower than the lease that was terminated due to decreased market conditions in Fort McMurray. The impact of the recession, and the major fires that ravaged the Fort McMurray region, means the city is still restructuring to its former glory. All other inputs remaining the same, the effect of the lowered income from the new lease, meant a decrease of $4,464,828 in the fair value of the land and building. The new tenant already has a well-established presence in Fort McMurray and was eager to move into a newer, larger facility for their expanding operations.

The net fair value losses at Q3 each year are often the result of small increases in the revenue stream which typically cause fair value increases, netted against items capitalized. Building improvements are performed in the warmer summer months of Q3. The capitalized building improvements generally exceed any incremental fair value increase, and Management will make a negative adjustment to the property's carrying value to bring it to the fair value at the reporting date. Also, at Q3 each year property taxes are capitalized to vacant land causing a negative revaluation to bring the values back to estimated market values.

At each quarter during 2017 and 2018, the Company has adjusted the cap rates upward on several properties because if left unadjusted, the increase in contracted revenue for the next twelve months would cause fair value increases that are not likely indicative of current market values. Notwithstanding there are increases in contracted rents, the cap rates were adjusted upward to keep values of the properties at estimated current market values.

FAIR MARKET VALUE OF INVESTMENT PROPERTIES
FOR THE YEARS ENDING SEPTEMBER 30, AND AT Q1 2019



▸ **Valuation net (losses) gains from investment property** are the result of market values at each reporting date, estimated by management using the actual annual contracted subsequent year revenue stream, less a reserve allowance, applying a capitalization rate to this normalized income, and deriving a fair value. Capitalization rates used to estimate fair market value consider many factors including but not limited to; location, size of land, site coverage, strength of tenant, term of lease, lease rate, age of building, size of building, construction of 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 favourable 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, long term leases and are typically of newer construction. Higher capitalization rates apply to the Company's older buildings and take into consideration whether the property is multi tenanted, the strength of the tenants, and location of the asset.

At each reporting date, this calculation method is performed on all the investment properties except for the Oliver Crossing property, vacant land, and land under lease. (September 30, 2018 there was one property under development). The market value of Oliver Crossing is calculated based on the total square footage of land multiplied by a dollar value per square foot. This property is in a high demand area of Edmonton situated on the fringe of downtown. The current buildings on the property are aged and the real property value is not derived from the buildings and their lease income, but rather is derived from the land value in this highly sought-after area.

Construction of new buildings are valued at cost until the earlier of the date that fair value can be reliably determined, or the projects are complete. Land held for development is valued using management's research of similar vacant land that has sold recently or, is available for sale. Land under lease with tenants is valued at the fair value of similar vacant land.

The Company continues to increase the investment property portfolio each year by acquiring properties with a view towards capital appreciation.

▸ **Finance costs** include interest on financing, net of interest income and amortization of deferred finance fees. Interest on financing is up at Q1 2019 compared to Q1 2018 due to additional mortgages received, rising interest rates on new and renewed mortgages, an increase in other financing, and increased use of the bank credit facilities. The Company utilized the lines of credit and related party financing in the last twelve months to assist with new acquisitions.

Q1 DECEMBER 31,	2018	2017
ADJUSTED EBITDA	$ 2,931,528	$ 2,236,149
Interest on financing	$ 997,506	$ 689,552
Interest coverage ratio	2.94	3.24
Minimum threshold set by Management	1.50	1.50

The adjusted EBITDA is used to show cash generated from regular operations before interest and income taxes and non-cash items on the statement of comprehensive income. This is the amount of cash the Company has available to service the interest on its debt. The goals of the Company include maintaining strong operating cash flows to fund further growth and generating cash that well exceeds finance obligations, and Management's minimum interest coverage threshold noted above. The Company continues to achieve both goals.

- **Income from operations** in the current quarter was positively affected by the recording of accelerated rent of $182,207 from a tenant that vacated their premises prior to their lease expiry date. Rental revenue is also higher in 2018 over 2017 due to the increased activity in acquisitions and new leases in the last twelve months.

- **Administrative** expenses are lower this year compared to last year due to a reversal of a bad debt provision in the amount of $300,000 at Q1 2019. Otherwise, administrative expenses would be higher this year due to an increase in employees and associated salaries.

Regular administrative expenses include salaries, annual finance fees on lines of credit, charitable donations, shareholder communications and other small sundry accounts.

- **Amortization** of deferred leasing costs relates to leasing fees charged with the signing of new tenants, or upon lease renewals. The costs are amortized over the life of the respective leases varying from five to twenty years. Amortization is higher this year due to increased lease renewals and six new leases in the prior year. There were no leasing fees incurred in Q1 2019.

- **Unrealized losses on short term investments** are the result of valuing the marketable securities held by the company at fair value at the reporting date.

CHANGES IN CASH FLOWS

- **Cash provided by operating activities was $2,347,543 at Q1 2019 (Q1 2018 – $1,475,418). The Company continues to generate** positive cash from operations to cover day to day expenditures and bank cash for future opportunities. The cash flow provided from operations this year was higher due to increased revenues from acquisitions and new tenants. In the prior year there were leasing fees of $261,161 compared to no leasing activities in Q1 2019.

- **Cash used in investing activities was $11,951,908 at Q1 2019 (Q1 2018 – $3,910,129). There were three property acquisitions** this quarter totalling $8,863,708 and two buildings under construction during 2018 were completed in Q1 2019, with additional construction costs of $1,605,997. This compares to three acquisitions at Q1 2018 at a cost of $5,339,757.

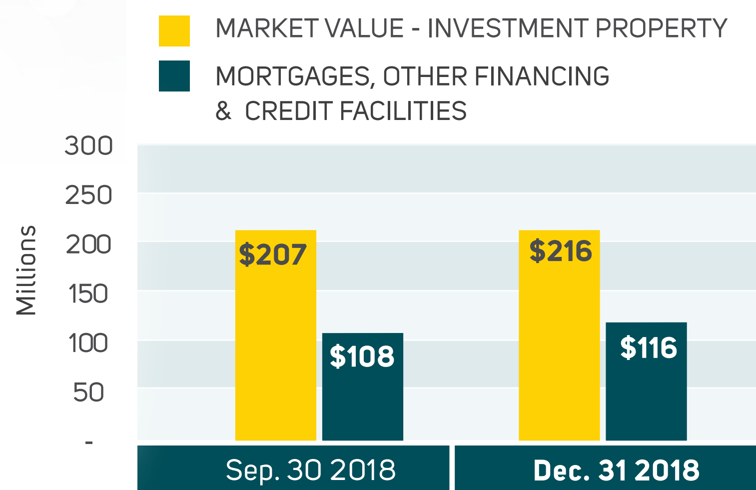
- **Net cash provided by financing activities was $7,292,570 at Q1 2019 compared to $1,857,407 at Q1 2018. During Q1 2019 the** Company utilized an additional $564,002 (Q1 2018 - $2,196,099) of the credit facilities to assist with closing three property acquisitions and fund the construction projects. During Q1 2019 the Company received mortgage proceeds of $9,400,000 (Q1 2018 - $7,825,000). The proceeds were used to pay down the lines of credit and repay other financing received during the quarter of $750,000. In addition to regular principal payments on the mortgages, one lender requires the Company to deposit a total of $1,300,000 (monthly instalments of $100,000) in GIC's until a specific mortgage matures in 2019. Total GIC's held under this agreement at Q1 2019 are $700,000 (Q1 2018 – Nil).

Fees associated with new and renewed mortgages totalled $29,306 at Q1 2019 (Q1 2018 - $21,290). These costs are amortized over the terms of the respective mortgages and are shown net of the mortgages on the consolidated interim statements of financial position. Amortization of finance fees is included in finance costs on the interim statements of comprehensive income.

During Q1 2019 the Company purchased 16,000 common shares under the normal course issuer bid for a total cost of $69,136 (Q1 2018 - a total of 13,500 shares were purchased for a total cost of $57,580).

At Q1 2019 there was a net decrease in cash of $2,311,795 compared to a decrease in cash at Q1 2018 of $577,304.

SIGNIFICANT BALANCE SHEET CHANGES



EQUITY in investment properties has **increased $765,850** since September 30, 2018 through principal repayments of loans, an increase in GIC's offsetting mortgages, cash used for acquisitions and completed construction, as well as changes in fair values.

- **Investment properties** include the fair value of the properties at the reporting date as valued by Management, including the balance of straight-line rent receivables, unamortized deferred leasing costs and unamortized tenant inducements.

	Income Producing Properties	Completed Properties Under Development	Held For Development	Total Investment Properties
Opening balance at September 30, 2018	$ 187,436,295	$ 8,758,023	$ 10,516,418	**$ 206,710,736**
Additions:				
Property improvements	323,146	-	-	**323,146**
Construction costs	-	1,605,997	-	**1,605,997**
Leasing commissions	-	-	-	**-**
Property acquisitions	7,187,750	-	1,675,958	**8,863,708**
Change in straight-line revenues	(169,846)	-	-	**(169,846)**
Revaluation losses, net	(1,376,319)	(77,183)	-	**(1,453,502)**
Amortization of deferred leasing	(66,707)	-	-	**(66,707)**
Ending balance at December 31, 2018	**$193,334,319**	**$10,286,837**	**$ 12,192,376**	**$ 215,813,532**

- **Mortgages** at Q1 2019 have a balance of $93,742,178 (Q4 2018 - $85,669,230). During Q1 2019 two new mortgages totalling $9,400,000 were received and placed on a new acquisition and the completed building project in Hanna, Alberta. Two mortgages were renewed for five-year terms, and one mortgage was renewed for one year.

At Q1 2019 there are two mortgages up for renewal in the next twelve months with combined principal balances of $19,727,668 which are shown as current liabilities. GIC's in the amount of $700,000 (Q4 2018 - $400,000) are held as additional security for one mortgage that matures in July 2019. The Company intends to renew the mortgages as they come due. Netted against mortgages on the consolidated interim statements of financial position is the balance of unamortized fees associated with new or renewed mortgages, totalling $249,278 at Q1 2019 (Q4 2018 – $242,184).

- **Loan receivable** of $1,020,982 at Q1 2019 is net of a $700,000 provision for impairment (Q4 2018 – loan of $1,009,825 net of a provision of $1,000,000). The loan relates to the early lease termination of a tenant in Fort McMurray, Alberta where an accelerated rent adjustment in the amount of $2,992,928 was negotiated during the prior year. Included in the agreement was a loan receivable of $2,200,000 repayable in 22 monthly instalments that includes interest at an annual rate of 6%. An impairment provision of $1,000,000 was applied to this loan at September 30, 2018. Contractual instalments were received in Q1 2019 and the Company reversed a portion of the provision for impairment. Management will continue to re-evaluate the provision at each reporting period and should conditions change positively, any reversal will be recorded at that time.

- **Receivables** of $129,522 at Q1 2019 and $242,792 at Q4 2018 are net of an allowance for doubtful accounts of $16,061. Receivables at Q1 2019 include taxes and rebates receivable of $127,317 (Q4 2019 – taxes and rebates of $111,757) The balance is trade receivables and accrued interest.

- **Prepaid expenses and deposits** have a balance at Q1 2019 of $157,674 (Q4 2018 - $1,218,946) relating to property insurance premiums, and security deposits with municipalities. Refundable deposits of $70,588 were received subsequent to Q1 2019. At Q4 2018 there were deposits of $665,000 placed pursuant to offers to purchase investment property. Three deposits were applied to acquisitions in Q1 2019 and the remaining $200,000 was refunded to the Company.

- **Restricted cash** of $700,000 at Q1 2019 (Q4 2018 - $400,000) is held as collateral for one of the Company's major lenders as additional security for a specific mortgage that matures in July 2019. Total monthly instalments of $100,000 to an aggregate of $1,300,000 are held in interest bearing GIC's and are redeemable/cashable with the Lender's approval.
Short–term investments are common shares held for trading. The value at Q1 2019 is $237,000 (Q4 2018 - $373,500). The shares are recorded at the quoted market value at each reporting date. Management will look to the disposition of these investments over the next twelve months as market forces permit.

- **Security deposits** held for the performance of the tenants increased this year with the addition of new tenant leases. The current portion of deposits is included in payables and accruals.

- **Other financing** unsecured at Q1 2019 and Q4 2018 remains at $4,020,000 and bears interest at an annual rate of 6% (Q4 2018 – 6%). Other financing is due to related parties and has no specific dates of repayment.

- **Bank operating facilities** at Q1 2019 have a balance of $19,021,674 with two of the Company's major lenders (Q4 2018 - $18,457,672 with two of the Company's major lenders). These credit facilities were used to assist with the acquisitions of investment properties, and the construction of two buildings.

The Company currently has two credit facilities ("Line of credit", or LOC") with two of its major lenders.

	December 31, 2018	September 30, 2017
Bank credit facilities	$ 20,000,000	$ 20,000,000
Amounts drawn on facilities	(19,021,674)	(18,457,672)
Available credit facilities	**$ 978,326**	**$ 1,542,328**

- A LOC with a limit of $10,000,000 (Q4 2018 - $10,000,000) is secured by a general security agreement and a collateral mortgage in the amount of $10,000,000 placing a fixed charge against specific properties. The facility bears interest at prime + .95% ,unchanged from the prior year, and can be used for property acquisitions and general operations. There are no financial covenants with this credit facility.

- The Company has a second LOC with a limit of $10,000,000 unchanged from the prior year. The LOC bears interest at prime plus 1% per annum and is secured by specific revenue producing properties. This LOC incurs standby fees of 0.25% per annum on any unused portion of the facility. The revolving demand facility is available to assist with property acquisitions, payment of development costs, and general corporate purposes.

Specific details of the credit facilities and associated loan covenants can be found in Note 9 of the consolidated interim financial statements. The Company was not in breach of any loan covenants throughout both reporting years.

- **Payables and accruals** are $1,195,612 at Q1 2019 (Q4 2018 - $3,145,876) and include construction payables of $535,302 (Q4 2018 - $2,359,361). Accruals include interest on mortgages, prepaid rents from tenants, and the current portion of tenant security deposits.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q1
Revenue	3,721,321	5,497,881	2,930,792	3,486,193	3,328,342	3,396,004	3,319,384	3,211,027
Total Comprehensive (Loss) Income	(886,496)	3,395,251	(3,163,279)	1,449,203	661,438	1,860,217	564,313	1,587,629
EPS-Basic	(0.09)	0.35	(0.33)	0.15	0.07	0.19	0.06	0.16
EPS-Diluted	(0.09)	0.35	(0.33)	0.15	0.07	0.19	0.06	0.16

QUARTERLY CHANGES IN THE REVENUE

Q1 2019 revenue reflects an amount received for accelerated rent from a tenant that vacated their premises prior to the expiry date of their lease. The full amount of rent due to the term of the lease was $182,207. Revenues have increased this year compared to Q1 2018 due to additional tenants in the buildings acquired over the last twelve months.

Q4 2018 revenue from investment property increased with the addition of new leases on land acquisitions and two new tenants on property acquisitions, the Skyway building and Dynomax building. Additional revenue of $1,992,928 is non-recurring revenue generated from the accelerated rent adjustment for an early termination of a lease. Q4 revenues also increase with additional billings to tenants for annual reconciled operating cost recoveries.

In Q3 2018 revenue was impacted by the amortization of tenant inducements relating to one lease that was terminated where the tenant was placed in receivership. The total amortization was $336,364. The unamortized balance of straight-line rent associated with a lease terminated in Fort McMurray, Alberta was fully amortized in Q3 2018. This resulted in a decrease to rental revenue of $162,652.

During Q2 2018 the Company started receiving revenue from the Skyway building and an additional land lease. At Q1 2018 revenue increased with the addition of one new land lease.

The revenue at Q4 2017 increased with end of the year operating cost recoveries billed to the tenants, and adjustments made to the straight-line rent calculation. There were no new revenue streams in Q4 2017.

Revenue increased in Q3 2017 with revenue generated from three new acquisitions; Coppertone VII, Coppertone VIII and the Derrick building. The acquired properties Coppertone VII & VIII began generating revenue in Q2 2017, and the Derrick building in Q3 2017.

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 and new leases.

The Company reports straight line revenue which is the average revenue generated per property over the term of the respective lease. 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 large fluctuations in total comprehensive income are largely caused by the revaluations of the investment properties.

Net valuation gains (losses) per quarter:

2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
$(1,453,502)	$805,792	$(4,702,567)	$235,704	$185,145	$280,967	$(197,446)	$363,625

Q1 2019 unrealized losses reflect small gains and losses on all the properties where revaluing the properties to market values takes into consideration amortization of straight-line rents and deferred leasing. Any amounts capitalized to the properties during the quarter will have a downward adjustment to the value, to maintain current market values. Two properties had larger write downs

this quarter. A multi tenant building has a vacancy where a tenant was occupying 32,762ft2 or 34% of the building. After the tenant vacated, Management completed major improvements to the interior space and it is being actively marketed for lease. The lower value on this property reflects the loss in revenue and the costs to release the space. Another property has a single tenant that requested some relief from their lease obligations. Management agreed to reduce their rent to the term of their lease. All other inputs remaining the same, the lower revenue from this lease caused a large decrease in the value of the property.

Q4 2018 had small property by property decreases to maintain the values at the current market rates. These small losses were offset by the gain on one of the properties that was under construction during the year in Hanna, Alberta. At Q4 2018 the building was substantially complete with a signed lease in place. The tenant took occupancy in Q1 2019. At Q4 2018 the property could be reliably measured at fair value less the construction costs to complete.

Q3 2018 net losses are primarily the result of one property in Fort McMurray, Alberta. During Q3 2018 the Company agreed to an early lease termination for a tenant resulting in an accelerated rent adjustment of $2,992,928 less a provision for impairment of $1,000,000 that was reported as income in Q4 2018. Concurrent with the negotiations to release the tenant from their lease obligations, Management agreed to a new lease with a large national tenant that took occupancy of the building July 1, 2018. The new lease rental revenue is lower than the lease that was terminated due to decreased market rates in Fort McMurray. The impact of the recession, and the major fires that attacked the Fort McMurray region, means the city is still recovering to its former glory. All other inputs remaining the same, the effect of the lowered income from the new lease, meant a decrease of $4,464,828 in the fair value of the land and building. Rent from the new tenant commenced in Q4 2018.

The balance of net losses at Q3 2018 in the amount of $237,739 are typical of this time of year where capital improvements and capitalization of property taxes on vacant land, will increase the cost for accounting purposes. A negative revaluation is required to keep the values at market rates.

While a considerable number of properties had 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 during 2017 and 2018. There is no evidence in the market to suggest the related property values are increasing or decreasing at the present, therefore most of the values are adjusted slightly upward in the quarter to offset the amortization of deferred charges, which include straight line rent, leasing fees, and tenant inducements if any.

At Q4 each year, budgeted occupancy costs are reconciled with actual costs and where possible those additional costs are charged back to the tenants. This will typically have a positive affect on earnings for the fourth quarter.

Affecting fair values are changes in the contracted revenue to be received in the next twelve months, as well as changes in the balances of straight-line rent, deferred leasing, tenant inducements, capitalized expenditures, and changes to cap rates. These are inputs that contribute to the fair value increases or decreases of the investment properties.

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 Q1** 2019 remain unchanged from Q4 2018 – 9,583,642. The Company received approval to renew its normal course issuer bid which expires on August 30, 2019. During the current period, the Company purchased 16,000 shares for a total cost of $69,136. All the shares will remain in treasury until cancelled.

In the prior year, the Company purchased 13,500 shares for a total cost of $57,580. All the shares were held in treasury at Q1 2018.

At Q1 2019 and Q4 2018 there are 475,000 share options issued and outstanding under the Company’s stock option plan. The options entitle the holder to one common share in exchange for each option held at an option price of $4.25. The options expire August 26, 2019.

DIVIDENDS

▸ **The Company issued a press release January 14, 2015 announcing the suspension of the dividend payments until further** notice, due to the uncertainty surrounding the Alberta economy and oil prices. 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.

Management and the Board of Directors have not set a date for the resumption of a dividend. Currently, it is their opinion that the Company should focus on reserving cash balances to position itself for opportunities that arise to increase the portfolio and create shareholder value through capital appreciation of the properties.

RELATED PARTY TRANSACTIONS

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

▸ **Property management and maintenance fees** in the amount of $218,122 (Q1 2018 - $234,019) were paid to Sable Realty & Management Ltd., ("Sable") a company controlled by Sine Chadi, a director and officer of the Company. Fees paid to Sable are pursuant to a contract with Imperial Equities Inc. to bill for the management and maintenance of its properties for a fee of 4% of rents collected. Maintenance performed by Sable's property management team is charged at competitive rates of $50-$65 per hour (Q1 2018 - $50-$65 per hour) for labour, plus equipment and parts charges. Sable provides its own trucks, tools and equipment to perform property maintenance. Imperial Equities recovers most of the maintenance fees from the tenants under their occupancy costs. Four leases have no management fee recoverable and the remaining leases have a provision for the recovery of 2%-5% of minimum rent, or rent, which would include minimum rent and operating expense recoveries. The percentage of management fees negotiated and collectible under the leases varies based on the amount of work involving Management in maintaining the property, as opposed to how much the tenant is involved.

▸ **Leasing, acquisition and disposition fees** in the aggregate of $78,000 (Q1 2018 – $204,488) were paid to North American Realty Corp. ("NARC") a Company controlled by Sine Chadi. In Q1 2019, $78,000 was paid for the acquisitions of the ALS building, the Sable building, and a three-acre parcel of land. There were no leasing fees during the current quarter. Fees and commissions are in line with current industry standards and are comparable to similar transactions undertaken by the Company with unrelated parties.

▸ **Office rent, parking and warehouse lease space** were paid to Sable in the aggregate amount of $25,050 (Q1 2018 – $29,918). Imperial Equities shares office space with Sable and pays $8,000 per month. Warehouse lease fees to store materials owned by Imperial were discontinued in Q1 2018.

▸ **Fees** paid in the amount of $50,000 (Q1 2018 - $50,000) were paid to Sable for the services provided by the Company's Chief Financial Officer who is not paid directly by Imperial Equities.

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.

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. These contracts and the associated fees and rates were approved by the board of directors.

Paid to directors

Directors' fees paid for attending directors' meetings were $10,000 at Q1 2019 (Q1 2018 - $7,500). Fees per meeting are currently $2,500. 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 the President Sine Chadi who is also a director and significant shareholder of the Company. Total salary paid to Mr. Chadi during the period was $75,000 (2018 - $75,000).

Unsecured interim financing from a company owned 100% by a director and major shareholder

Interim party financing from North American Mortgage Corp. totalling $750,000 was received and repaid with interest at an annual rate of 6% during Q1 2019. Total interest paid was $5,633.

In the prior year at Q1 2018, interim financing in the amount of $50,000 was received from North American Mortgage Corp. The total amount was repaid without interest in Q1 2018.

Unsecured interim financing from a company under common control

During the prior year, interim financing of $4,020,000 was received from a company that is under common control by Sine Chadi. The loan is unsecured and bears interest at an annual rate of 6%. Total interest paid at Q1 2019 was $41,837. (Q1 2018-Nil)

Unsecured interim financing from directors and shareholders

In the prior year, at Q1 2018, the balance of other financing outstanding at September 30, 2017 of $1,300,000 was repaid with interest at an annual rate of 6%. Total interest paid was $10,903.

LIQUIDITY, CAPITAL RESOURCES AND SOLVENCY

The Company's Liquidity Position	December 31, 2018	September 30, 2018
Cash and cash equivalents	$ 31,725	$ 2,343,520
Receivables, net of a provision	129,522	242,792
Short term investments	237,000	373,500
Restricted cash held in GIC's	700,000	400,000
Loan receivable, net of a provision	1,020,982	1,009,825
	$ 2,119,229	$ 4,369,637
Payables and accruals	$ 1,195,612	$ 3,145,876
Current portion of mortgages	24,759,913	21,280,840
Bank operating facilities	19,021,674	18,457,672
Other financing	4,020,000	4,020,000
Income taxes, net	280,510	915,477
	$ 49,277,709	$ 47,819,865
LIQUIDITY RATIO	.04	.09

The liquidity ratio decreased marginally from September 30, 2018. The current portion of mortgages includes regular principal payments plus the full principal balance of any mortgages due in the next twelve months. At December 31, 2018 there are two mortgages totalling $19,727,668 and shown as current. The Company used available cash and credit facilities to complete the construction of two buildings in Q1 2019 and fund the acquisitions of three investment properties. Two new mortgages totalling $9,400,000 were received on the Hanna building and the ALS building acquired in Q1 2019. As soon as a lease can be negotiated for the second building newly constructed in NW Edmonton, the Company will place conventional mortgage financing on this property as well. The Company plans to use mortgage proceeds to partially repay other financing and pay down the bank operating facilities.

CASH FLOWS

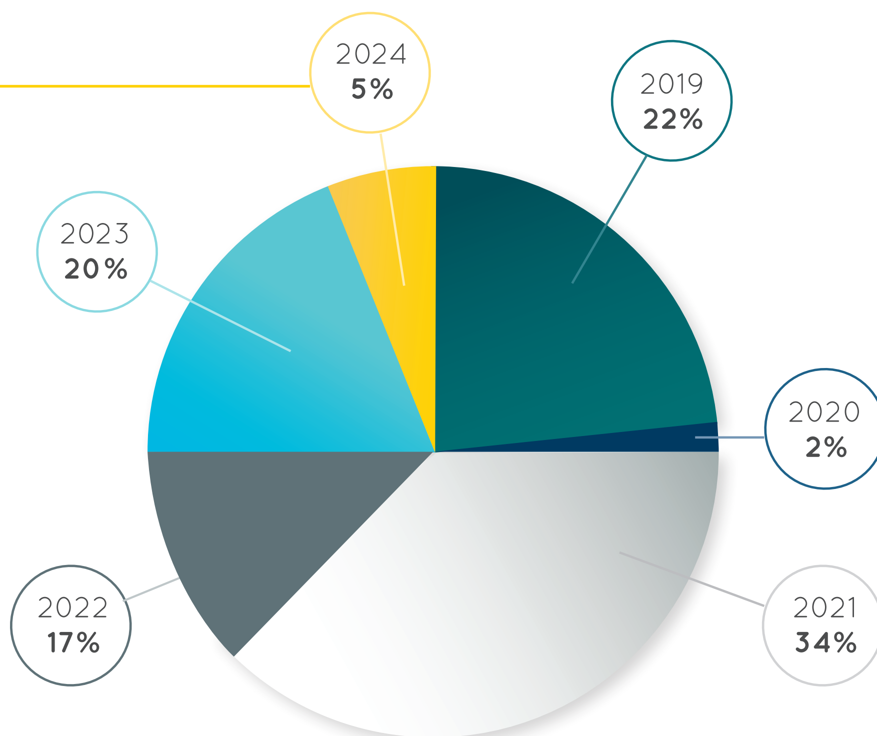
	Q1 2019	Q1 2018
Cash provided by operations	$ 2,347,543	$ 1,475,418
Cash used in investing	(11,951,908)	(3,910,129)
Cash provided by financing	7,292,570	1,857,407
Net decrease in cash	**$ (2,311,795)**	**$ (577,304)**

The Company continues to have **cash provided by operations** to fund day to day operations and provide additional funds for growth.

Cash used in investing includes the cash used to fund acquisitions, property improvements, and property construction costs.

The major components of **cash provided by financing** includes proceeds of new mortgages, the repayment of principal and interest on mortgages through regular monthly payments, repayment of mortgages at maturity, as well as the receipt and repayment of other financing. At Q1 2019 there were net advances on the credit facilities of $564,002 (Q1 2018 - $2,196,099). The advances were used to assist with closing property acquisitions and repay other financing of $750,000 during Q1 2019 (Q1 2018 – other financing repaid was $1,350,000).

MORTGAGE MATURITIES



Mortgages on the investment properties have term dates varying to 2024. The weighted average interest rate on the mortgages continued to increase in the last twelve months with new mortgages and renewed mortgages incurring higher rates than in previous years. At Q1 2019 the weighted average rate is 3.36% (Q4 2018 – 3.13%). There are two mortgages up for renewal in the next twelve months with combined principal balances of $19,727,668 at Q1 2019. The Company intends to renew the mortgages as they come due.

Total monthly principal and interest payments are $741,873. Annual payments of $8,902,470 will be covered with cash flow from operations as the Company is able to receive additional revenue from the new tenants. The Company has relied on other financing as well as the credit facilities to assist with the increase in acquisitions, and properties that were under development. One tenant has taken occupancy of the constructed buildings in Hanna, and the Company placed conventional mortgage financing on the property in Q1 2019. When the other building is leased, the Company will place a conventional mortgage and use the proceeds to repay a portion of other financing, and the lines of credit.

LEVERAGE RATIOS

	December 31, 2018	September 30, 2018
Investment properties	**$ 215,813,532**	**$ 206,710,736**
Mortgages	(93,742,178)	(85,669,230)
Less GIC's held as security	700,000	400,000
Other financing	(4,020,000)	(4,020,000)
Bank operating facilities	(19,021,674)	(18,457,672)
Total debt	**$ (116,083,852)**	**$ (107,746,902)**
Total equity in the properties	**$ 99,729,680**	**$ 98,563,834**
Debt to financed assets ratio	**.46**	**.48**

Based on the fair values of the investment properties at Q1 2019 and the related debt including mortgages, other financing and the bank operating facilities, the Company has equity of $99,729,680 in its investment properties. As mortgages come due, the Company may have the option of increasing the debt on a particular property, and subject to the lender's approval, provide increased capital. Other capital resources include related party interim financing, and the unused portion of the credit facilities which is $978,326 at Q1 2019 (Q4 2018 - $1,542,328).

Other sources of funds include the loan receivable of $1,720,982 (before a provision of $700,000) at Q1 2019 which should contractually provide monthly cash receipts of $105,850. The Company will also look toward the disposition of short-term investments of $237,000 at Q1 2019.

The Company has no other contractual commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 21 of the consolidated interim financial statements.

CRITICAL ESTIMATES
OF THE CURRENT ECONOMIC ENVIRONMENT AND OUTLOOK

The economic environment that Imperial operates in could be adversely affected by tenants that may be challenged by unfavourable economic conditions within our economy.

During Q1 2019 an Edmonton based tenant asked Management for some relief from their current lease obligations due to major cash flow issues. Management agreed to amend their rent for the duration of their lease.

One very small tenant has resumed making payments on their arrears. The rent from this tenant amounts to one half of one percent of monthly rents and is not considered a financial threat if the tenant, in a worst-case scenario, had to vacate. At Q1 2019 and Q4 2018 Management included an allowance for bad debt for this tenant.

Early in 2017 a tenant with direct exposure to the oil and gas industry contacted Management to advise of their cash flow challenges and asked to defer part of their rent for one year. Upon the expiration of the deferred period in Q2 2018, Management extended the deferral to Q3 2018. During Q3 2018, Management completed negotiations to accept an accelerated rent adjustment for early termination of this tenant's lease. The total net rent adjustment of $1,992,928 was recorded in revenue in Q4 2018 (Note 4). Simultaneous with this lease termination, was a new 11 - year lease agreement with a large national tenant who wished to take over this space in Fort McMurray, Alberta. Rental income commenced in Q4 2018.

There are no other indications from any other tenants that they will not be able to pay their rent.

Imperial continues to be very successful with all its financing requirements and diligently monitors the risk factors when considering strategic plans.

RISKS

Tenants' performance, market capitalization rates, lease rates, interest rates and environmental risk and cybersecurity risk.

- **Current tenants and their exposure to market risks** may impact Imperial if the tenant fails to make contracted rental payments.

Imperial's real estate portfolio is predominately made up of large single tenant buildings that are leased to multinational, national and large regional tenants. Larger companies tend to be more skilled in the ability to weather an economic downturn.

The majority of tenants have been with Imperial for many years. Notwithstanding the size of each individual tenant, Imperial runs the risk of losing such a tenant due to unforeseen and poor economic conditions.

The risk of vacancy of any leased space is 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 could be paid for with existing cash flows from operations. At Q1 2019 Imperial remains 99.9% occupied.

As with all the Company's past transactions, future opportunities will be looked at through proper due diligence, and limited risk measures.

- **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. Imperial'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 may be externally appraised for their current market value, if the lender requires. During Q1 2019 three mortgages were extended at their term dates and two new conventional mortgages were received.

Factors that influence market values of investment properties are the income generated from the property, demand, vacancy rates, term of the current lease, 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.

One property in Fort McMurray, Alberta where the tenant vacated early in 2018, the lender required the Company to place additional security and collateral against this mortgage, by depositing funds into GIC's held to the maturity date of the mortgage, July 2019. Total deposits to GIC's will not exceed $1,300,000. This requirement was based on the new lease signed with another company at lower rates than the previous lease. The lower income generated from the property, caused a valuation loss of over $4 million during the prior year.

The Company has determined that capitalization rates used to evaluate a property have moved slightly upward and when valuing the properties at each quarter, several properties were adjusted accordingly, which will create unrealized losses. The total fair value of the investment properties at Q1 2019 is $215,813,532. The mortgages and bank operating facilities encumbered on the properties leaves equity in the properties of $99,729,680 at Q1 2019. Management believes the equity will be enough to absorb any decline in values and support our ability to refinance.

- **Lease rates** will adjust downward if demand for industrial lease space decreases. As demand for this type of lease space goes up so does the lease rate. In any economic downturn, we could expect that the demand for space decreases and therefore the lease rate would decrease accordingly. Imperial is mindful of these risks. Management believes that any leases that are up for renewal in 2019 will likely be renewed at the same or higher rates than the Company is currently achieving.

Interest rates on mortgages that are up for renewal will likely rise as the Bank of Canada continues to keep inflation in check by increasing its benchmark interest rates. The mortgages that were up for renewal prior in the last twelve months were renewed at higher rates than the prior terms. New mortgages being placed now will be at slightly higher rates than we have been experiencing in the past 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 rates.

Environmental risk

The Company is subject to various federal, provincial and municipal laws relating to the environment. To mitigate this risk, each newly acquired property or those currently owned by the Company has undergone a thorough Phase I Environmental Site Assessment (ESA) by a qualified environmental consultant. This ESA then becomes a benchmark used in conjunction with the tenant leases which include a section outlining environmental liability. The Company then conducts a regular inspection of each property to ensure compliance.

Cybersecurity risk

Cybersecurity has been identified as a risk to the Company prompting 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:

- non-use of networks for sharing data; computer data is in locked offices with strict 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 daily backup the system

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

PLANNED EXPENDITURES

At Q1 2019 the Company does not have any contractual obligations to purchase or sell investment properties.

At Q4 2018, the Company had placed deposits of $665,000 pursuant to conditional agreements to purchase investment property. Subsequent to the year end, $445,000 were applied to the acquisitions in the period and the remaining $200,000 was refunded to the Company.

At Q4 2018 the Company has construction costs to complete the two buildings under development. Total contracted costs not incurred at September 30, 2018 were $1,521,661. During Q1 2019, both buildings were completed with one available for lease and the other occupied by a new tenant.

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 also available to the Company which is generally available on a short-term basis. Management tries to avoid related party financing as the interest rate is higher than current bank credit facilities, however, management will use this resource if necessary, until lower financing is put in place.

FUTURE ACCOUNTING PRONOUNCEMENTS

(a) Future accounting policies

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective as at the date of authorization of these consolidated financial statements. The Company plans to apply the revised standards on their effective date.

IFRS 16, "Leases" was issued in January 2016. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard will be effective for annual periods beginning after January 1, 2019, with early adoption permitted so long as IFRS 15 has been adopted. The Company has determined that the impact on the consolidated financial statements of adopting this new standard is not expected to be material.

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued and have future effective dates are either not applicable, or are not expected to have a significant impact on the Company's consolidated interim financial statements.

(b) 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 entered 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 judgments with respect to the point in time at which revenue recognition under the lease commences.

(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 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 period 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.

(c) 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 period. 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 includes capitalization rates and normalized net operating income (which is influenced by inflation rate, interest rates, vacancy rates, structural reserves and standard costs) by property, using property specific capitalization rates.

Investment property under construction is also valued at fair value, except if 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 these circumstances, there is more uncertainty than which exists in a more active market in estimating the fair values of investment property. 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.

Valuation of loan receivable

The valuation of the loan receivable is based on management’s best estimate of the collectability of the principal balance. Management monitors the loan receivable for indications of impairment on an ongoing basis.

MEASURES NOT IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Throughout the MD&A, management will use measures that may include Adjusted EBITDA (net income from continuing operations before interest, taxes, depreciation, amortization, valuation gains and straight-line rental revenue) and NOI (net operating income from properties which includes property revenue less direct property operating expenses and excludes non-cash and extraordinary items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property or equipment, stock based compensation, interest and income taxes). Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one period to another period. 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. Management believes its use of Adjusted EBITDA and NOI provides the shareholders and prospective investors with additional performance measures to show the cash flow from operations that will be used to finance debt and further growth of the Company. A detail of the calculation can be found on page 14 in this MD&A.

DISCLOSURE CONTROLS AND PROCEDURES

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

Imperial Equities' 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 CFO is employed by Sable Realty & Management Ltd. and 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.

The Audit Committee provides oversight of financial statements and 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

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

FINANCIAL STATEMENTS

for the First Quarter
ending December 31, 2018

IMPERIAL EQUITIES INC.
UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	Notes	December 31, 2018	September 30, 2018
Assets			
Investment properties	3	215,813,532	206,710,736
Total non-current assets		**215,813,532**	**206,710,736**
Loan receivable	4	1,020,982	1,009,825
Receivables	6	129,522	242,792
Prepaid expenses and deposits	7	157,674	1,218,946
Restricted cash	8	700,000	400,000
Short term investments	5	237,000	373,500
Cash and cash equivalents		31,725	2,343,520
Total current assets		**2,276,903**	**5,588,583**
Total Assets		**218,090,435**	**212,299,319**
Liabilities			
Mortgages	8	68,732,987	64,146,206
Security deposits		593,560	611,654
Deferred taxes	12(b)	15,019,564	14,299,347
Total non-current liabilities		**84,346,111**	**79,057,207**
Current portion of mortgages	8	24,759,913	21,280,840
Other financing	22 (b)	4,020,000	4,020,000
Bank operating facilities	9	19,021,674	18,457,672
Payables and accruals	10	1,195,612	3,145,876
Income taxes payable		280,510	915,477
Total current liabilities		**49,277,709**	**47,819,865**
Total Liabilities		**133,623,820**	**126,877,072**
Equity			
Issued share capital	14(a)	5,961,622	6,030,758
Contributed surplus	14(b)	593,750	593,750
Retained earnings		77,911,243	78,797,739
Total Equity		**84,466,615**	**85,422,247**
Total Equity and Liabilities		**218,090,435**	**212,299,319**

Guarantees, contingencies and commitments (Note 18)
Post-reporting date events (Note 23)

See accompanying notes to the consolidated interim financial statements.

IMPERIAL EQUITIES INC.
UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
Three months ended December 31,

	Notes	2018	2017
Rental revenue	17 (a)	2,960,828	2,669,827
Property operating expense recoveries		760,493	658,515
Property operating expenses	17 (b)	(944,036)	(789,295)
Income from operations		**2,777,285**	**2,539,047**
Finance costs	11	(990,742)	(706,777)
Administration expenses		(15,603)	(276,423)
Amortization of deferred leasing		(66,707)	(58,116)
Unrealized losses on short term investments		(136,500)	-
Valuation net (losses) gains from investment properties	3	(1,453,502)	185,145
Income before income tax		**114,231**	**1,682,876**
Income tax expense	12(a)	(1,000,727)	(1,021,438)
Net (loss) income and comprehensive (loss) income		**(886,496)**	**661,438**
(Loss) earnings per share basic and diluted	15	**(.09)**	**.07**

See accompanying notes to the consolidated interim financial statements.

IMPERIAL EQUITIES INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Three months ended December 31,

	Number of shares	Capital stock	Contributed surplus	Retained earnings	Total
October 1, 2018	9,583,642	$ 6,030,758	$ 593,750	$ 78,797,739	$ 85,422,247
Shares repurchased during the period	-	(69,136)	-	-	(69,136)
Net loss	-	-	-	(886,496)	(886,496)
Balance December 31, 2018	9,583,642	$ 5,961,622	$593,750	$ 77,911,243	$ 84,466,615

	Number of shares	Capital stock	Contributed surplus	Retained earnings	Total
October 1, 2017	9,614,442	$ 6,050,152	$ 593,750	$ 76,564,622	$ 83,208,524
Shares repurchased during the period	-	(57,580)	-	-	(57,580)
Net income	-	-	-	661,438	661,438
Balance December 31, 2017	9,614,442	$ 5,992,572	$593,750	$ 77,226,060	$ 83,812,382

See accompanying notes to the consolidated interim financial statements.

IMPERIAL EQUITIES INC.
UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
Three months ended December 31,

	Notes	2018	2017
Operating activities			
Net (loss) income from operations		(886,496)	661,438
Finance costs		990,742	706,777
Items not affecting cash:			
Amortization of discount on loan receivable		-	(3,586)
Amortization of tenant inducements		-	9,091
Amortization of deferred leasing costs		66,707	58,116
Fair value changes on investment properties		1,453,502	(185,145)
Unrealized loss on short term investments		136,500	-
Straight-line rental revenue		169,846	(31,980)
Deferred income taxes		720,217	838,040
Initial direct leasing costs		-	(261,161)
Net change in operating working capital	13	(303,475)	(316,172)
Cash provided by operating activities		**2,347,543**	**1,475,418**
Investing activities			
Purchase of investment properties		(8,863,708)	(5,339,757)
Property under development		(1,605,997)	-
Improvements to investment properties		(323,146)	(87,421)
Net change in investing working capital	13	(1,159,058)	1,517,049
Cash used in investing activities		**(11,951,908)**	**(3,910,129)**
Financing activities			
Proceeds from new mortgages		9,400,000	7,825,000
Repayment of mortgages on maturity		-	(4,813,093)
Repayment of mortgages through principal instalments		(1,327,054)	(1,333,915)
Restricted cash held in guaranteed investment certificates		(300,000)	-
Amortization of deferred finance fees		22,212	20,811
Fees associated with new or renewed mortgages		(29,306)	(21,290)
Advances from other financing		750,000	50,000
Repayment of other financing		(750,000)	(1,350,000)
Finance costs		(990,742)	(706,777)
Purchase of common shares for cancellation		(69,136)	(57,580)
Net advances on bank operating facilities		564,002	2,196,099
Net change in financing working capital	13	22,594	48,152
Cash provided by financing activities		**7,292,570**	**1,857,407**
Decrease in cash and cash equivalents		(2,311,795)	(577,304)
Cash and cash equivalents, beginning of year		2,343,520	843,336
Cash and cash equivalents, end of period		**31,725**	**266,032**

See accompanying notes to the consolidated interim financial statements.

1. Nature of operations

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 commercial and industrial 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 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, basis of presentation and consolidation

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties and certain financial instruments that have been measured at fair value. These consolidated interim financial statements are prepared on a going concern basis and are presented in Canadian dollars, which is the Company's functional currency.

These consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the most recent annual financial statements. These statements have not been reviewed by the Company's auditors and should be read in conjunction with the Company's 2018 annual consolidated financial statements. The preparation of interim financial statements in conformity with IAS34 requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The 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.

Comparative information in the consolidated interim financial statements includes reclassification of certain balances to provide consistency with current period classification. The current period classification more appropriately reflects the Company's core operations and any changes are not material to the financial statements as a whole.

(b) Investment properties

Investment properties are comprised of acquired commercial properties, developed commercial properties, and properties under development or re-development, held to earn rental income or for capital appreciation or both.

Investment properties

Investment properties are measured initially at cost including transaction costs. Transaction costs include various professional fees, initial leasing commissions and other costs to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. After initial recognition, investment properties are stated at fair value. Related fair value gains and losses arising from changes in the fair values are recorded in the consolidated statements of comprehensive income in the period in which they arise.

The carrying value of investment properties also includes straight-line rent receivable, tenant incentives and direct leasing costs.

Tenant incentives are inducements given to prospective tenants to move into the properties or to existing tenants to extend the lease term. The net book value of tenant incentives is included in the carrying value of the investment properties and are deducted from rental revenue on a straight-line basis over the term of the tenant's lease.

Investment properties are derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated statements of comprehensive income in the period of retirement or disposal. Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous reporting period financial statements.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of re-development or development with a view to sale. Investment properties are reclassified to "Investment properties held for sale" when the criteria set out in IFRS 5 "Non-Current Asset Held for Sale and Discontinued Operations" are met (Note 2(e)). If the investment property is not sold and the criteria are no longer met, the investment property is no longer classified as "Investment properties held for sale."

Vacant land owned by the Company is held for capital appreciation or future development and treated as investment property.

Investment properties under development

The cost of properties under development includes direct development costs, realty taxes, and borrowing costs directly attributable to the development. Investment properties under development are measured at fair value at each reporting date and any gains or losses are recognized in the consolidated statements of comprehensive income. If the fair value of investment properties under development is not reliably determinable, but the Company expects the fair value of the properties to be reliably determinable when construction is complete, it measures those investment properties under development at cost until either the fair value becomes reliably determinable, or construction is completed (whichever is earlier).

Borrowing costs related to properties under development

Borrowing costs associated with direct expenditures on properties under development are capitalized. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale, are complete. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs along with amortization of deferred finance fees, and net of interest income.

(c) Business combinations

In accordance with IFRS 3 – Business Combinations ("IFRS 3"), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and the liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed to provide a return in the form of dividends, lower costs or other economic benefit. Building and other asset acquisitions, which meet the above definition of a business, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. Building and other asset acquisitions which do not meet the above definition of a business are recorded as an asset addition. There are no acquisitions which meet the definition of a business in the current or comparative year.

(d) Impairment of assets

At the end of each reporting period, assets, other than those identified in the standards as not being applicable to IAS 36 – Impairment of Assets such as investment properties recorded at fair value, are assessed for any indication of impairment. Should an indication of impairment exist, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined as the higher of an asset's "fair value less costs of disposal" and its "value-in-use". In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statements of comprehensive income. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in the consolidated statements of comprehensive income. However, the reversal of an impairment loss will not increase the carrying amount that would have been determined had no impairment loss been recognized.

(e) Investment property held for sale

Investment property is categorized as held for sale where the property is available for sale in its present condition and the sale is highly probable. For this purpose, a sale is highly probable: (a) if management is committed to a plan to achieve the sale, (b) there is an active program to find a buyer, (c) the property is being actively marketed at a reasonable price, (d) the sale is anticipated to be completed within one year from the date of classification, and (e) it is unlikely there will be changes to the plan. Where a property is acquired with a view to resale, it is classified as held for sale if the disposal is expected to take place within one year of the acquisition and it is highly likely that the other conditions referred to above will be met within a brief period following the acquisition. Retrospective application is not required; therefore, comparative figures will not be adjusted to reflect property held for sale. On reclassification to or from investment property held for sale, investment property that is measured at fair value continues to be so measured.

(f) Leases – Company as lessor

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statements of comprehensive income as they arise.

Other leases are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

The Company has assessed all leases in which it is the lessor to be operating leases.

(g) Segment reporting
Operating segments are defined as components of the Company for which separate financial information is available and is evaluated by the chief decision makers in allocating resources and assessing performance. All the Company's operations are solely in Canada and are under one business, commercial real estate.

(h) Income tax
Income tax expense is comprised of current and deferred taxes. Current and deferred tax is recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes for the current period, including any adjustments to tax payable in respect of previous years, are recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using the tax rates that are expected to apply in the period in which the deferred tax asset or liability is expected to settle, based on the laws that have been enacted or substantively enacted by the reporting date. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced accordingly to the extent that it is no longer probable that they can be utilized.

(i) Provisions
Provisions are recognized when the Company has a present legal or constructive obligation because of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the best estimate of the consideration required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to the passage of time is recognized as interest expense.

(j) Revenue recognition
Revenue from investment properties is recognized when a tenant has a right to occupy the leased asset. Rental income from investment properties is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. The Company has retained substantially all the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payment is not made on such basis. The lease term is the non-cancellable period of the lease.

Rental revenue also includes contractual recoveries of operating expenses, including property taxes and is recognized as income in the period that recoverable costs are chargeable to the tenants. The recoveries are included gross of the related costs in revenue, as management considers that the Company acts as principal in this respect. Some of the Company's leases allow the tenant to pay property taxes directly to the municipality. When the tenant chooses this option, the Company does not recognize any revenue recovery or expense related to those property taxes.

Accelerated rent adjustments occur when the Company agrees to allow a tenant to terminate their lease in advance of the contractual lease term. The proceeds of the negotiated rent adjustment are recognized in income when it is receivable, and there is no ongoing contractual obligation.

When management determines collectability of revenue under a lease is not reasonably assured, revenue is no longer recorded.

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

(k) Fair value measurements

The Company measures certain non-financial assets such as investment property, at fair value at the end of each reporting period. Fair values of financial instruments measured at amortized cost, are disclosed in the notes to the consolidated financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
  or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Company must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their economic best interest. A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(l) Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instruments. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments and certain non-financial derivatives are initially measured at fair value. Financial liabilities are initially recognized net of transaction costs. The Company does not have any derivatives embedded in financial or non-financial contracts.

The following summarizes the Company's classification and subsequent measurement of financial instruments:

Financial assets and liabilities	Classification	Subsequent measurement
Cash, cash equivalents and restricted cash	Loans and receivables	Amortized cost
Short term investments	Held-for-trading	Fair value through profit and loss
Receivables and loans receivable	Loans and receivables	Amortized cost
Bank operating facilities	Other financial liabilities	Amortized cost
Payables and accruals	Other financial liabilities	Amortized cost
Other financing	Other financial liabilities	Amortized cost
Mortgages	Other financial liabilities	Amortized cost
Security deposits	Other financial liabilities	Amortized cost

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

(m) Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash and short-term investments with original maturities of three months of less. Restricted cash represents cash held in guaranteed investment certificates as collateral, pursuant to certain lender agreements.

(n) Stock based compensation

The Company has established a stock option plan for its directors, management and key employees as described in Note 16. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. For stock options which expire unexercised, the corresponding amount in contributed surplus is transferred to retained earnings. There is no adjustment to past compensation expense. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

(o) Normal course issuers bid

Common shares purchased under the normal course issuer bid ("NCIB") are acquired at market value. The transaction reduces the number of common shares outstanding and the transaction value, including costs, reduces capital stock at the adjusted cost base of the shares repurchased with the remaining transaction value charged to retained earnings. For shares acquired and not cancelled, the transaction value, including costs, reduces capital stock.

(p) 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 judgments with respect to the point in time at which revenue recognition under the lease commences.

(ii) Investment properties

The Company's accounting policies relating to investment properties are described in Note 2(b). 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 property under development is available for use. This judgement is applied when the property is substantially complete and is sometimes concurrent with occupancy.

In the normal course of operations, the Company acquires investment properties. At the time of 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 period 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.

(q) 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 period. 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:

(i) Investment properties

The choice of valuation method and the critical estimates and assumptions underlying the calculation of the fair value of investment properties and investment properties under development is set out in Note 3.

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

Investment property under development is valued at cost until either the fair value becomes reliably determinable, or construction is completed (whichever is earlier).

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 development. 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 these

circumstances, there is more uncertainty than which exists in a more active market in estimating the fair values of investment property. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 3.

(ii) 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.

(iii) Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from the actual expense incurred.

(iv) Valuation of loan receivable

The valuation of the loan receivable is based on management's best estimate of the collectability of the principal balance. Management monitors the loan receivable for indications of impairment on an ongoing basis.

(r) Adoption of accounting standards

Future accounting pronouncements

IFRS 16, "Leases" was issued in January 2016. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard will be effective for annual periods beginning after January 1, 2019, with early adoption permitted so long as IFRS 15 has been adopted. The Company has determined that the impact on the consolidated financial statements of adopting this new standard is not expected to be material.

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact on its consolidated financial statements.

3. Investment properties

	Income Producing Properties	Completed Properties Under Development	Held For Development	Total Investment Properties
Opening balance at September 30, 2018	$ 187,436,295	$ 8,758,023	$ 10,516,418	**$ 206,710,736**
Additions:				
Property improvements	323,146	-	-	**323,146**
Construction costs	-	1,605,997	-	**1,605,997**
Leasing commissions	-	-	-	**-**
Property acquisitions	7,187,750	-	1,675,958	**8,863,708**
Change in straight-line revenues	(169,846)	-	-	**(169,846)**
Revaluation (losses) gains, net	(1,376,319)	(77,183)	-	**(1,453,502)**
Amortization of deferred leasing	(66,707)	-	-	**(66,707)**
Ending balance at December 31, 2018	**$ 193,334,319**	**$ 10,286,837**	**$ 12,192,376**	**$ 215,813,532**

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
Opening balance at September 30, 2017	$ 175,697,425	$ -	$ 10,198,900	**$ 185,896,325**
Additions:				
Property improvements	84,776	-	2,645	**87,421**
Leasing commissions	261,161	-	-	**261,161**
Property acquisitions	2,796,892	-	2,542,865	**5,339,757**
Change in straight-line revenues	31,980	-	-	**31,980**
Revaluation (losses) gains, net	187,790	-	(2,645)	**185,145**
Amortization of deferred leasing	(58,116)	-	-	**(58,116)**
Amortization of tenant inducements	(9,091)	-	-	**(9,091)**
Transfers (from) to	-	1,250,000	(1,250,000)	**-**
Ending balance at December 31, 2017	**$ 178,992,817**	**$ 1,250,000**	**$ 11,491,765**	**$ 191,734,582**

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, all the investment properties are 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. There were no transfers in or out of Level 3 fair value measurements for investment properties during the above periods.

Management's primary internal valuation model is based on a capitalization of 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, less cash

outflows expected to operate and manage each individual 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.

These factors were used to determine the fair value of investment properties at each reporting date. Investment properties are valued on a highest and best use basis. For all the Company's investment properties, except for the Oliver Crossing property, land held for development and unoccupied buildings, the current use is the highest and best use. 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, discuss the valuation process and key inputs on a quarterly basis.

The key level 3 valuation metrics for the investment properties except for those described below are set out in the following tables:

	December 31, 2018	September 30, 2018
Range of capitalization rates applied to investment properties	5.00% - 7.17%	5.00% - 7.17%
Fair values of properties where cap rates were applied	$ 187,619,918	$ 181,766,587
Weighted average cap rates	6.25%	6.27%
Fair value impact of increasing average cap rate by 0.25%	$ (7,142,181)	$ (6,968,691)
Fair value impact of a 1% decrease in net operating income	$ (1,827,117)	$ (1,817,669)

This calculation was used on all the investment properties except for Oliver Crossing, land held for development, land under lease agreements and unoccupied buildings.

The market value of Oliver Crossing is based on the total square footage of land multiplied by a dollar value per square foot. Land held for development is valued using management's research of similar vacant land that has sold recently or is available for sale. Land under lease agreements is valued at the market value of the land valued using management's research of similar land that has sold recently or is available for sale. Unoccupied buildings includes the finished building Coppertone III that is currently available for lease.

	December 31, 2018	September 30, 2018
Oliver Crossing		
Fair value	$ 8,400,000	$ 8,400,000
Impact of a $10 change in price per square foot	$ 525,000	$ 525,000
Land held for development		
Average price per acre of land	$ 163,349	$ 163,349
Number of acres	64.38	64.38
Total fair values	$ 10,516,418	$ 10,516,418
Impact of a 10% change in average price per acre	$ 1,051,642	$ 1,051,642
Property available for lease		
Coppertone III – 1.25 acres, Edmonton, AB	$ 3,690,515	$ 3,473,629
Impact of a $10 change in price per square foot	$ 121,240	$ 119,989
Land under lease agreements with tenants		
Number of acres leased	7.90	4.90
Average price per acre	$ 707,173	$ 798,104

Total fair values of leased land	$ 5,586,668	$ 3,910,710
Impact of a 10% change in average price per acre	$ 558,666	$ 391,071

One investment property entitles the lessee to purchase the land and building under an Option to Purchase agreement that expires January 15, 2021.

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

	December 31, 2018	September 30, 2018
Straight line rent receivable	$ 1,378,055	$ 1,547,901
Leasing costs	1,565,945	1,632,652
	$ 2,944,000	$ 3,180,553

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

4. Loan receivable

	December 31, 2018	September 30, 2018
Loan receivable, beginning of year	$ 1,009,825	$ 496,414
Additional loan receivable	-	2,200,000
Reversal, (provision) for impairment	300,000	(1,000,000)
Principal payments received	(288,843)	(686,589)
Balance, end of the period	**$ 1,020,982**	**$ 1,009,825**

The contractual receivable at December 31, 2018 is $1,720,982 (September 30, 2018 - $2,009,825). During the current period, the Company reinstated a portion of the receivable that was previously considered impaired. Monthly instalments are to be received until May 1, 2020.

In the prior year, an accelerated rent adjustment of $2,992,928 was negotiated with a tenant that was granted an early termination of their lease. Contractual consideration was as follows:

Cash received on the termination date	$ 243,219
150,000 common shares of the tenant's company valued at $2.00 per share at the termination date	300,000
Adjustment to the balance of the mortgage payable to the tenant	249,709
Monthly instalments of $105,850 for 22 months inclusive of interest at an annual rate of 6%	2,200,000
Total contractual accelerated rent adjustment	2,992,928
Adjustment to fair value on initial recognition	(1,000,000)
Accelerated rent adjustment	**$ 1,992,928**

The loan receivable of $496,414 at September 30, 2017 was received in full during the prior year.

5. Short – term investments

Level 1 Measurement	December 31, 2018	September 30, 2018
Marketable securities, beginning of year	$ 373,500	$ -
Value of shares acquired	-	300,000
Change in fair value	(136,500)	73,500
Balance at the end of the period	**$ 237,000**	**$ 373,500**

6. Receivables

	December 31, 2018	September 30, 2018
Tenant receivables	$ 7,438	$ 136,324
Accrued interest	10,828	10,772
Excise taxes receivable and rebates receivable	127,317	111,757
Provision for impairment	(16,061)	(16,061)
Receivables, net	**$ 129,522**	**$ 242,792**

The tenant receivables at September 30, 2018 include invoices for occupancy costs that were reconciled at year end and subsequently collected.

7. Prepaid expenses and deposits

	December 31, 2018	September 30, 2018
Prepaid operating expenses	$ 30,647	$ 497,507
Deposits on offers to purchase investment property	-	665,000
Security deposits with municipalities	56,439	56,439
Refundable deposits	70,588	-
Total prepaid expenses and deposits	**$ 157,674**	**$ 1,218,946**

Prepaid operating expenses at December 31, 2018 are for insurance (September 30, 2018 - property taxes and insurance). Refundable deposits at December 31, 2018 were received subsequent to Q1 2019.

At September 30, 2018 the Company had refundable deposits of $665,000 on agreements to purchase investment property. Of the total deposits, $445,000 was applied to three acquisitions, and the remaining $200,000 was refunded in Q1 2019.

8. Mortgages

	Maturity	Rate	December 31, 2018	September 30, 2018
*	July 1, 2019	3.450%	10,424,116	10,550,178
*	November 1, 2019	3.334%	9,303,552	9,414,128
	January 1, 2020	3.590%	1,700,880	1,742,156
	January 1, 2021	2.980%	3,677,496	3,740,559
	January 1, 2021	2.980%	5,690,265	5,787,844
	April 1, 2021	2.880%	5,883,335	5,982,442
	April 1, 2021	2.948%	3,182,564	3,231,172
	October 1, 2021	2.470%	6,530,547	6,676,895
	October 1, 2021	2.470%	7,807,854	7,936,856
	February 1, 2022	3.040%	6,079,272	6,172,934
	June 1, 2022	2.730%	2,356,486	2,404,821
	December 1, 2022	3.670%	3,890,692	3,943,735
	December 1, 2022	3.671%	3,534,850	3,583,038
	January 1, 2023	3.570%	792,953	811,376
	February 1, 2023	3.750%	2,131,205	2,159,649
	October 1, 2023	3.950%	594,397	622,274
	October 1, 2023	4.090%	6,248,945	6,300,000
	November 1, 2023	4.330%	4,282,939	-
	December 1, 2023	4.648%	5,100,000	-
	January 1, 2024	4.300%	2,524,945	2,569,227
	January 1, 2024	4.300%	2,004,882	2,039,948
	Total mortgages		$ 93,742,178	$ 85,669,230
	Less: current portion of principal payments		(24,759,913)	(21,280,840)
	Less: balance of unamortized finance fees		(249,278)	(242,184)
			$ 68,732,987	**$ 64,146,206**
	Weighted average rate		**3.36%**	**3.13%**

*Mortgages due in the next twelve months

All the above mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property, except for one mortgage with a maturity date of July 1, 2019. Additional security and collateral for the lender of this mortgage includes monthly instalments of $100,000 held in interest bearing GIC's, for a total debt service reserve in the aggregate of $1,300,000. Total instalments at December 31, 2018 are $700,000 (September 30, 2018 - $400,000) and are classified as restricted cash.

9. Bank operating facilities

	December 31, 2018	September 30, 2018
Bank operating facilities	$ 19,021,674	$ 18,457,672

At December 31, 2018 and September 30, 2018, the Company has two credit facilities set out as follows:

1) An operating line of credit (LOC) with a limit of $10,000,000 (September 30, 2018 - a limit of $10,000,000).

   This LOC is used to assist with property acquisitions and general operations and has a balance at December 31, 2018 of $9,138,646 (September 30, 2018 - $9,888,223). The credit facility bears interest at prime plus 1% per annum (September 30, 2018 – interest at prime plus 1% per annum) and is secured by specific revenue producing properties with combined fair values of $39,933,287 (September 30, 2018 specific revenue producing properties with combined fair values of $39,870,611). The Company pays a standby fee of .25% per annum (September 30, 2018 - .25% per annum), payable monthly on the un-drawn portion of the facility. Specific covenants of this credit facility are that there be a minimum of 90% occupancy of the secured buildings and adherence to a margin formula as outlined below.

   Availability under the facility will be restricted to the lending value assigned to the properties which will be the lesser of: a) the level at which a Debt Service Coverage Ratio of 1.25 can be maintained, less the Prior Debt on the properties, (unchanged from September 30, 2018): or b) the level at which a Loan to Value Ratio of 70% can be maintained with respect to the secured properties, over which the Lender has a 1st mortgage and 60% with respect to the secured properties over which the Lender holds a 2nd mortgage, less the prior debt on the properties (unchanged from September 30, 2018). For these secured properties, the loan to value is set at 70%, unchanged from the prior year.

   Debt service = annual principal and interest payments based on 25-year amortization and an interest rate that is the greater of 5.0% (September 30, 2018 - 5.0%) or the Government of Canada Benchmark Bond Yields plus 225 basis points.

   Net Operating Income is stabilized operating income from the secured properties adjusted for normal operating expenses, common area maintenance expenses, property taxes and other expenses that are not recovered from the tenants.

   Loan to Value Ratio is the total debt on the properties divided by the current market value of the properties.

   The aggregate of the above calculation for each property is the "Preliminary Lending Value" and is determined by the lender to be $9,354,020. The "Final Lending Value" is $10,000,000 and will be accommodated by the Lender until March 31, 2019 at which time it will be adjusted back down to the preliminary Lending Value, as recalculated at that time. Any resulting margin shortfall is to be covered by the Company's own resources.

   At December 31, 2018 the debt service coverage ratio is 1.12 and the loan to value ratio is 69% (September 30, 2018 the debt service coverage ratio was 1.12 and the loan to value ratio was 72%).

   The Company did not breach any financial covenants during the current year, or prior year.

2) An additional operating LOC with a limit of $10,000,000 (September 30, 2018 – a limit of $10,000,000).

   This credit facility bears interest at prime plus .95% per annum and is secured by specific revenue producing properties with combined fair values at December 31, 2018 of $63,157,721 (September 30, 2018 - $64,956,941).

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at December 31, 2018 is $9,883,028 (September 30, 2018 - $8,569,449).

10. Payables and accruals

	December 31, 2018	September 30, 2018
Trade payables	$ 622,594	$ 1,814,114
Accrued loan interest	321,908	228,729
Current portion of tenant security deposits	12,208	25,624
Accrued liabilities	27,990	734,175
Prepaid rents	210,912	343,234
Total payables and accruals	**$ 1,195,612**	**$ 3,145,876**

Trade payables at December 31, 2018 and September 30, 2018 include construction payables for projects that were completed during the quarter. Accrued liabilities at September 30, 2018 include construction holdbacks of $641,505.

Prepaid rents from tenants largely relates to rent due on the first of the following month, and the balance represents rents paid in advance which is recognized in revenue over the applicable months. The carrying value of payables and accruals approximates fair value due to their short-term maturity.

11. Finance costs

The components of finance costs are as follows:

	December 31, 2018	December 31, 2017
Interest on mortgages	$ 718,880	$ 581,624
Interest on bank operating facilities	231,157	97,026
Interest on other unsecured financing	47,470	10,903
Amortization of deferred finance fees	22,212	20,811
Interest income	(28,977)	(3,587)
	$ 990,742	**$ 706,777**

12. Income taxes

a) Provision for income taxes

Components of income tax expense

	December 31, 2018	December 31, 2017
Current tax expense	$ 280,510	$ 183,398
Deferred tax expense	720,217	838,040
	$ 1,000,727	**$ 1,021,438**

The actual income tax provision differs from the expected amount calculated by applying Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

	2018	2017
Income before income taxes	$ 114,231	$ 1 682 876
Expected income tax expense at 27% (2017-27%)	$ 30,842	$ 454,376
Increase (decrease) resulting from:		
Non-taxable items	2,605	6,799
Tax rate differentials	967,280	560,263
	$ 1,000,727	**$ 1,021,438**

b) Deferred taxes

Deferred tax assets are attributable to the following:

	December 31, 2018	September 30, 2018
Financing fees	$ 4,907	$ 6,259
Deferred tax assets	4,907	6,259
Offset of tax	(4,907)	(6,259)
Net deferred tax assets	**$ -**	**$ -**

Deferred tax liabilities are attributable to the following:	December 31, 2018	September 30, 2018
Straight-line rent receivable	$ 372,075	$ 417,933
Investment properties	14,219,569	13,436,855
Marketable securities	9,923	9,923
Finance fees	99	79
Deferred leasing	422,805	440,816
Deferred tax liabilities	15,024,471	14,305,606
Offset of tax	(4,907)	(6,259)
Net tax liabilities	**$ 15,019,564**	**$ 14,299,347**

$30,273,649 (September 30, 2018 - $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.

13. Supplemental consolidated cash flow information

Net change in operating working capital	December 31, 2018	December 31, 2017
Decrease in receivables	$ 113,269	$ 70,391
Increase in loans receivable	(11,157)	-
Decrease in prepaid expenses and deposits	466,860	404,923
Decrease in payables and accruals	(219,384)	(220,226)
Decrease in income taxes payable	(634,968)	(669,327)
(Decrease) increase in security deposits	(18,095)	98,067
	$ (303,475)	**$ (316,172)**
Net change in investing working capital		
Decrease in deposits in trust for property acquisitions	$ 665,000	$ 1,517,049
Decrease in construction payables and accruals	(1,824,058)	-
	$ (1,159,058)	**$ 1,517,049**
Net change in financing working capital		
(Increase) decrease in refundable deposits with lenders	$ (70,586)	$ 41,000
Increase in accrued interest payable	93,180	7,152
	$ 22,594	**$ 48,152**
Interest paid	$ 745,010	$ 398,398
Income taxes paid	$ 915,477	$ 852,724

14. Share capital

a) The Company has unlimited authorized common share capital.

	December 31, 2018	September 30, 2018
Number of shares issued		
Balance beginning of year	9,583,642	9,614,442
Shares cancelled	-	(30,800)
Ending number of shares	**9,583,642**	**9,583,642**
Capital stock		
Balance beginning of year	$ 6,030,758	$ 6,050,152
Shares held in treasury	(69,136)	-
Shares cancelled during the year	-	(19,394)
Ending capital stock	**$ 5,961,622**	**$ 6,030,758**

The Company received approval from the TSX Venture Exchange to purchase up to 480,047 common shares representing 5% of the outstanding shares under a normal course issuer bid ("NCIB") that expires August 30, 2019. During Q1 2019, the Company repurchased 16,000 shares for a total cost of $69,136. All the repurchased shares are held in treasury until cancelled.

During the prior year 30,800 shares were repurchased for a total cost of $128,890. All the repurchased shares were cancelled and the excess of the purchase price over the cost of the shares in the amount of $109,496 was charged to retained earnings.

b) **Contributed surplus**

Contributed surplus arises because of recording the fair value of options granted under the share option plan and the options granted as part of a share issuance. The fair value of the options is recorded to contributed surplus as the options vest. Upon exercise, the proceeds received, as well as any balance previously recorded to contributed surplus, are credited to capital stock.

	December 31, 2018	September 30, 2018
Contributed surplus, beginning and end of the period	**$ 593,750**	**$ 593,750**

15. Earnings per share

The following are the weighted average number of shares outstanding:

	December 31, 2018	December 31, 2017
Net (loss) income and comprehensive (loss) income for the period	$ (886,496)	$ 661,438
Weighted average shares outstanding – basic	9,582,860	9,611,525
Unexercised dilutive options	-	21,424
Weighted average shares outstanding – diluted	9,582,860	9,632,949
(Loss) earnings per share – basic and diluted	**$ (.09)**	**$ .07**

16. Stock-based compensation plan

The following table reflects the activity under the stock option plan:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)
Opening balance at October 1, 2018	475,000	$ 4.25	.92
Ending balance at December 31, 2018	**475,000**	**$ 4.25**	**.67**

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)
Opening balance at October 1, 2017	475,000	$ 4.25	1.92
Ending balance at September 30, 2018	**475,000**	**$ 4.25**	**.92**

The Board of Directors may designate which directors, management and key employees of the Company are to be granted options. Under the Directors', Management, Employees' and Consultants' Stock Option Plan (the "Plan"), the number of Common Shares reserved for issuance at any time pursuant to the Plan is 875,000. An Amendment to the Fixed Stock Option Plan was put forth at the annual and special meeting of the Shareholders held on March 21, 2013. The disinterested shareholders voted for an amendment to the Plan that provides for the maximum number of capital common shares reserved for issuance at any time pursuant to the Plan be increased from 875,000 to 1,800,000. All other components in terms of the Plan remain in full force and effect.

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Company does not have a past practice of cash settlement for these share options. All the options outstanding as of December 31, 2018 and September 30, 2018 are exercisable.

17. Rental revenue

The Company leases commercial properties under operating leases with lease terms generally between 5 and 20 years. Some leases have options to extend for further five-year terms and some small leases are month to month.

a) Rental revenue

	December 31, 2018	December 31, 2017
Rental revenue, contractual amount	$ 3,130,674	$ 2,675,738
Amortization of tenant inducements	-	(9,091)
Straight line of rental revenue from leases	(169,846)	31,980
Rental revenue on statement of comprehensive income	**$ 2,960,828**	**$ 2,669,827**

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

	2018	2017
No later than one year	$ 11,942,938	$ 10,980,656
2 – 5 years	38,333,318	38,305,611
Over 5 years	28,394,365	21,142,182
	$ 78,670,622	**$ 70,428,449**

The month to month tenant revenue is not included in the future contracted minimum rent receivable.

b) Property operating expenses

	December 31, 2018	December 31, 2017
Property taxes	$ 515,946	$ 443,266
Insurance	23,647	21,367
Repairs and maintenance	206,391	150,526
Management fees	169,578	149,698
Utilities	28,474	24,438
	$ 944,036	**$ 789,295**

18. Guarantees, contingencies and commitments

a) In the normal course of operations, the Company and its subsidiaries 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 do 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 22.

d) The Company had commitments under contracts for properties under development at September 30, 2018. The balance of construction contracts not incurred at September 30, 2018 was $1,521,661.

20. 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 favourable terms or with interest rates as favourable 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.

	December 31, 2018	September 30 2018
Mortgages	$ 93,742,178	$ 85,669,230
Bank operating facilities	19,021,674	18,457,672
Other financing	4,020,000	4,020,000
Total debt financing	116,783,852	108,146,902
Equity	84,466,615	85,422,247
Total capital	**$ 201,250,467**	**$ 193,569,149**

21. Financial instruments

	December 31, 2018	September 30, 2018
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 31,725	$ 2,343,520
Restricted cash	700,000	400,000
Short term investments	237,000	373,500
Receivables, net of provisions	129,522	242,792
Loan receivable, net of provision	1,020,982	1,009,825
	$ 2,119,229	**$ 4,369,637**
Financial liabilities		
Other financial liabilities		
Bank operating facilities	$ 19,021,674	$ 18,457,672
Payables and accruals	1,195,612	3,145,876
Other financing	4,020,000	4,020,000
Security deposits	593,560	611,654
Mortgages	93,742,178	85,669,230
	$ 118,573,024	**$ 111,904,432**

The carrying value of cash and cash equivalents, restricted cash, receivables, loan 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 short - term investments is a level 1 measurement valued at the quoted market price. 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 as at December 31, 2018 is $91,353,291 (September 30, 2018 - $84,553,051). These estimates are subjective in nature 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 4.648% (September 30, 2018 – 4.090%).

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

Credit risk

The Company's maximum exposure to credit risk is the balance of its trade receivables of $7,438 (September 30, 2018 - $129,263), cash and cash equivalents of $31,725 (September 30, 2018 - $2,343,520), restricted cash of $700,000 (September 30, 2018 - $400,000) and loan receivable of $1,720,982, net of provision of $700,000 (September 30, 2018 - $2,009,825 net of a provision of $1,000,000).

Credit risk on trade receivables for Imperial Equities Inc. 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. Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions. Restricted cash is held in GIC's with a financial institution. Credit risk associated with the loan receivable arises from the possibility that the counterparty may experience financial difficulty and be unable to make the contractual payments. The Company has a provision for impairment of this loan of $700,000 at December 31, 2018 (September 30, 2018 - $1,000,000).

Trade accounts receivable that have been deemed uncollectible are expensed as bad debts and charged to net income in the period when the account is determined to be doubtful. As at December 31, 2018 and September 30,

2018, an allowance for doubtful accounts was recorded in the amount of $16,061 for one small tenant. The Company will continue to closely monitor this tenant for financial stability. All other accounts are deemed collectible.

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 at December 31, 2018 is $19,021,674 (September 30, 2018 - $18,457,672). Under the assumption any balance of 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 $190,217 (September 30, 2018 - $184,577). The Company minimizes its exposure to interest rate risk to the extent that all mortgages have fixed rates with terms of five 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 sufficient 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 real estate activities will provide sufficient cash requirements to cover normal operating and budgeted expenditures. Short–term investments held by the Company may have some liquidity risk due to the underlying low trading volumes of the stock. Management will look to the disposition of these investments over the next 12 months as market forces permit.

During the current year, the Company received two new conventional mortgages secured against a new property acquisition and one of the buildings that was newly constructed. Two mortgages were renewed for further five - year terms and one mortgage was renewed for one year. When the second newly constructed building receives a tenant, management will look to the Company's current lenders to place long term financing and use the proceeds to repay other financing or pay down the line of credit.

The Company will be able to meet its future obligations through normal operations, current credit facilities and the use of related party interim financing.

Contractual obligations at December 31, 2018

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	$ 29,038,258	$ 39,186,143	$ 33,876,030	$ -	$ 102,100,431
Payables and accruals	1,195,612	-	-	-	1,195,612
Security deposits	12,208	265,336	3,187	325,037	605,768
	30,246,078	39,451,479	33,879,217	325,037	103,901,811
Other financing	4,020,000	-	-	-	4,020,000
Debt service reserve (Note 8)	600,000	-	-	-	600,000
Operating facilities	19,021,674	-	-	-	19,021,674
	$ 53,887,752	**$ 39,451,479**	**$ 33,879,217**	**$ 325,037**	**$ 127,543,485**

Contractual obligations at September 30, 2018

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	$ 23,730,510	$ 35,111,505	$ 33,739,056	$ -	$ 92,581,071
Payables and accruals	3,145,876	-	-	-	3,145,876
Construction contracts	1,521,661	-	-	-	1,521,661
Security deposits	25,624	87,354	179,430	344,870	637,278
	28,423,671	35,198,859	33,918,486	344,870	97,885,886
Other financing	4,020,000	-	-	-	4,020,000
Debt service reserve (Note 8)	900,000	-	-	-	900,000
Operating facilities	18,457,672	-	-	-	18,457,672
	$ 51,801,343	**$ 35,198,859**	**$ 33,918,486**	**$ 344,870**	**$ 121,263,558**

22. 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.

Fee structure

Payments to Sable Realty & Management Ltd.:

Property management	4% of gross rents paid plus a flat fee for ground maintenance on certain properties
Property maintenance	$50-$65/hour for labour plus charges for truck, equipment and parts
Fees for Chief Financial Officer	$16,667 monthly (all the above fees remain unchanged from the prior year)
Office rent and parking	flat rate of $8,350 monthly ($8,000 – December 31, 2017)
Warehouse lease space	discontinued at December 31, 2017

Payments to North American Realty Corp.:

Leasing	3% of the value of lease renewals to a maximum of five years 6% of the value of new leases for the first five years plus 3% of the value of the leases that extend from six years to a maximum of ten years
Acquisitions	1% of the purchase price of the property
Dispositions	3% of the sale price of investment property

Payments for the three months ending December 31,	**2018**	**2017**
Property management and maintenance fees	$ 218,122	$ 234,019
Acquisition fees	78,000	52,851
Leasing fees	-	151,637
Office rent and parking	25,050	24,000
Warehouse lease space	-	5,918
Fees for Chief Financial Officer	50,000	50,000
Total payments	**$ 371,172**	**$ 518,425**
Amounts payable at December 31,	**$ -**	**$ -**

b) *Other related party transactions*

i) 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 three months ending December 31, 2018 were $10,000 (December 31, 2017 – $7,500).

ii) 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 the President Sine Chadi who is also a director of the Company. Total compensation paid to Mr. Chadi for the three months ending December 31, 2018 was $75,000 (December 31, 2017 - $75,000).

iii) Other financing, unsecured

Related Parties	Balance Oct 1'18	Advances	Repayments	Balance 31-Dec-18
NAMC[1]	$ -	$ 750,000	$ (750,000)	$ -
Imperial Land Corp.[2]	4,020,000			4,020,000
Total	**$ 4,020,000**	**$ 750,000**	**$ (750,000)**	**$ 4,020,000**

Related Parties	Balance Oct 1'17	Advances	Repayments	Balance 31-Dec-17
NAMC[1]	$ -	$ 50,000	$ (50,000)	$ -
Jamel Chadi, Shareholder[3]	1,300,000		(1,300,000)	-
Total	**$ 1,300,000**	**$ 50,000**	**$ (1,350,000)**	**$ -**

1. North American Mortgage Corp. ("NAMC") is controlled by Mr. Sine Chadi, President of the Company. Total interest paid at an annual rate of 6% at December 31, 2018 was $5,633. (No interest was paid on the repayment of the loan at December 31, 2017 due to the short-term nature of the loan

2. Imperial Land Corp. is controlled by Mr. Sine Chadi, President of the Company. Total interest paid at an annual rate of 6% was $41,837 at December 31, 2018.

3. Loans repaid to shareholders totalling $1,300,000 in the prior year were repaid with interest at an annual rate of 6%. Total interest paid at December 31, 2017 was $10,903.

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 both reporting dates approximates their carrying value as the amounts are due on demand.

23. Post-reporting date events

There are no post-reporting date events to report.

24. Authorization of the unaudited consolidated interim financial statements

The consolidated interim financial statements for the three months ending December 31, 2018 (including comparatives) were authorized for issue by the Board of Directors on February 7, 2019.

Signed "Sine Chadi", Director *Signed "Kevin Lynch",* Director