



IMPERIAL  
EQUITIES  
INC.

# 1<sup>ST</sup> | QUARTER REPORT 2021

Ending December 31, 2020





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## 1<sup>st</sup> Quarter Ending December 31, 2020

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**Summary of consolidated quarterly results**

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Critical estimates of the current economic environment and outlook

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Planned expenditures

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**Financial statements**



## PRESIDENT'S REPORT

1st Quarter

December 31, 2020

### ► Report to Shareholders

A year ago, I wrote about growth and about how our economy was starting to emerge from years of capriciousness. We had endured several years of tough economic circumstances and the optimism felt good. And then came COVID-19 and another oil price crash in a just-recovering economy. Twelve months later, it seems that the tough years were just a warm-up for 2020. But the warm-up did its job and made us tougher, more resilient, and ready to manage all that came our way.

There is no question we are still managing through COVID-19 and it will continue to impact how we do business this year. Its impacts will still be felt in our financials as some rent deferrals extended into Q1 2021, and the recovery of these deferred rents will likely continue through to 2023. With lingering uncertainty, our prudence will sustain.

Our toughest year was still a year of achievement. Despite everything, we grew our portfolio, we secured existing tenants and attracted new ones, and we passed an important milestone, surpassing one million square feet of property in our portfolio for the first time in our history. Our foundation held through the uncertainty and our track record of careful, prudent management proved its worth. So, it's with no small amount of pride and gratitude to our people, our investors, our tenants and partners, that I report on our Company as we move into 2021.

One of our major tasks is always a focus on lease renewals. With so many challenges, renewals materialized despite a period of uncertainty and softer market conditions. As a landlord, we know that a major affirmation of our success is our ability to attract, retain and grow the relationship we have with our tenants. We know that location matters, as does the quality of the premises. It impacts brand and reflects on the tenant. It matters to staff satisfaction. Knowing this, we conduct diligent asset management to ensure we support our tenants to be successful in our buildings. We work hard to ensure needed maintenance is not deferred and that all issues are addressed promptly.

We pride ourselves on the relationships we maintain and grow with our tenants and we do not take anything for granted. When markets are soft, as they are now, we know our tenants have options, so we make sure their first choice is to stick with our Company, by being a consistent, attentive landlord.

And our strategy works. Over the past several months, we have negotiated lease renewals and new leases with close to a dozen tenants, many for extended periods. Over the long-term, lease renewals contribute to the stability of our Company and in some cases, they can be opportunities for growth. Canteen Canada is a good example of this. The company became our tenant after purchasing Brazilian Coffee, an existing tenant, in 2019. After the purchase, Canteen sought to consolidate more of its operations and equipment in the Brazilian Coffee premises but it also needed more space, which we were able to offer onsite and adjacent to their existing location. This expanded space will be fully occupied in the second quarter of this year. Through our negotiation, we gained a long-term renewal with an international brand for a much larger space. This is a good example of both tenant retention and growth, and we work hard every day to ensure these types of deals are possible.

When vacancies do occur, we are similarly committed to ensuring that they are filled. For more than 20 years, we have maintained an occupancy rate that hovered around 95 to 100 percent across our portfolio. This year, we did have to contend with some vacancies, including that of a long-term tenant, who vacated following a corporate consolidation, and another due to business insolvency.

Over the last six months, we've plugged all of our gaps. Our Central Distribution Building, which had about 32,000 square feet of vacancy, has now been filled by the expansion of Canteen and by a new tenant, Edmonton Floral Delivery. During the vacancy period, we did donate 10,000 square feet to Edmonton's Food Bank which urgently needed extra space for storage for a short-term stay as it made COVID adaptations to its operations.



Sine Chadi, CEO

Another vacancy occurred in Q3 2020, when a long-term tenant vacated our premises following a corporate consolidation. In Q1 2021, we were able to address this gap and secure the tenancy of Master Group, and its new affiliate, Soper's Supply. Master Group is another strong national tenant, and an independent leader in the air conditioning, refrigeration, ventilation, and heating fields, with almost 70 years in the industry. We worked through Q1 to get their newest premises ready for them and will be pleased to see them fully operational in Q2 2021.

Our other major vacancy has also been addressed with an agreement to lease our 50,000 square foot Girard Road building in Edmonton to the Canadian Bottled Water Company. The company entered into an agreement with the desire to use the equipment which exists on site and to get into production early in 2021. With this agreement, our portfolio will be 100 percent occupied within Q2 2021, a remarkable achievement in an extraordinarily challenging time.

We also have advanced efforts to improve our assets in a couple of other key locations. Our Russell Hendrix building is now seeing its front facade expanded and upgraded to a more modern and welcoming design, to allow for better utilization. We will be proceeding with some major leasehold improvements on this property in Q2. We are nearing completion on the purchase of a former public utility lot next to our Day and Ross property to mitigate the potential for impact to our property. The former utility line, owned by the City of Edmonton, had been seriously neglected and was accumulating water and debris in a ditch that adjoined our property line. We proactively addressed the deferred maintenance to ensure protection of our property and will complete the purchase and consolidation of the land into our property in Q2 2021.

Moving into 2021, we will continue to benefit from a historically low interest rate environment, one to which the Bank of Canada has recently reaffirmed its commitment. Lower interest rates present a clear and unprecedented advantage as we evaluate purchases. They are also a considerable benefit as we approach mortgage renewals. This year we have approximately \$29 million in mortgages coming due, which would likely represent significant cost savings to us as this low interest rate environment persists.

At the beginning of 2021, we are also evaluating opportunities in our pipeline and have secured a new 35,000 square foot property in Red Deer, Alberta with a long-term, blue chip tenant, in a new, 2019-built single tenant industrial property. The \$9.4 million transaction is indicative of the type of opportunity we see on the horizon and we look forward to completing this transaction in Q2.

As we move forward into 2021, we have also taken the time to reconsider our dividend. The unprecedented uncertainty of the past year caused us to suspend our dividend in Q3 2020, even though it had only just been reinstated in Q1 2020. This was a tough and not casual decision. Our Company values the commitment which our investors make to our Company and we seek to attract and retain investor interest. Investors buy in and stay committed for a variety of reasons, but assurance of ongoing and timely returns, including through dividends, is one major factor. Equally important is consistency of our policy, which is why we carefully evaluated a reinstatement decision both for desirability and sustainability and have assessed that moving forward in this manner was achievable. Effective Q1 2021, Imperial Equities will pay an annual dividend of \$0.06 per share (paid quarterly), the first payment having been made on January 31, 2021.

A dividend is both a signal of our confidence in our Company's growth and profitability and an expression of gratitude to our shareholders who have shown their confidence in us. We believe it allows our investors to share in our growth with a regular return on their investment, while maintaining their investment for the long-term.

It is in this spirit that I am looking forward to engaging with our investors at our AGM on March 18, 2021. With COVID-19 still a major factor in our communities, we are hosting our first ever virtual AGM, starting at 2:00 pm. The setting for our meeting will be different, but I am looking forward to having the same spirited and transparent discussion as our AGMs have always entertained. I hope that all members of our investment community will make time to participate if they can, and I look forward, as always, to your questions and advice.

Sincerely,



**Sine Chadi**

Chief Executive Officer and Chairman of the Board



# MD & A

## MANAGEMENT'S DISCUSSION & ANALYSIS

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for the first quarter ending December 31, 2020

## **IMPERIAL EQUITIES INC. MD&A AS AT FEBRUARY 17, 2021**

▶ The following Management’s Discussion and Analysis (“MD&A”) is intended to provide readers with an explanation of the performance of Imperial Equities Inc. (“Imperial” or “Imperial Equities” or the “Company”) and its subsidiaries. This MD&A should be read in conjunction with the consolidated financial statements for the three months ended December 31, 2020, and the related notes. Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol “IEI”. Additional information on the Company may be obtained by visiting [www.sedar.com](http://www.sedar.com).

### **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS**

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

### **FORWARD-LOOKING INFORMATION**

▶ In our report to shareholders, Management may talk about the current economy and express opinions on future market conditions. This forward-looking information is based on Management’s current assessments made based on internal expertise as well as the opinions of other professionals in this industry. While Management may consider these statements to be reasonably optimistic and 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 20 of the consolidated financial statements and this MD&A. Any forward-looking statements in this report should not be relied upon as facts, as actual results may differ from estimates.

### **ADDITIONAL NON-IFRS MEASURES**

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

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

### **BUSINESS OVERVIEW**

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

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

### Our Value Statement

► Imperial's team of professionals is dedicated and motivated to grow its real estate portfolio and earn value for its shareholders. As a growth-focused company, Imperial has financed acquisitions largely through conventional mortgages. However, issuing new share capital may be considered at a future date to support the Company's growth objectives. We believe in building value in the shares through a commitment to acquire and develop high-quality properties and gain capital appreciation to benefit the 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.

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

### Strategic Goals

- 1 Acquire commercial, industrial, and agricultural properties in strategic locations for capital appreciation
- 2 Acquire fully occupied, single-tenant or multi-tenant industrial properties with long-term lease agreements and rental rates commensurate with the location
- 3 Finance acquisitions with the lowest available cost of capital
- 4 Achieve a defined rate of return on each asset
- 5 Maximize the revenue potential of each asset in its region
- 6 Dispose of older assets that may have reached their maximum earning potential to reduce the overall age of the properties in the portfolio
- 7 Invest in the Community



## KEY PERFORMANCE DRIVERS

▶ Imperial Equities continues to engage a dedicated team of professionals to manage and oversee business activities. During 2020, the Chief Financial Officer (“CFO”) stepped down and remains as an advisor to the interim CFO, Azza Osman. Azza, a CPA and CIA, brings over 10 years of accounting, financial reporting, audit, and internal controls experience to Imperial. The Company also hired Patricia Misutka as Chief Operating Officer (“COO”). Patricia brings extensive experience as a corporate strategist to her role with Imperial. There is a strong Board of Directors with significant real estate experience to guide and assess the Company’s strategy and investment decisions. 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 the Company delivers on its strategies and executes due diligence. This assessment will include the size of the tenant, the length of time they have been in business, their operations, and exposure to the industry in which they operate in. All these factors will be a part of our evaluation of the strength of their lease covenant. The Company’s success is also impacted by external factors including the overall economic health of industries operating in the province of Alberta. Alberta is still largely reliant on the oil industry and the Company is careful to select tenants that are best able to weather an economic downturn. Another external factor is interest rates related to the financing of the properties. Investment properties are financed with conventional mortgages that can expose the Company to possible increases in interest rates, affecting operating income and cash flows. The Company, in the short term, does not consider rising interest rates to have a significant impact on the operating cash flows. Any new commercial lease terms associated with new acquisitions and lease renewals will reflect changing market conditions including current interest rates and will be assessed on this basis.

### Strategic Objectives

- Conduct 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
- Monitor the quality of tenants in the portfolio to reduce the risk of defaults on leases
- Maintain the assets to high standards including structural, mechanical, and cosmetic to showcase the existing properties to prospective tenants or purchasers
- Complete preventative maintenance on the properties to reduce operating costs and to maximize the longevity of the buildings
- Ensure that maintenance on the properties is done to exacting standards involving monitoring the quality of work provided by business partners while ensuring the costs are competitive
- Maximize the cash flow from operations to ensure funding for growth opportunities
- Select mortgage terms that provide a low cost of capital and utilize debt leverage opportunities
- Minimize higher rate short-term borrowings to reduce the cost of capital

## KEY PERFORMANCE INDICATORS

	Three months ending December 31, 2020	Year ending September 30, 2020
<b>Investment Properties</b>		
Total number of investment properties	37	37
Property acquisitions during the year	-	3
Property dispositions during the year	-	1
Raw land properties held for future development	9	9
Raw land properties under lease with tenants	5	5
Gross leasable area (GLA) square feet	1,023,051	1,023,051
<b>Leasing Activities by Gross Leasable Area (GLA)</b>		
Leases renewed	134,636	4,864
New tenant leases	-	161,717
GLA of leases expiring within twelve months	52,890	162,379
Space available for lease	51,320	51,320
Average lease term to maturity in years	4.71	4.03
Building occupancy	95.4%	95.7%
<b>Property Operations</b>		
% operating expense recoveries	83%	79%
Income from operations	\$ 3,187,120	\$ 11,689,648
Investment property improvements	\$ 294,202	\$ 378,108
<b>Financing</b>		
Debt to total assets ratio	56%	56%
Weighted average interest rates on mortgages	3.29%	3.29%

*Some of the properties held by the Company have been BOMA certified during the period, hence updating the gross leasable area in the current fiscal year.*

## INVESTMENT PROPERTIES

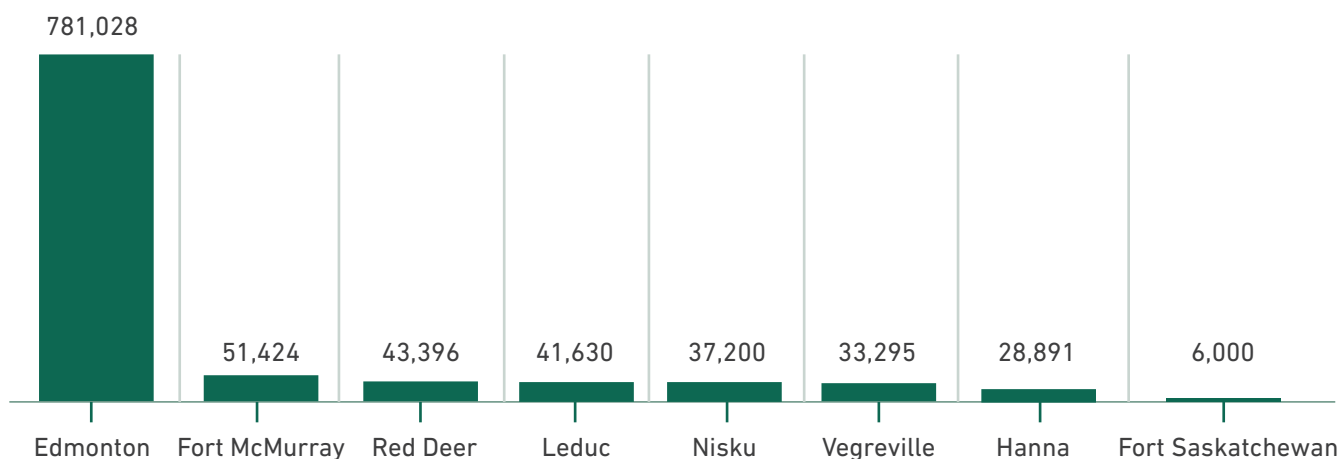
### Raw land properties held for future development – unchanged from the prior year

- 12.9 acres in Strathcona County, AB
- 2.24 acres in NW Edmonton, AB
- 49.42 acres in Hanna, AB
- 3 acres in NW Edmonton, AB

### Raw land properties held for future development and under a lease with tenants in place – unchanged from the prior year

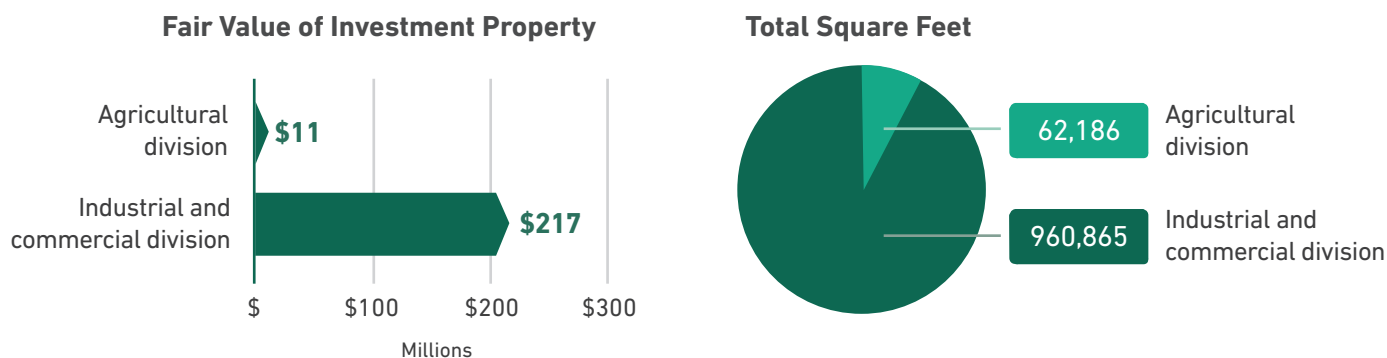
- 1.7 acres in SE Edmonton, AB under a lease with an existing tenant
- 1.71 acres in SE Edmonton, AB under a lease with an existing tenant
- 1.49 acres in SE Edmonton, AB under a lease with an existing tenant
- 2 acres in NW Edmonton, AB under a lease with an existing tenant
- 3 acres in NW Edmonton, AB under individual leases with five tenants

### Alberta Property Portfolio - GLA by City (ft<sup>2</sup>)



The Company has expanded its investment property holdings to locations outside of major cities and continues to explore opportunities in provinces across Canada.

## INVESTMENT PROPERTY DIVERSIFICATION



The first agricultural property was a new build-to-suit project in Hanna, Alberta, that was completed in Q1 2019. The tenant, Cervus Equipment Corporation, is an international tenant that operates 63 heavy equipment and farm implement dealerships across Canada, Australia, and New Zealand.

The second agricultural property was acquired in Q3 2019 and is located in Vegreville, Alberta. The tenant, Rocky Mountain Equipment, is a multi-branch dealership primarily involved in sales and service of Case and New Holland brands of equipment.

The total combined rental revenue for these two properties for the three month period \$234,736. The Company is working towards further acquisitions that will expand the agricultural division in Alberta and throughout the prairie provinces.

## LEASING ACTIVITIES

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

Three tenant leases are expiring during the next twelve months, totaling 52,890 ft<sup>2</sup>. One of the three tenants has already renewed, and two tenants with a total of 45,624 ft<sup>2</sup> have leases that are not within the required notice as of period end. The renewal process for each tenant will commence according to provisions in their respective lease agreement(s).

### Space available for lease

- 20,818 ft<sup>2</sup> in one of the Company's multi-tenant buildings (under contract with an existing tenant)
- 4,907 ft<sup>2</sup> in a multi-tenant mixed-use building
- 25,595 ft<sup>2</sup> in a single tenant industrial building (under contract with potential tenant)

## LEASE RETENTION

### During the Current Year

Location	GLA	Expiring Rate/PSF*	Renewal Rate/PSF*	Renewal Term
Edmonton, Alberta	2,007	\$ 12.05	\$ 12.00	60
Edmonton, Alberta	7,266	\$ 14.50	\$ 12.50	12
Edmonton, Alberta	9,503	\$ 8.95	\$ 8.50	60
Edmonton, Alberta**	17,653	\$ 15.36	\$ 12.62	60
Edmonton, Alberta	21,357	\$ 6.50	\$ 7.00	60
Vegreville, Alberta	33,295	\$ 7.18	\$ 7.18	60
Edmonton, Alberta	43,555	\$ 6.00	\$ 6.65	60
	<b>134,636</b>			

\*per square foot

\*\*early renewal 18 months plus an additional 60 months

## LEASE RETENTION

### During the Prior Year

Location	GLA	Expiring Rate/PSF*	Renewal Rate/PSF*	Renewal Term
Edmonton, Alberta	4,864	\$ 11.85	\$ 12.00	5 years
Edmonton, Alberta	25,590	\$ 10.00	Vacated	-
Edmonton, Alberta	50,000	\$ 8.40	\$ 20,000/month	M to M
Edmonton, Alberta	4,907	\$ 12.00	Vacated early	-
	<b>85,361</b>			

*\*per square foot*

Other leases that are expiring in the next twelve months are either under current negotiations or the leases are not yet within the notice period.

The performance drivers of the Company include ensuring a low turnover of tenants through lease retentions and maintaining high occupancy levels. During the current period, the Company has been successful in renewing expiring leases with existing tenants and in attracting new tenants. Some of the lease rates have decreased slightly, largely due to greater uncertainty surrounding the effects of the pandemic and an uncertain overall economy. Other leases, however, have seen consistent lease rates on renewal and, in some cases, higher renewal rates.

## LEASE TERMS

at December 31, 2020



### SINGLE-TENANT BUILDINGS

Square Feet	Maturity Year
50,000	M to M
45,624	2021
179,779	2022
75,151	2023
74,206	2024
33,295	2025
26,400	2026
47,103	2027
188,149	2028
62,224	2029
41,054	2030
28,891	2038
<b>851,876</b>	



### MULTI-TENANT BUILDINGS

Square Feet	Maturity Year
3,000	2022
2,498	2023
21,127	2024
59,929	2025
33,301	2030
<b>119,855</b>	

#### Weighted Average Remaining Lease Terms:

Single-Tenant Buildings: 5.37 years

Multi-Tenant Buildings: 6.10 years

**Total average lease term to maturity = 4.71 years**

Total GLA of in-place leases

**971,731**

Available GLA for lease

**51,320**

Total GLA at December 31, 2020

**1,023,051**

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

One of the Company's goals is to maximize the revenue of each asset in its region. With the proper market analysis of comparative information, the Company has been able to negotiate lease rates that achieve its desired rate of return.

At December 31, 2020 the three month period occupancy is 95.4% (September 30, 2020 – 95.7%).

## AVERAGE ANNUAL LEASE RATES

per city, per square foot, at December 31

	2020	2019
Edmonton, Alberta	\$ 10.06	\$ 11.99
Red Deer, Alberta*	\$ 25.79	\$ 25.45
Fort Saskatchewan, Alberta*	\$ 36.83	\$ 36.11
Fort McMurray, Alberta	\$ 43.60	\$ 43.26
Leduc, Alberta	\$ 15.70	\$ 15.70
Hanna, Alberta	\$ 19.36	\$ 19.17
Nisku, Alberta	\$ 13.00	\$ 13.00
Vegreville, Alberta	\$ 7.18	\$ 7.18

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

## PROPERTY OPERATIONS

	Three months ending December 31, 2020	Year ending September 30, 2020
Property tax and insurance recoveries	\$ 639,038	\$ 2,348,418
Operating expense recoveries	267,712	1,123,839
	<b>\$ 906,750</b>	<b>\$ 3,472,257</b>
Total property operating expenses	\$ 1,090,907	\$ 4,386,540
<b>% of property operating expense recoveries</b>	<b>83%</b>	<b>79%</b>

Property taxes, insurance, and operating expenses are budgeted annually and reconciled every 12 months on a tenant-by-tenant basis. All the Company's leases are triple net leases, which allows the landlord to recover all operating costs except for any structural repairs. Management decides how to treat the recovery from the tenant of expenses related to large maintenance items, so as not to impose hardship on the tenant's operations. In some cases, Management will amortize the expenditures over a period 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 expenses not recovered by the landlord in the current period. Historical optimal recovery percentages will be in the range of 80%-86%.

In the prior fiscal year, there was vacant space of 25,725 ft<sup>2</sup> in multi-tenant buildings, and 25,595 ft<sup>2</sup> in a single-tenant building that became vacant in Q3 2020. Additionally, some costs were not recoverable during a rent abatement period of 4.47 months for a property located in Fort McMurray that had substantial damage from the flood which took place in April 2020. These factors resulted in slightly lower recoveries than the historical range for the year ending September 30, 2020.

Typically, recovery percentages will vary each quarter depending on property taxes, utilities, snow removal, lawn care, and other seasonal expenditures. Management ensures operating expense recoveries are maximized for our shareholders.

The current vacancies of 51,320 sf will continue to put downward pressure on cash flows in addition to the current rent deferrals expected over the next several months. The deferrals are a direct result of the COVID-19 pandemic and the economic downturn in the oil & gas industry in Alberta.

	Three months ending December 31, 2020	Year ending September 30, 2020
<b>Income from operations for the period</b>	<b>\$ 3,187,120</b>	<b>\$ 11,689,648</b>
Less: Interest on financing*	1,046,904	4,294,644
Less: Principal instalments on mortgages	1,707,287	6,223,437
Funds available for property improvements and growth	\$ 432,929	\$ 1,171,567

\*Interest on financing includes capitalized interest and excludes interest income and amortization of deferred finance fees.

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

The Company, working closely with third-party contractors, continues to ensure all properties are well-maintained in terms of maintenance, electrical, mechanical, structural, and cosmetic (which includes exterior maintenance of the buildings through painting, landscaping, parking lot striping, etc).

	Three months ending December 31, 2020	Year ending September 30, 2020
<b>Total property improvements during the period</b>	<b>\$ 294,202</b>	<b>\$ 378,108</b>

During Q1 2021, the Company made improvements to two parking lots by installing geotechnical fabric and resurfacing with concrete, as well as forming proper concrete retaining walls. Work also commenced on exterior renovations and an addition to another building. Property improvements also include design fees for new projects and continued interior and exterior maintenance on the buildings.

The Company strives to provide high-quality service to the tenants by responding promptly to address any property maintenance issues. Maintaining equipment regularly improves the life of the equipment, keeps equipment running smoothly, and avoids major interruptions to the tenant's operations. The Company has a strong relationship with all tenants and will respond to maintenance issues promptly. Working with strong business partners that are familiar with the properties and tenants, the Company has enjoyed a very high quality of work while ensuring costs are very competitive.

The Company is continuing to convert all buildings to energy-efficient LED lighting in both the interior and exterior light fixtures. Also, energy-efficient heating, ventilating, and air conditioning units are being installed to replace outdated units. The impact of these improvements is the reduction of the operating costs to the tenants and the promotion of a greener environment through reduced emissions.

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



## FINANCING

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

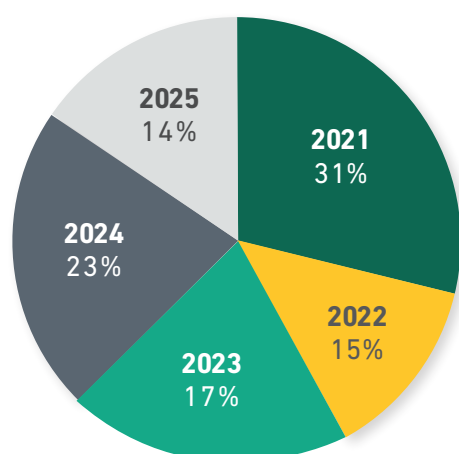
Management considers the ratio of debt to assets to be useful for evaluating the leverage the Company may have on its investment properties to assess its debt position and to consider additional financing opportunities if any.

	Three months ending December 31, 2020	Year ending September 30, 2020
<b>Investment properties</b>	<b>\$ 227,295,362</b>	<b>\$ 226,944,468</b>
Mortgages excluding transaction fees	95,112,892	96,820,176
Other financing	5,050,000	5,050,000
Bank operating facilities	26,302,476	26,275,887
<b>Debt</b>	<b>\$ 126,465,368</b>	<b>\$ 128,146,063</b>
<b>Ratio of debt to assets</b>	<b>56%</b>	<b>56%</b>

The Company continues to enjoy a good relationship with its lenders and has been able to renew mortgages as they come due and place new conventional financing on acquisitions. Unencumbered properties at December 31, 2020, have fair values of \$17,624,693 (September 30, 2020 - \$17,599,849).

► **Weighted average interest rates on the mortgages** have remained at 3.29% at December 31, 2020 (3.29% at September 30, 2020) as no new mortgages were obtained or renewed during the 3 month period.

## MORTGAGE MATURITIES



**2021** \$29,324,542

**2024** \$21,803,813

**2022** \$13,843,467

**2025** \$13,816,635

**2023** \$16,324,434

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

Maturity Date	Rate	Principal Balance Sept. 30'19	Mortgages Advanced/ Assumed	Y-T-D Principal Payments	Principal Paid on Maturity	Principal Balance Sept 30'20
01-Jan-21	3.060%	\$ 1,409,892		\$ 43,074		\$ 1,366,818
01-Jan-21	2.980%	3,222,750		66,907		3,155,843
01-Jan-21	2.980%	4,986,626		103,526		4,883,100
01-Apr-21	2.880%	5,169,392		104,940		5,064,452
01-Apr-21	2.948%	2,832,165		51,538		2,780,627
01-Oct-21	2.470%	5,480,578		153,712		5,326,866
01-Oct-21	2.470%	6,882,331		135,493		6,746,837
01-Feb-22	3.040%	5,403,477		99,488		5,303,989
01-Jun-22	2.730%	2,008,815		51,028		1,957,787
01-Dec-22	3.670%	3,505,577		57,045		3,448,532
01-Dec-22	3.671%	3,184,981		51,824		3,133,157
01-Feb-23	3.750%	1,924,526		30,638		1,893,888
01-Oct-23	3.950%	392,042		30,056		361,986
01-Oct-23	4.090%	5,691,548		82,901		5,608,647
01-Nov-23	4.330%	3,910,232		55,562		3,854,671
01-Dec-23	4.648%	4,669,603		64,359		4,605,243
01-Jan-24	4.330%	2,233,245		43,251		2,189,994
01-Jan-24	4.330%	1,772,416		34,326		1,738,090
01-Aug-24	3.330%	9,619,196		136,982		9,482,214
01-Nov-24	3.555%	8,509,822		116,307		8,393,515
01-Feb-25	3.420%	4,851,774		65,515		4,786,259
01-Apr-25	2.310%	5,177,069		74,930		5,102,139
01-Aug-25	2.837%	3,982,122		53,886		3,928,236
		<b>\$ 96,820,179</b>	<b>\$ -</b>	<b>\$ 1,707,287</b>	<b>\$ -</b>	<b>\$ 95,112,892</b>

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

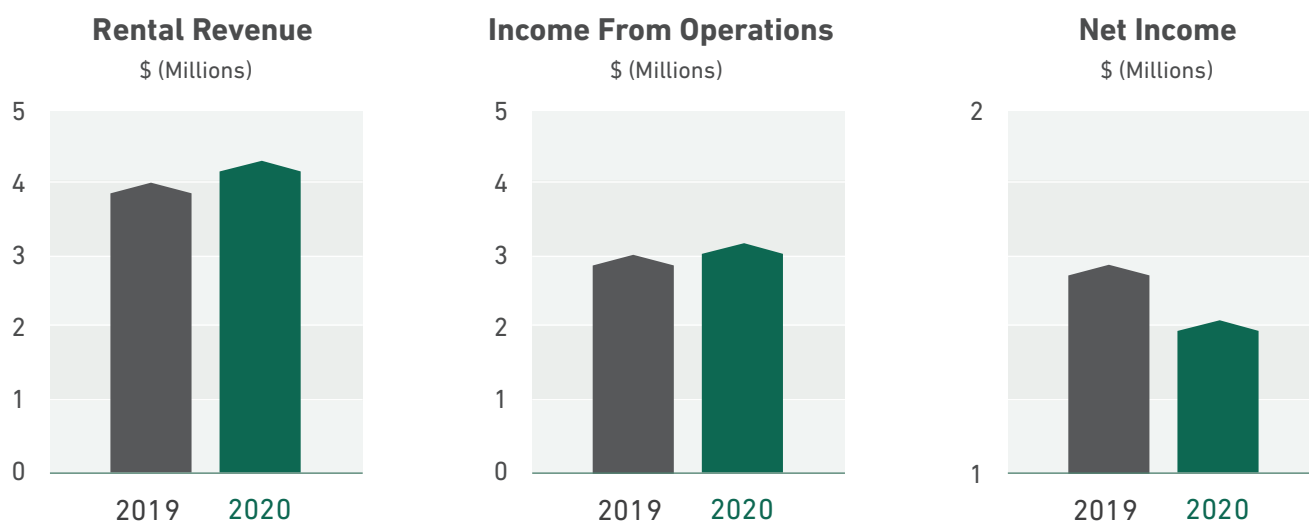
The Company's two bank operating facilities are secured with specific revenue-producing properties and the other financing is unsecured.

## ACTIVITY DURING THE PERIOD

► Due to the impact of COVID-19 on a number of the Company's tenants, rent deferrals were offered during the period amounting to \$155,073 with the remaining balance receivable over the next several years up to and including fiscal year 2023. Subsequent to the three month period, additional deferrals were granted amounting to \$36,612.

The Company **will resume payment of dividends** which had been suspended subsequent to the Q2 2020 payment due to the uncertainty caused by the COVID-19 pandemic. Total annual dividends of \$.06 per common share and are payable quarterly at \$.015 with the first payment distributed on January 31, 2021.

## PERFORMANCE RESULTS



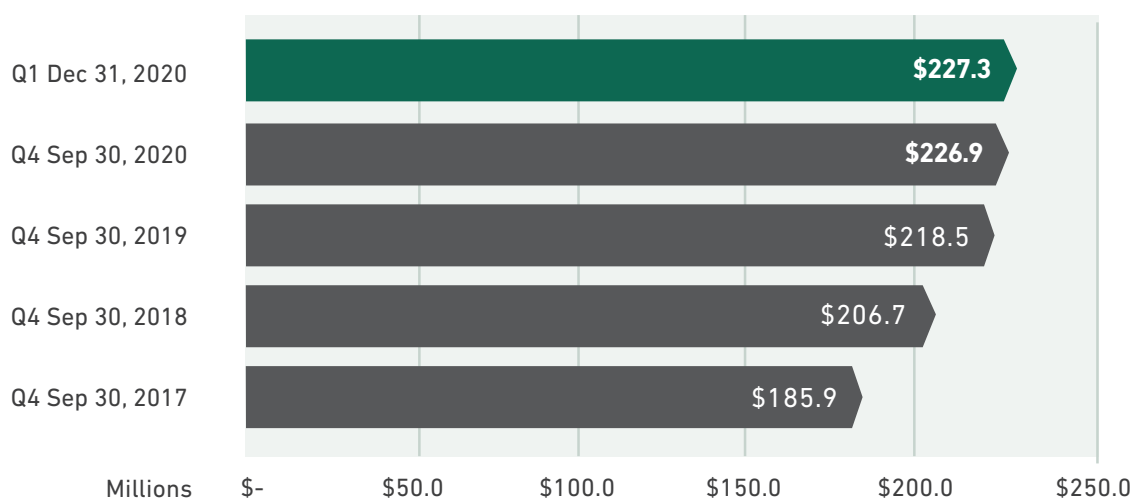
Rental revenue is higher during the current three month period in comparison with Q1 2020 as a result of revenue from new leases on three additional properties purchased throughout 2020.

The increase in income from operations is correlated to the increase in rental revenue during the current period.

Net income is lower than the comparative three month period ended December 31, 2019 as a result of higher income taxes.

## RESULTS OF OPERATIONS AND CASH FLOWS

### FAIR MARKET VALUE OF INVESTMENT PROPERTIES



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

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

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

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

#### Net valuation gains (losses) per quarter:

2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2
\$ (152,233)	\$ (74,228)	\$ (992,868)	\$ (1,953,004)	\$ 89,563	\$ 1,103,099	\$ (148,530)	\$ (33,127)

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

## INVESTMENT PROPERTY CAP RATES

Location	December 31, 2020			September 30, 2020	
	Total GLA ft <sup>2</sup>	Range Cap Rates	Rate Change	Total GLA ft <sup>2</sup>	Range Cap Rates
Edmonton, Alberta	729,895	4.50% - 7.35%	↔	729,895	4.50% - 7.35%
Red Deer, Alberta	43,396	6.46%	↑	43,396	6.35%
Fort Saskatchewan, Alberta	6,000	6.41%	↔	6,000	6.41%
Fort McMurray, Alberta	51,424	6.14% - 6.52%	↑	51,424	6.14% - 6.50%
Leduc, Alberta	41,630	6.50%	↔	41,630	6.50%
Vegreville, Alberta	33,295	8.50%	↔	33,295	8.50%
Nisku, Alberta	37,200	6.50%	↔	37,200	6.50%
Hanna, Alberta	28,891	7.00%	↔	28,891	7.00%
	971,731			971,731	
Available for lease, Edmonton, Alberta	51,320			51,320	
<b>Total GLA square feet</b>	<b>1,023,051</b>			<b>1,023,051</b>	

Some of the leases have escalations throughout their terms and the Company has increased the cap rates on those properties to keep the value of the properties at current market rates, despite an increase in rents. Cap rates continue to be evaluated on a property-by-property basis to ensure values reflect current market conditions.

During Q2 & Q3 of 2020, four properties were lowered in value for total net valuation losses of \$2,930,537 at September 30, 2020. Two buildings had uncertainties surrounding lease renewals, and two buildings had large vacancies that may take further time to lease-up. These losses were offset by minor gains on other properties in the portfolio.

At Q4 2019 there was an appreciation gain on vacant land that was valued at the market rate for similar land available for sale, and a revaluation gain was recorded on a mixed use building that was valued using the current cap rate for this type of property.

During Q1 2019, the Company lowered the values of two properties, which contributed significantly to the net valuation losses of \$1,453,502. One property, from which a tenant occupying 32,762 ft<sup>2</sup> vacated after paying out its lease obligations, represents 34% of the square footage of the building. The Company made significant improvements to this space and began actively marketing the space. The decrease in value represented the lost revenue, carrying costs, and leasing costs. A tenant in the second property requested a reduction in its contracted lease rate for the remaining term of its lease. The lower revenue is reflected in a lower valuation of this property at that date.

Fair value losses will often occur during Q3 each year, being the result of items capitalized as building improvements that are performed in the summer months. 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.

The Company will adjust the cap rates upward on some properties because, if left unadjusted, the increase in contracted revenue for the next twelve months would cause fair value increases that likely are not indicative of current market values.

▶ **Income from operations** is higher in Q1 2021 than Q1 2020 as a result of an increase in leasable area directly stemming from the increased number of investment properties that the Company owns.

▶ **Property operating expenses** are up slightly in this period in correlation with the increase in investment properties.

▶ **Finance costs** include interest on financing and amortization of deferred finance fees and are net of interest income. Increased interest on financing as of December 31, 2020, compared to December 31, 2019 is due to additional mortgages, and increased financing costs associated with related party financing.

Finance costs overall decreased from the prior period as a result of increased interest income derived from a Vendor Take Back Mortgage granted on a property sold during the prior year. Interest income offsets interest on financing and hence has an overall reduction in finance costs for the period.

▶ **Amortization of right-of-use asset** refers to the head office lease space for the Company. Effective October 1, 2019, the Company recorded a right-of-use asset and it is be amortized over the term of the lease on a straight-line basis.

▶ **Loss on short-term investments** is the accounting loss on the disposal of all the short-term investments during Q1 2020.

## CHANGES IN CASH FLOWS

▶ **Cash provided by operating activities** was \$3,238,389 at Q1 2021 (Q1 2020 – \$2,771,721). The Company continues to generate positive cash from operations each quarter to cover day-to-day expenditures and provide reserves for future opportunities.

▶ **Cash used in investing activities** was \$351,852 at Q1 2021 (Q1 2020 – \$6,339,269) as the Company completed on acquisition in Q1 2020 of the prior year. In the current period, the Company carried out improvements and additions to investment properties.

▶ **Net cash used in financing activities** was \$2,693,556 in Q1 2021 compared to cash provided by financing activities of \$2,662,471 in Q1 2020. In the comparative period, the Company received proceeds from new mortgages while in the current three month ended period, the Company repaid its mortgages through installments as well as its finance costs.

At December 31, 2020, there was a **net increase in cash** of \$192,981 compared to a net decrease in cash at December 31, 2020 of \$905,077.

## CHANGES IN FINANCIAL POSITION

► **Investment properties** include the fair value of the properties at the reporting date as valued by Management, including the unamortized balance of straight-line rent receivables, the unamortized balance of deferred leasing costs and the unamortized balance of tenant inducements if any. Changes since the fiscal year-end of September 30, 2020, are detailed below.

	Income Producing Properties	Held For Development	Total Investment Properties
<b>Opening balance at September 30, 2020</b>	\$ 214,542,476	\$ 12,401,992	\$ 226,944,468
<i>Additions:</i>		-	
Property improvements and additions	294,202	-	294,202
Capitalized property taxes and other	-	-	-
Leasing commissions	176,925	-	176,925
Property acquisitions	-	-	-
Amortization of tenant inducements	(6,878)	-	(6,878)
Change in straight-line rental revenue	105,716	-	105,716
Sale of investment property	-	-	-
Revaluation losses, net	(152,272)	39	(152,233)
Amortization of deferred leasing commissions	(66,838)	-	(66,838)
<b>Ending balance at December 31, 2020</b>	\$ 214,893,331	\$ 12,402,031	\$ 227,295,362

Property improvements include structural improvements, new HVAC units, parking lot improvements, project design fees, and permitting. Leasing commissions were paid for lease renewals during the period.

► **Right-of-use asset** refers to the head office lease with payments made to a related party described in Note 4 of the consolidated financial statements. The asset was recorded at the present value of the lease payments to the term of the lease. The asset is amortized on a straight-line basis over the term of the lease.

► **Receivables** at the period-end were \$32,500 (September 30 2020 - \$264,875) which includes interest income receivable amounting to \$16,667. As of September 30, 2020, receivable balances included amounts receivable from tenants as a result of occupancy cost reconciliations performed for the year.

► **Prepaid expenses and deposits** have a balance at period end of \$101,263 (September 30, 2020 - \$758,094) relating to property insurance premiums, and security deposits with municipalities.

► **Mortgages** at December 31, 2020 have a balance of \$95,112,892 (September 30, 2020 - \$96,820,179). The decrease in mortgages is a result of principle repayments throughout the period.

► **Other financing** at December 31, 2020 of \$5,050,000 (September 30, 2020 – unchanged) is due to related parties. The loans are unsecured and bear interest at an annual rate of 6%. Other financing was used to assist with the acquisitions in Nisku and Edmonton, Alberta in the prior year.

► **Bank operating facilities** at September 2020 have a balance of \$26,302,476 with two of the Company's major lenders (2019 - \$26,275,887).

## CREDIT FACILITIES

	December 31, 2020	September 30, 2020
Bank credit facilities	\$ 26,417,500	\$ 26,467,000
Amounts drawn on facilities	(26,302,476)	(26,275,887)
<b>Available credit facilities</b>	<b>\$ 115,024</b>	<b>\$ 191,113</b>

The Company has two credit facilities set out as follows:

- 1 One operating line of credit (LOC) with a limit of \$13,417,500 (September 30, 2020 - a limit of \$13,467,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at December 31, 2020, of \$13,350,694 (September 30, 2019 - \$13,309,907). The credit facility bears interest at prime plus 1% per annum (September 30, 2020 – prime plus 1% per annum) and is secured by specific revenue-producing properties with combined fair values of \$36,939,597 (September 30, 2020, specific revenue-producing properties with combined fair values of \$36,939,597). The Company pays a standby fee of .25% per annum (September 30, 2020 - .25% per annum) payable monthly on the undrawn 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, 2020), or b) the level at which a Loan to Value Ratio of 70% can be maintained for the secured properties, over which the Lender has a 1st mortgage and 60% for the secured properties over which the Lender holds a 2nd mortgage, less the prior debt on the properties (unchanged from September 30, 2020). For these secured properties, the loan to value is set at 70%, unchanged from the prior period.

Debt Service Coverage Ratio (“DSCR”) is the net operating income, divided by the debt service.

- *Debt service* = annual principal and interest payments based on a 25-year amortization and an interest rate that is the greater of 4.5% (unchanged from September 30, 2020) 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 (“LTV”) is the total debt on the secured properties divided by the current market value of the secured properties.

Loan Covenant Requirements:	Min. 90% Occupancy	DSCR 1.25	LTV 70%
December 31, 2020	Yes	2.79	73%
September 30, 2020	Yes	2.75	73%
June 30, 2020	Yes	2.89	68%
March 31, 2020	Yes	2.89	68%
December 31, 2019	Yes	2.89	69%



During the quarter, the lender amended the credit agreement to allow an increase in the LTV to 74.5% with a provision that it is to be lowered to 70% within 18 months. The increase in LTV is as a result of the sale of a property from the secured property during Q4 of 2020.

2 A second operating LOC with a limit of \$13,000,000 (September 30, 2020 – a limit of \$13,000,000).

This credit facility bears interest at prime plus .95% per annum (unchanged from September 30, 2020) and is secured by specific revenue-producing properties with combined fair values at December 31, 2020, of \$70,909,163 (September 30, 2019 - \$70,548,383).

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at December 31, 2020 is \$12,951,782 (September 30, 2019 - \$12,965,980).

► **Lease liability** is the result of the adoption of IFRS 16 “Leases” at October 1, 2019. The Company has recorded a lease liability at the present value of the remaining lease payments for its head office leased space. The lease payments were discounted using the Company’s incremental borrowing rate of 4.95% at October 1, 2019. Previously these payments were expensed as rent. A corresponding entry was made to a right-of-use asset which is amortized on a straight-line basis over the term of the lease.

► **Payables and accruals** are \$904,350 at December 31, 2020 (September 30, 2020 – \$1,335,226). The balance includes accrued interest on financing, prepaid rents from tenants, and trade payables. Also included is management compensation amounts payable of \$73,500 (Q4 2020 - \$100,000).

## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2
Revenue	4,278,027	3,754,671	4,285,825	4,037,197	3,998,495	4,152,393	4,273,657	4,150,537
Total Comprehensive Income	1,381,852	777,391	647,839	(1,636,200)	1,533,743	4,393,990	1,519,848	1,393,144
EPS-Basic	0.15	0.08	0.07	(0.17)	0.16	0.46	0.16	0.15
EPS-Diluted	0.15	0.08	0.07	(0.17)	0.16	0.46	0.16	0.15

## QUARTERLY CHANGES IN REVENUE

► The increase in revenue during Q1 2021 reflects additional revenue from new tenant leases in the new properties acquired during the prior year as well as new leases in previously vacated properties. Revenue is recorded on a straight-line basis over the terms of the leases so there are not typically large swings quarter to quarter. Although the Company accommodated several tenants with a deferral of their rent from the impact of COVID-19, because the revenue is straight-line over the term of the lease, the revenue will be not be affected quarter to quarter unless the tenant stops paying.

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

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

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

## QUARTERLY CHANGES IN TOTAL COMPREHENSIVE INCOME AND EARNINGS (Loss) PER SHARE (BASIC AND DILUTED)

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

*Net valuation gains (losses) per quarter:*

2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2
\$ (152,233)	\$ (74,228)	\$ (992,868)	\$ (1,953,004)	\$ 89,563	\$ 1,103,099	\$ (148,530)	\$ (33,127)

The write-downs in Q1 2021 reflect increased cap rates for some of the properties where leases have escalations in the current period. The Company increases cap rates to maintain the value of the property at current market rates.

Q2 & Q3 2020 had four additional property write-downs; several parcels of vacant land were revalued to comparable land in the immediate area, and a building that was vacated at the end of Q2 2020, may be leased at a lower rate than the previous tenant. There are a number of leases due for renewal within the next 12 months which are likely to be renewed at a lower rate. This was reflected in the decrease in fair value of the related buildings.

Q4 2019 unrealized gains are net of small losses. The largest gains occurred on two properties: 3 acres of vacant land in west Edmonton, where land was revalued to market at Q4 2019 based on similar land values in the immediate area; and a multi-tenant building that is quasi retail and very much in demand in Edmonton, that was revalued based on similar properties available for sale or sold in the immediate area.

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 some of the cap rates upward. Most of the values are adjusted slightly upward to offset the amortization of deferred charges, which includes straight-line rent, leasing fees, and tenant inducements if any.

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 impact on revenue 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 2021 is 9,451,242 (Q4 2020 is 9,460,442). The Company's normal course issuer bid expired on September 2, 2020. During the prior period, the Company purchased 41,900 shares for a total cost of \$160,982. Of the repurchased shares, 36,000 were canceled with the excess cost of the purchase price over the cost of the shares of \$123,984 charged to retained earnings. The remaining 9,200 shares were canceled in the current period.

There are currently no options outstanding.

## DIVIDENDS

▶ The Company issued a press release on December 15, 2020, announcing the declaration of a quarterly dividend of \$.015 per share payable on January 31, 2021, to shareholders of record effective January 15, 2021. On January 31, 2021 the Company paid \$141,769 in dividends to its shareholders.

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.

## RELATED PARTY TRANSACTIONS

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

▶ **Property management and maintenance fees** of \$312,924 (Q1 2020 - \$242,430) 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 the Company 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 rates of \$85 per hour for labour, plus truck charges, equipment use, and parts charges. Sable provides its trucks, tools, and equipment to perform property maintenance. The Company recovers most of the management and 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 either 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 undertaken by Management, as compared to the tenant, in maintaining the property.

▶ **Acquisition, disposition and leasing fees** in the aggregate of \$176,925 (Q1 2020 – \$175,583) were paid to North American Realty Corp. ("NARC"), a company controlled by Sine Chadi.

▶ **Leased office space and parking** were paid to Sable in the aggregate amount of \$46,005 (Q1 2020 - \$25,050). Imperial Equities shares its head office space with the Sable head office. The increase in lease fees paid in the current period is due to additional space leased by the Company in the current period commencing March 1, 2020.

▶ **Consulting fees** of \$27,229 (Q1 2020 – \$60,000) were paid to Sable for the services provided by the Company's Financial Advisor (formerly the CFO) who is not paid directly by the Company. Comparative figures were compensation paid for the CFO.

▶ **Rent collected from Sable** for commercial lease space was \$22,104 (Q1 2020 – \$22,104). Sable leases a 7,871 ft<sup>2</sup> building in Edmonton, Alberta from the Company.

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

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

### Paid to directors

Directors' fees paid for attending directors' meetings were \$10,000 (Q1 2020 - \$12,500). Fees per director per meeting are \$2,500, unchanged from the prior year. The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

## Compensation to key Management personnel

The Company's key Management personnel include President Sine Chadi, who is also a director and significant shareholder of the Company. The total compensation paid to Mr. Chadi during the period was \$75,000 (Q1 2020 - \$75,000). The Company's COO, Patricia Misutka was paid \$45,000 in the current period (Q1 2020 - \$15,000). The interim CFO, Azza Osman, was hired in Q4 2020 and received a compensation of \$31,250 (Q1 2020 - nil).

## Unsecured financing from directors and shareholders

In the current period, \$5,050,000 remains outstanding (unchanged from September 30, 2020). Related party financing bears interest at an annual rate of 6% (2019 - 6%). The total interest at December 31, 2020 is \$171,722.

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

In the prior period, \$200,000 was received and fully paid with interest of \$2,268 at an annual rate of 6%.

## LIQUIDITY, CAPITAL RESOURCES, AND SOLVENCY

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

	December 31, 2020	December 31, 2019
<b>Income from operations</b>	<b>\$ 3,187,120</b>	<b>\$ 22,996,536</b>
<b>Cash provided by operating activities</b>	<b>\$ 3,238,389</b>	<b>\$ 2,771,721</b>

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

The impact of COVID-19 on cash flows continues to be felt during fiscal 2021 as the Company provided some additional rent deferrals to specific tenants. The months of October to December 2021 had cumulative rent deferrals of \$155,073. The recovery dates for the deferrals vary by tenant with the last repayment set to be made over the initial terms of their leases.

During Q3 2020 there was a severe flood in Fort McMurray, Alberta and as a result of the tenant's inability to remain open, \$448,855 of rent was abated during fiscal year of 2020. The tenant resumed operations in the building and began paying full rent on September 15, 2020.

During the COVID-19 deferrals period as well as the rent abatements, the Company's lines of credit were drawn to their maximum and the Company relied on related-party financing to bridge the gap between revenue and expenses in the impacted period. Provided tenants can continue to meet their lease obligations, the cash flow from operations will increase over the next 17 months as the majority of rent deferral agreements begin to be repaid. At this date, the Company cannot predict the further outcome of the pandemic and the effects it may have on the cashflows and financing opportunities.

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

Investment properties that are unencumbered with debt are \$17,624,693 at December 31, 2020. The ratio of debt to assets is 56% (September 30, 2020 - 56%), providing possible leverage opportunities in the future.

At December 31, 2020, seven mortgages are due in the next twelve months with combined principal balances of \$29,324,543 and shown as current liabilities. When mortgages are renewed, the Company may have the option of increasing the debt on a particular property, subject to the lender's approval, to provide increased capital. There is a risk to the Company that mortgages that are up for renewal may not be renewed or may not be renewed at the same rates and therefore the monthly principal and interest may change. Subsequent to the quarter end, the Company has begun the process of renewal on three of the mortgages.

Throughout the quarter, the Company entered into an agreement to purchase a 0.312 acres Public Utility Lot ("PUL") adjacent to one of the Company's properties. The total purchase price is \$93,600.

The Company has no other contractual commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 20 of the consolidated financial statements.

## **CRITICAL ESTIMATES OF THE CURRENT ECONOMIC ENVIRONMENT AND OUTLOOK**

The economic environment in which Imperial operates could be adversely affected by tenants challenged by unfavorable economic conditions, most recently the collapse in oil prices, and the effect of the COVID-19 pandemic.

The economic future is uncertain for every sector of the economy including real estate, but the hardest hit have been the office and retail sectors. Fortunately, the Company has little exposure to retail or office properties. Over 80% of the Company's tenants are large national and multi-national corporations with the potential to endure a downturn in the economy. While it is anticipated that continuing low oil prices will have an impact on the Alberta economy, the Company's tenants with exposure to the oil sector have thus far maintained their lease obligations and of these, only two tenants requested rent deferrals.

The Company has entered into rent deferral arrangements with certain tenants whose businesses have been impacted by COVID-19. It is not possible to forecast with certainty the duration and full scope of the impact of COVID-19 and so the Company may experience further issues with rent collection, occupancy rates, and capitalization rates that may affect the valuations of the investment properties. The full extent and duration of COVID-19 remain uncertain at this time.

During Q1 2020, an Edmonton-based tenant occupying a single-tenant building encompassing 50,000 ft<sup>2</sup> asked Management for some relief from its current lease obligations due to cash flow issues. The Company complied and in Q2 2020 this tenant vacated their premises before their lease expiry. There is currently a tenant occupying the space on a month to month basis. Also, during Q1 2020, a retail tenant occupying 4,907 sf<sup>2</sup> was unable to meet their lease obligations and vacated the premises. At Q2 2020 a tenant occupying a single-tenant building of 25,595 sf<sup>2</sup> vacated at the end of their lease term. In combination with the new leases signed during the year, the total vacant space is 51,320 sf<sup>2</sup>. These vacancies were not a result of the sharp drop in oil prices or the COVID-19 pandemic as these vacancies had occurred prior to these events.

Management is continuing its efforts to fully lease the remaining vacancies and ongoing negotiations could realize more than 80% of the vacant space leased out in the next quarter.

Financing from the Company's lenders is currently at lower rates than in the past few years which may provide an advantage for the Company when renewing mortgages or acquiring new mortgages on acquisitions. To date, the Company has been very successful with its financing requirements and diligently monitors risk factors when considering strategic plans.

## RISKS

### Coronavirus risk (“COVID-19”)

The impact of COVID-19 on companies continues to evolve rapidly and its future effects are uncertain, making it difficult to assess or predict the broad effects on industries and individual tenants. The actual impact will depend on many factors beyond the Company’s control and knowledge. Management is responding to evolving events and planning for the uncertainties surrounding the effects of COVID-19 on the Company.

### COVID-19 - Impact on the financial condition and results of operations.

The impact of COVID-19 on the consolidated financial statements included a write-down on some of the Company’s properties where there is now more uncertainty surrounding leasing vacant space and more uncertainty whether leases up for renewal in the next twelve months will be renewed. The write-downs affected the earnings per share on the consolidated statements of income. The cash flows from operations were negatively affected during the period by the rent deferrals provided to some tenants due to COVID-19.

In light of changing trends and the overall economic outlook, COVID-19 will impact the near future operating cash flows, the availability of cash through the current credit facilities, and potentially, the availability of related party financing to assist with short-term needs. In 2020, some of the Company’s tenants requested some relief from rent obligations which was dealt with on a case by case basis. Fortunately, the Company has little exposure to retail tenants who have had to suspend operations during this pandemic.

The Company’s long-term financial impact will be determined if some tenants are not able to survive the crisis and subsequently vacate the property.

Much of the rent relief offered is in the form of deferrals. Over the next few quarters, revenue from tenants that is deferred until 2021 and beyond will continue to impact the cashflows and affect the Company’s liquidity.

### COVID-19 - Impact on capital and financial resources

The Company’s access to capital and funding sources, such as revolving credit facilities, new mortgages, and related party financing has not changed during the period. The Company has begun the process of renewing three mortgages that are expiring in the next six months intending to leverage any available equity. The Company has relied on related-party financing to assist with operations in the short term.

At this reporting date, the Company has no known uncertainties as it relates to the ability to service the current debt and other financial obligations. The operating cashflows for the year were materially impacted by the deferred revenue from tenant leases, however, the Company anticipates that it has access to the required short-term financing to bridge the gap until cashflows return to normal over the next year.

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

One of the Company’s internal performance drivers is to ensure the quality of the tenant base is strong. Most of the Company’s tenants are large multi-national or national and are very likely to manage their operations sustainably during any economic turbulence. The Company does not have any tenant comprising 10% or more of its rental revenue thus limiting potential impacts from a single tenant.

Mix of Tenant Base	Institutional	Multi-National	National	Regional Large	Regional Medium	Local Small	Totals
% of Occupied GLA	7%	38%	36%	8%	3%	8%	100%
% of Annual Rental Revenue	3%	49%	33%	12%	1%	1%	100%

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

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

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

The risk of vacancy in any leased space is a risk to the Company's ability to continue to meet the mortgage obligations on the property, as well as carrying costs including property taxes, utilities, and insurance. If in an extreme case a property became vacant, the carrying costs and mortgage payments if any could be paid for with existing cash flows from operations. At December 31, 2020 Imperial's occupancy rate is 95.4%.

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

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

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

The total fair value of the investment properties at Q1 2021 is \$227,295,362 which includes \$17,624,693 of properties unencumbered with debt. The mortgages and bank operating facilities secured against specific properties total \$121,415,368 or 53% of the investment properties. Management believes the amount of debt against the properties is low enough to absorb any decline in values and support our ability to refinance.

► **Lease rates** will likely adjust downward if the demand for comparable lease space decreases, which is expected in any economic downturn. As demand for lease space increases, so does the lease rate. Imperial is mindful of these risks. Management believes that any further leases that are up for renewal in the next twelve months will likely be renewed at the same rates, but the Company will be responsive to economic conditions. The current vacancies are taking longer than initially anticipated to lease-up, however the Company is working towards achieving its prior occupancy levels of 100%.

► **Interest rates** on mortgages that are up for renewal are currently at the lowest the Company has seen for several years. This bodes well for renewals and new mortgages on acquisitions as the Company will save significantly on interest costs while the rates are low. 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 and those currently owned by the Company have undergone a thorough Phase I Environmental Site Assessment (ESA) by a qualified environmental consultant. This ESA becomes a benchmark used in conjunction with the tenant leases, which include a section outlining environmental liability. The Company then conducts regular inspections of each property to ensure compliance.



## Cybersecurity risk

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

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

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

## PLANNED EXPENDITURES

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

## CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

### Future accounting standards

IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in January 2020. The amendments clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the 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 financial statements.

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

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

#### (i) COVID-19

The COVID-19 pandemic had a substantial impact on the economy in 2020. The uncertainty surrounding the pandemic has required significant judgement when measuring the investment properties at fair value, which requires assumptions about the market conditions. The long-term impact is unknown, and the Company has used judgement when assessing the collectability of outstanding tenant receivable balances.



## **(ii) Leases**

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

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

## **(iii) Investment property**

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

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

## **(iv) 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.

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

The Company makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the 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 include capitalization rates and normalized net operating income (which is influenced by the inflation rate, interest rates, vacancy rates, structural reserves, and standard costs) of the property, using property-specific capitalization rates.

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

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

#### **Income taxes**

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

## **MEASURES NOT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Throughout the MD&A, Management will use measures that will include debt and unencumbered investment properties. These measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar calculations presented by other issuers. Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one 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.

## **DISCLOSURE CONTROLS AND PROCEDURES**

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

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

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

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

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

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

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



# FINANCIAL STATEMENTS

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for the first quarter ending December 31, 2020

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

	Notes	(unaudited) December 31, 2020	(audited) September 30, 2020
<b>Assets</b>			
Investment properties	3	227,295,362	226,944,468
Mortgage receivable	3	8,000,000	8,000,000
Right-of-use asset	4	775,210	812,719
<b>Total non-current assets</b>		<b>236,070,572</b>	<b>235,757,187</b>
Receivables	5	32,500	264,875
Prepaid expenses and deposits	6	101,263	758,094
Cash and cash equivalents		316,600	123,619
<b>Total current assets</b>		<b>450,363</b>	<b>1,146,588</b>
<b>Total Assets</b>		<b>236,520,935</b>	<b>236,903,775</b>
<b>Liabilities</b>			
Mortgages	7	61,283,686	73,547,237
Lease liability	9	686,221	722,282
Security deposits		727,070	637,507
Deferred taxes	12 (b)	13,390,910	13,346,081
<b>Total non-current liabilities</b>		<b>76,087,887</b>	<b>88,253,107</b>
Current portion of mortgages	7	33,609,925	23,036,386
Current portion of lease liability	9	139,755	139,040
Other financing	21 (b)	5,050,000	5,050,000
Bank operating facilities	8	26,302,476	26,275,887
Payables and accruals	10	904,350	1,335,226
Income taxes payable		782,953	552,393
<b>Total current liabilities</b>		<b>66,789,459</b>	<b>56,388,932</b>
<b>Total Liabilities</b>		<b>142,877,346</b>	<b>144,642,039</b>
<b>Equity</b>			
Issued share capital	15 (a)	5,947,346	5,925,098
Retained earnings		87,696,243	86,336,638
<b>Total Equity</b>		<b>93,643,589</b>	<b>92,261,736</b>
<b>Total Equity and Liabilities</b>		<b>236,520,935</b>	<b>236,903,775</b>

Guarantees, contingencies, and commitments (Note 18)

See accompanying notes to the consolidated financial statements.

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

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
Rental revenue	14, 17	4,278,027	3,998,495
Property operating expenses	14	(1,090,907)	(1,001,959)
<b>Income from operations</b>		<b>3,187,120</b>	<b>2,996,536</b>
Finance costs	11	(1,068,029)	(1,075,109)
Administration expenses		(286,958)	(305,222)
Amortization of deferred leasing	3	(66,838)	(87,220)
Amortization of right-of-use asset	4	(37,510)	(37,510)
Loss on short term investments		-	(17,494)
Valuation net (losses) gains from investment property	3	(152,233)	89,563
<b>Income before income tax</b>		<b>1,575,552</b>	<b>1,563,545</b>
Income tax expense	12 (a)	(193,700)	(29,805)
<b>Net income and comprehensive income</b>		<b>1,381,852</b>	<b>1,533,740</b>
<b>Earnings per share basic and diluted</b>	16	<b>0.15</b>	<b>0.16</b>

*See accompanying notes to the consolidated financial statements.*

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

	<b>Number of shares</b>	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>October 1, 2020</b>	9,460,442	\$ 5,925,098	\$ -	\$ 86,336,638	\$ 92,261,736
Shares held in treasury at beginning of year	-	28,044	-	-	28,044
Shares cancelled during the year	(9,200)	(5,796)	-	(22,247)	(28,043)
Net earnings	-	-	-	1,381,852	1,381,852
<b>Balance December 31, 2020</b>	<b>9,451,242</b>	<b>\$ 5,947,346</b>	<b>\$ -</b>	<b>\$ 87,696,243</b>	<b>\$ 93,643,589</b>

	<b>Number of shares</b>	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>October 1, 2019</b>	9,496,442	\$ 5,975,822	\$ -	\$ 85,519,555	\$ 91,495,377
Shares repurchased, held in treasury	-	(20,102)	-	-	(20,102)
Net income	-	-	-	1,533,740	1,533,740
<b>Balance December 31, 2019</b>	<b>9,496,442</b>	<b>\$ 5,955,720</b>	<b>\$ -</b>	<b>\$ 87,053,295</b>	<b>\$ 93,009,015</b>

*See accompanying notes to the consolidated financial statements.*

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

	Notes	2020	2019
<b>Operating activities</b>			
Net income from operations		1,381,852	1,533,740
Finance costs		1,068,029	1,075,109
Items not affecting cash:			
Amortization of right-of-use asset		37,510	37,510
Amortization of tenant inducements		6,878	6,878
Amortization of deferred leasing commissions		66,838	87,220
Fair value losses (gains) on investment properties		152,233	(89,563)
Loss on short term investments		-	17,494
Straight-line rental revenue		(105,716)	(47,634)
Deferred income taxes		44,837	(67,978)
Leasing commissions		(176,925)	(112,883)
Net change in operating working capital	13	762,853	331,829
<b>Cash provided by operating activities</b>		<b>3,238,389</b>	<b>2,771,721</b>
<b>Investing activities</b>			
Purchase of investment properties		-	(6,736,863)
Improvements and additions to investment properties		(294,202)	(33,546)
Net proceeds on sale of short-term investments		-	258,486
Net change in investing working capital	13	(57,650)	172,654
<b>Cash used in investing activities</b>		<b>(351,852)</b>	<b>(6,339,269)</b>
<b>Financing activities</b>			
Repayment of mortgages through principal instalments		(1,707,287)	(1,465,304)
Amortization of deferred finance fees		21,125	21,330
Fees associated with new or renewed mortgages		(3,851)	(26,211)
Advances from other financing		-	3,300,000
Finance costs		(1,068,029)	(1,075,109)
Principal repayments on lease liability		(35,345)	(13,136)
Purchase of common shares for cancellation		-	(25,839)
Net (repayment) advances on bank operating facilities		26,590	1,984,824
Net change in financing working capital	13	73,241	(38,084)
<b>Cash (used in) provided by financing activities</b>		<b>(2,693,556)</b>	<b>2,662,471</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>192,981</b>	<b>(905,077)</b>
Cash and cash equivalents, beginning of year		123,619	1,035,322
<b>Cash and cash equivalents, end of year</b>		<b>316,600</b>	<b>130,245</b>

*See accompanying notes to the consolidated financial statements*

## **1. Description of the Company**

Imperial Equities Inc. (“the Company”) was incorporated in Edmonton, Alberta, Canada. The registered and operating office of the Company is 2151, 10060 Jasper Avenue, Edmonton, Alberta T5J 3R8. The Company’s operations consist of the acquisition, development, and redevelopment of 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 financial statements include the Company and its wholly-owned subsidiaries, Imperial Equities Properties Ltd. (“IEPL”), Imperial One Limited, Imperial Two Limited, Imperial Three Limited, Imperial Four Limited, Imperial Five Limited, Imperial Six Limited, Imperial Seven Limited, and Imperial Eight Limited.

## **2. Significant accounting policies**

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

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

The consolidated 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 financial statements are prepared on a going concern basis and are presented in Canadian dollars, which is the Company’s functional currency.

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

### **(b) 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 leasing commissions.

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 for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest), or generating other income from ordinary activities. 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 that meet the definition of a business in the current or comparative period.

#### **(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 any 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**

The Company adopted IFRS 16 – Leases (“IFRS 16”) on October 1, 2019. As a result of adopting IFRS 16, the Company’s accounting policy for leases is described below.

**The Company as a Lessee**

The Company assesses whether a contract is, or contains, a lease at the inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability for all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measure of the lease liability comprise:

- Fixed payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating

interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment, of exercise of an option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or a rate change in expected payment under a guaranteed residual value, in which cases, the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses (for right-of-use assets which are considered property, plant, and equipment). Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Company applied IAS 36 to determine whether a right-of-use asset is impaired.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments and are included in operating expenses in the consolidated statements of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient on its contract for office space which contains both lease and non-lease components.

### **The Company as a Lessor**

The Company enters into lease agreements as a lessor with respect to its investment properties. Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As the Company has retained substantially all of the risks and benefits of ownership of its investment properties, it accounts for leases with its tenants as operating leases. As operating leases, lease payments are recognized as revenue when the tenant has a right to use the leased asset. The leased asset is recognized in the consolidated statement of financial position according to the nature of the underlying asset.

### **(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 operating decision-maker ("CODM") in allocating resources and assessing performance. The CODM is the President and Chief Executive Officer who has determined there are two reportable segments, an agricultural division, and an industrial/retail division. All the Company's operations are solely in Canada and are under one business, commercial real estate. The CODM and the board of directors will evaluate the performance of the segments based on income from operations and have set a predetermined level of resources to be allocated to the growth of the agricultural division.

**(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 other comprehensive income.

Current income taxes including any adjustments to tax payable in respect of previous periods 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**

Contracted rental revenue is recognized and measured in accordance with IFRS 16 *Leases*. Revenue commences when a tenant has a right to occupy the leased asset. Base rents or minimum rents in lease contracts are 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.

Rental revenue includes recoveries of property taxes, insurance, and operating expenses. Operating expense recoveries from tenants are providing a service to the tenant and therefore are non-lease components. IFRS 15 *Revenue from Contracts with Customers* requires revenue recognized from non-lease components to be disclosed separately from other sources of revenue. Operating expense recoveries are recognized over time for services rendered in the period they are earned. 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. Rental revenue also includes accelerated rent adjustments that 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.

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.

When management determines the 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 an 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 enough 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 are recognized when the Company becomes a party to the contractual provisions of the financial instruments. Financial assets are derecognized when the contractual rights to the cash flow from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. For financial assets, the Company applies the general approach to recognize impairment losses which require losses to be recognized from possible defaults in the next twelve months. Short term investments are initially recognized at fair value and subsequently measured at fair value through profit and loss.

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instruments and they are derecognized when they are extinguished, discharged, canceled, or expire.

## Classification and measurement

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL.

The following summarizes the Company's classification and measurement of financial assets and liabilities:

<u>Classification and Measurement</u>	
<b>Financial Assets</b>	
Cash and cash equivalents	Amortized cost
Short term investments	FVTPL
Tenant receivables	Amortized cost
Mortgage and loan receivable	Amortized cost
<b>Financial Liabilities</b>	
Bank operating facilities	Amortized cost
Payables and accruals	Amortized cost
Lease liability	Amortized cost
Other financing	Amortized cost
Mortgages	Amortized cost
Security deposits	Amortized cost

The Company does not have any derivatives embedded in financial or non-financial contracts.

### **(m) Cash and cash equivalents**

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

### **(n) 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 canceled, the transaction value, including costs, reduces capital stock.

### **(o) 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) COVID-19**

The COVID-19 coronavirus has had a substantial impact on the economy in 2020. The uncertainty surrounding the pandemic has required significant judgement when measuring the investment properties at fair value, which requires assumptions about the market conditions. The long-term impact is unknown and the Company has used judgement when assessing the collectability of outstanding tenant receivable balances.

#### **(ii) 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 concerning the point in time at which revenue recognition under the lease commences.

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

**(iii) 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 judgment 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 the acquisition, the Company considers whether the acquisition represents the acquisition of a business or a group of assets and liabilities. All acquisitions of investment properties acquired to date by the Company have been determined to be asset acquisitions.

**(iv) Classification of tenant incentives**

Payments are sometimes made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, Operating leases – incentives.

**(v) 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.

**(p) 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 include capitalization rates and normalized net operating income (which is influenced by the inflation rate, vacancy rates, and standard costs) by individual properties, 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 judgment 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 concerning 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.

**Future accounting standards**

IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in January 2020. The amendments provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. The amendments specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months; provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and clarify when a liability is considered settled. On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1 2023, and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.



### 3. Investment properties

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at September 30, 2020</b>	\$ 214,542,476	\$ -	\$ 12,401,992	\$ 226,944,468
<i>Additions:</i>				
Property improvements and additions	294,202	-	-	294,202
Leasing commissions	176,925	-	-	176,925
Property acquisitions	-	-	-	-
Amortization of tenant inducements	(6,878)	-	-	(6,878)
Change in straight-line rental revenue	105,716	-	-	105,716
Sale of investment property	-	-	-	-
Revaluation losses, net	(152,272)	-	39	(152,233)
Amortization of deferred leasing commissions	(66,838)	-	-	(66,838)
<b>Ending balance at December 31, 2020</b>	<b>\$ 214,893,331</b>	<b>\$ -</b>	<b>\$ 12,402,031</b>	<b>\$ 227,295,362</b>

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at September 30, 2019</b>	\$ 205,702,397	\$ -	\$ 12,766,493	\$ 218,468,890
<i>Additions:</i>				
Property improvements and additions	378,108	-	-	378,108
Capitalized property taxes and other	-	-	144,603	144,603
Leasing commissions	258,806	-	-	258,806
Property acquisitions	19,417,469	-	-	19,417,469
Amortization of tenant inducements	(27,513)	-	-	(27,513)
Change in straight-line rental revenue	485,069	-	-	485,069
Sale of investment property	(8,885,177)	-	-	(8,885,177)
Revaluation losses, net	(2,421,433)	-	(509,104)	(2,930,537)
Amortization of deferred leasing commissions	(365,250)	-	-	(365,250)
<b>Ending balance at September 30, 2020</b>	<b>\$ 214,542,476</b>	<b>\$ -</b>	<b>\$ 12,401,992</b>	<b>\$ 226,944,468</b>

#### Valuation methodology and processes

The fair value of investment properties at each reporting period is determined internally by management using assumptions and market information obtained from industry professionals and qualified external appraisers. Management uses inputs from external appraisers as additional sources of information when recording property-specific attributes. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, the investment properties are typically classified as Level 3 assets. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Management's primary internal valuation model is based on a capitalization of the forecasted normalized net operating income approach. The Company determines the forecasted normalized net operating income using a one-year income forecast for each property based on current in-place rents and assumptions about occupancy, structural and vacancy reserves, less cash outflows expected to operate and manage each property within the portfolio. Capitalization rates used to estimate fair market value consider many factors including but not limited to; the location of the property, the size of the land parcel, site coverage, the quality and strength of tenants, whether lease rates are over or under current market rates, demand for the type and use of the property, the age of the building,

any special use characteristics of the building or area, whether it is single-tenant or multi-tenanted and vacancy rates in the area. Market information related to the external sale of similar buildings within a similar geographic location is also taken into consideration.

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

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

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

	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Range of capitalization rates applied to investment properties	4.50% - 8.50%	4.50% - 8.50%
Fair values of properties where cap rates were applied	\$ 210,982,622	\$ 210,631,766
Weighted average cap rates	6.36%	6.36%
Fair value impact of increasing average cap rate by 0.25%	\$ (7,982,729)	\$ (7,960,123)
Fair value impact of a 1% decrease in net operating income	\$ (2,109,826)	\$ (2,093,904)
<b>Land held for development</b>		
Average price per acre of land	\$ 157,250	\$ 157,274
Number of acres	64.55	64.55
Total fair values	\$ 10,152,036	\$ 10,152,036
Impact of a 10% change in average price per acre	\$ 1,015,204	\$ 1,015,204
<b>Land under lease agreements with tenants</b>		
Number of acres leased	7.90	7.90
Average price per acre	\$ 779,837	\$ 779,837
Total fair values of leased land	\$ 6,160,710	\$ 6,160,710
Impact of a 10% change in average price per acre	\$ 616,071	\$ 616,071

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

	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Straight line rent receivable	\$ 2,491,601	\$ 2,385,884
Tenant inducements	269,352	105,467
Leasing commissions	1,558,024	1,447,956
	<u>\$ 4,318,977</u>	<u>\$ 3,939,307</u>

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

During Q4 2020, the Company disposed of an investment property for total sale proceeds of \$9,350,000 creating a gain on the sale of \$171,200. The Company entered into a vendor take back ("VTB") mortgage for \$8,000,000. The VTB bears interest at an annual rate of 2.5% with monthly interest payments due to the maturity date of July 21, 2021. The VTB can be prepaid in whole or in part without penalty. The purchaser has an option to extend the mortgage for a further year. The VTB is carried at amortized cost.

#### 4. Right-of-use asset

The following table presents the change in the balance of the Company's right-of-use asset which is its office lease:

	December 31, 2020	September 30, 2020
Opening balance	\$ 812,719	\$ -
Adoption of IFRS 16	-	962,760
Amortization expense	(37,510)	(150,041)
<b>Balance, end of period</b>	<b>\$ 775,210</b>	<b>\$ 812,719</b>

#### 5. Receivables

	December 31, 2020	September 30, 2020
Receivables	\$ 15,833	\$ 248,208
Accrued interest	16,667	16,667
<b>Receivables net, end of period</b>	<b>\$ 32,500</b>	<b>\$ 264,875</b>

#### 6. Prepaid expenses and deposits

	December 31, 2020	September 30, 2020
Prepaid operating expenses	\$ 86,763	\$ 707,215
Deposits in trust	-	9,360
Security deposits with municipalities	14,500	41,519
<b>Total prepaid expenses and deposits</b>	<b>\$ 101,263</b>	<b>\$ 758,094</b>

Prepaid operating expenses are insurance and property taxes.

## 7. Mortgages

<b>Maturity</b>	<b>Rate</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
January 1, 2021	3.060%	\$ 1,366,818	\$ 1,409,892
January 1, 2021	2.980%	3,155,843	3,222,750
January 1, 2021	2.980%	4,883,100	4,986,626
April 1, 2021	2.880%	5,064,452	5,169,392
April 1, 2021	2.948%	2,780,627	2,832,165
October 1, 2021	2.470%	5,326,866	5,480,578
October 1, 2021	2.470%	6,746,837	6,882,331
February 1, 2022	3.040%	5,303,989	5,403,477
June 1, 2022	2.730%	1,957,787	2,008,815
December 1, 2022	3.670%	3,448,532	3,505,577
December 1, 2022	3.671%	3,133,157	3,184,981
February 1, 2023	3.750%	1,893,888	1,924,526
October 1, 2023	3.950%	361,986	392,042
October 1, 2023	4.090%	5,608,647	5,691,548
November 1, 2023	4.330%	3,854,671	3,910,232
December 1, 2023	4.648%	4,605,243	4,669,603
January 1, 2024	4.300%	2,189,994	2,233,245
January 1, 2024	4.300%	1,738,090	1,772,416
August 1, 2024	3.300%	9,482,214	9,619,196
November 1, 2024	3.555%	8,393,515	8,509,822
February 1, 2025	3.420%	4,786,259	4,851,774
April 1, 2025	2.310%	5,102,139	5,177,069
August 1, 2025	2.837%	3,928,236	3,982,122
<i>Total mortgages</i>		\$ 95,112,892	\$ 96,820,179
<i>Less: current portion of principal payments</i>		(33,609,925)	(23,036,386)
<i>Less: balance of unamortized finance fees</i>		(219,280)	(236,556)
		<b>\$ 61,283,686</b>	<b>\$ 73,547,237</b>
Weighted average rate		<b>3.29%</b>	<b>3.29%</b>

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.

## 8. Bank operating facilities

	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Bank operating facilities	<b>\$ 26,302,476</b>	<b>\$ 26,275,887</b>

The Company has two credit facilities set out as follows:

- 1) One operating line of credit (LOC) with a limit of \$13,417,500 (September 30, 2020 - a limit of \$13,467,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at December 31, 2020, of \$13,350,694 (September 30, 2019 - \$13,309,907). The credit facility bears interest at prime plus 1% per annum (September 30, 2020 – prime plus 1% per annum) and is secured by specific revenue-producing properties with combined fair values of \$36,939,597 (September 30, 2020, specific revenue-producing properties with

combined fair values of \$36,939,597). The Company pays a standby fee of .25% per annum (September 30, 2020 - .25% per annum) payable monthly on the undrawn 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, 2020), or b) the level at which a Loan to Value Ratio of 70% can be maintained for the secured properties, over which the Lender has a 1<sup>st</sup> mortgage and 60% for the secured properties over which the Lender holds a 2<sup>nd</sup> mortgage, less the prior debt on the properties (unchanged from September 30, 2020). For these secured properties, the loan to value is set at 70%, unchanged from the prior period.

Debt Service Coverage Ratio ("DSCR") is the net operating income, divided by the debt service.

- *Debt service* = annual principal and interest payments based on a 25-year amortization and an interest rate that is the greater of 4.5% (unchanged from September 30, 2020) 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 ("LTV") is the total debt on the secured properties divided by the current market value of the secured properties.

<b>Loan Covenant Requirements:</b>	<b>Min. 90% Occupancy</b>	<b>DSCR 1.25</b>	<b>LTV 70%</b>
December 31, 2020	Yes	2.79	73%
September 30, 2020	Yes	2.75	73%
June 30, 2020	Yes	2.89	68%
March 31, 2020	Yes	2.89	68%
December 31, 2019	Yes	2.89	69%

During the quarter, the lender amended the credit agreement to allow an increase in the LTV to 74.5% with a provision that it is to be lowered to 70% within 18 months. The increase in LTV is as a result of the sale of a property from the secured property during Q4 of 2020.

- 2) A second operating LOC with a limit of \$13,000,000 (September 30, 2020 – a limit of \$13,000,000).

This credit facility bears interest at prime plus .95% per annum (unchanged from September 30, 2020) and is secured by specific revenue-producing properties with combined fair values at December 31, 2020, of \$70,909,163 (September 30, 2019 - \$70,548,383).

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at December 31, 2020 is \$12,951,782 (September 30, 2019 - \$12,965,980).

## 9. Lease liability

The following table presents the change in the balance of the Company's lease liability:

	December 31, 2020	September 30, 2020
Opening balance	\$ 861,322	\$ -
Adoption of IFRS 16 (Note 2)	-	962,760
Lease payments	(46,005)	(149,095)
Interest	10,659	47,657
<b>Balance, end of year</b>	<b>\$ 825,976</b>	<b>\$ 861,322</b>
Current portion	\$ 139,755	\$ 139,040
Non-current portion	686,221	722,282
	<b>\$ 825,976</b>	<b>\$ 861,322</b>

**Incremental borrowing rate** **4.95%**

Estimated future principal payments required to meet the lease liability as at December 31, 2020, are as follows:

12 months ending December 31, 2021	\$ 139,755
12 months ending December 31, 2022	146,032
12 months ending December 31, 2023	153,261
12 months ending December 31, 2024	160,847
12 months ending December 31, 2025	166,746
Thereafter	59,335
<b>Total</b>	<b>\$ 825,976</b>

## 10. Payables and accruals

	December 31, 2020	September 30, 2020
Trade payables	\$ 119,372	\$ 301,366
Accrued loan interest	430,932	357,691
Current portion of tenant security deposits	58,294	91,350
Accrued liabilities	68,432	316,693
Prepaid rents	227,320	268,126
<b>Total payables and accruals</b>	<b>\$ 904,350</b>	<b>\$ 1,335,226</b>

Trade payables include commissions payable on leasing fees. Prepaid rents from tenants largely relate to rent due on the first of the following month, and the balance represents rents paid in advance which are recognized in revenue over the applicable months. Accrued liabilities include management compensation payable of \$73,500 (September 30, 2020 – \$100,000) and the balance relates to remittances due. 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, 2020	December 31, 2019
Interest on mortgages	\$ 782,197	\$ 736,038
Interest on bank operating facilities	226,253	314,645
Interest on other unsecured financing	77,800	543
Interest on lease obligations	10,659	11,914
Amortization of deferred finance fees	21,125	21,330
Interest income	(50,005)	(9,361)
	<b>\$ 1,068,029</b>	<b>\$ 1,075,109</b>

**12. Income taxes****a) Provision for income taxes**

Components of income tax expense (recovery)

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Current tax expense	\$ 148,863	\$ 97,783
Deferred tax expense (recovery)	44,837	(67,978)
	<b>\$ 193,700</b>	<b>\$ 29,805</b>

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:

	<b>2020</b>	<b>2019</b>
Income before income taxes	\$ 1,575,553	\$ 1,563,545
Expected income tax expense at 23% (2019 – 25.75%)	\$ 362,377	\$ 402,612
<i>Increase (decrease) resulting from:</i>		
Non-taxable items	42	4,484
Tax rate differentials and tax rate changes	(168,719)	(377,291)
	<b>\$ 193,700</b>	<b>\$ 29,805</b>

**b) Deferred taxes**

Deferred tax assets are attributable to the following:

	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Financing fees	\$ 7,238	\$ -
Lease liability	189,974	198,104
Capital losses	-	4,774
Donations	-	43,484
Deferred tax assets	197,212	246,362
Offset of tax	(197,212)	(246,362)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax liabilities are attributable to the following:

	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Straight-line rent receivable	\$ 573,068	\$ 548,753
Investment properties	12,066,781	11,830,656
Finance fees	-	7,029
Deferred leasing	358,344	333,030
Right-of-use asset	178,298	186,926
Capital gain reserve	411,631	686,051
Deferred tax liabilities	13,588,122	13,592,445
Offset of tax	(197,212)	(246,362)
<b>Net tax liabilities</b>	<b>\$ 13,390,910</b>	<b>\$ 13,346,083</b>

\$30,273,649 (September 30, 2020 - \$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**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b><u>Net change in operating working capital</u></b>		
Decrease in receivables	\$ 232,373	\$ 223,583
Decrease in loans receivable	-	306,658
Increase in prepaid expenses and deposits	647,488	597,428
(Decrease) increase in payables and accruals	(437,131)	8,030
(Decrease) increase in income taxes payable	230,559	(807,680)
Increase in security deposits	89,564	33,810
	<b>\$ 762,853</b>	<b>\$ 331,829</b>
<b><u>Net change in investing working capital</u></b>		
Decrease in deposits in trust for property acquisitions	\$ 9,360	\$ -
(Increase) decrease in payables and accruals	(67,010)	172,654
	<b>\$ (57,650)</b>	<b>\$ 172,654</b>
<b><u>Net change in financing working capital</u></b>		
Increase in accrued interest payable	<b>\$ 73,241</b>	<b>\$ (38,084)</b>
Interest paid	\$ 423,345	\$ 1,065,056
Income taxes paid	\$ -	\$ 905,468



## 14 Segmented Information

IFRS 8, Operating Segments requires reportable segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources to segments. The CODM has determined there are two reportable segments in the current period, based on the different economic environments they operate in. The following summary presents segmented financial information by industry divisions.

December 31,	Agricultural Division		Industrial Division		Corporate		CONSOLIDATED	
	2020	2019	2020	2019	2020	2019	2020	2019
Rental revenue, contractual amount	\$ 198,706	\$ 193,783	\$ 3,073,338	\$ 2,938,892	\$ -	\$ -	\$ 3,272,044	\$ 3,132,675
Property tax and insurance recoveries	20,224	21,277	618,814	604,635	-	-	639,038	625,912
Operating expense recoveries	4,067	1,620	263,645	197,530	-	-	267,712	199,150
Government Subsidy	-	-	-	-	396	-	396	-
Accelerated rent adjustment	-	-	-	-	-	-	-	-
Amortization of tenant inducements	-	-	(6,878)	(6,878)	-	-	(6,878)	(6,878)
Straight-line rental revenue	11,739	16,663	93,976	30,973	-	-	105,716	47,636
<b>Rental revenue</b>	<b>234,736</b>	<b>233,343</b>	<b>4,042,895</b>	<b>3,765,152</b>	<b>396</b>	<b>-</b>	<b>4,278,027</b>	<b>3,998,495</b>
<b>Property operating expenses</b>								
Property taxes and insurance	(21,732)	(21,277)	(680,878)	(629,846)	-	-	(702,610)	(651,123)
Operating expenses								
Repairs and maintenance	-	(413)	(161,622)	(167,221)	-	-	(161,622)	(167,634)
Management fees	(8,846)	(8,772)	(158,776)	(153,425)	-	-	(167,622)	(162,197)
Utilities	-	-	(59,053)	(21,005)	-	-	(59,053)	(21,005)
<i>subtotals</i>	<b>(30,578)</b>	<b>(30,462)</b>	<b>(1,060,329)</b>	<b>(971,497)</b>	<b>-</b>	<b>-</b>	<b>(1,090,907)</b>	<b>(1,001,959)</b>
<b>Income from operations</b>	<b>204,158</b>	<b>202,881</b>	<b>2,982,566</b>	<b>2,793,655</b>	<b>396</b>	<b>-</b>	<b>3,187,120</b>	<b>2,996,536</b>
Finance costs								
Interest on mortgages	(53,496)	(56,387)	(728,700)	(679,652)	-	-	(782,196)	(736,039)
Interest on bank operating facilities	-	-	-	-	(304,054)	(314,644)	(304,054)	(314,644)
Interest on other unsecured financing	-	-	-	-	-	(543)	-	(543)
Interest on lease obligations	-	-	-	-	(10,659)	(11,914)	(10,659)	(11,914)
Amortization of deferred finance fees	(1,810)	(1,508)	(19,315)	(19,822)	-	-	(21,125)	(21,330)
Capitalized interest	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	50,005	9,361	50,005	9,361
<i>subtotals</i>	<b>(55,306)</b>	<b>(57,895)</b>	<b>(748,015)</b>	<b>(699,474)</b>	<b>(264,708)</b>	<b>(317,740)</b>	<b>(1,068,029)</b>	<b>(1,075,109)</b>
Administration expenses	-	-	-	-	(286,958)	(305,222)	(286,958)	(305,222)
Amortization of deferred leasing	(4,555)	(3,210)	(62,283)	(84,010)	-	-	(66,838)	(87,220)
Amortization of right-of-use asset	-	-	-	-	(37,510)	(37,510)	(37,510)	(37,510)
Unrealized gains (losses) on short term investments	-	-	-	-	-	(17,494)	-	(17,494)
Gain (loss) on the sale of investment property	-	-	-	-	-	-	-	-
Valuation net gains (losses) from investment property	(23,521)	80,737	(128,712)	8,826	-	-	(152,233)	89,563
<b>Income (loss) before income tax</b>	<b>120,776</b>	<b>222,513</b>	<b>2,043,556</b>	<b>2,018,997</b>	<b>(588,780)</b>	<b>(677,966)</b>	<b>1,575,552</b>	<b>1,563,545</b>
Income tax (expense) recovery	(27,778)	(57,297)	(470,018)	(519,892)	304,096	547,384	(193,700)	(29,805)
<b>Net income (loss) and total comprehensive income (loss) for the year</b>	<b>\$ 92,997</b>	<b>\$ 165,216</b>	<b>\$ 1,573,537</b>	<b>\$ 1,499,105</b>	<b>\$ (284,683)</b>	<b>\$ (130,582)</b>	<b>\$ 1,381,852</b>	<b>\$ 1,533,740</b>
<b>Investment properties</b>	<b>\$ 10,578,498</b>	<b>\$ 10,494,015</b>	<b>\$ 216,716,864</b>	<b>\$ 214,901,266</b>			<b>\$ 227,295,362</b>	<b>\$ 225,395,281</b>
<b>Mortgages</b>	<b>\$ 4,605,243</b>	<b>\$ 4,858,304</b>	<b>\$ 90,507,649</b>	<b>\$ 82,416,507</b>			<b>\$ 95,112,892</b>	<b>\$ 87,274,811</b>
<b>Additions to investment properties</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 294,202</b>	<b>\$ 33,546</b>			<b>\$ 294,202</b>	<b>\$ 33,546</b>

**15. Share capital**

a) The Company has unlimited authorized common share capital.

	<b>December 31, 2020</b>	<b>September 30, 2020</b>
<b>Number of shares issued</b>		
Balance beginning of year	9,460,442	9,496,442
Shares cancelled	(9,200)	(36,000)
<b>Ending number of shares</b>	<b>9,451,242</b>	<b>9,460,442</b>
<b>Capital stock</b>		
Balance beginning of year	\$ 5,925,098	\$ 5,962,095
Shares held in treasury	28,044	(28,044)
Shares cancelled during the period	(5,796)	(8,953)
<b>Ending capital stock</b>	<b>\$ 5,947,346</b>	<b>\$ 5,925,098</b>

The Company received approval from the TSX Venture Exchange to purchase up to 479,182 common shares representing 5% of the outstanding shares under a normal course issuer bid ("NCIB") that expired September 2, 2020. During the prior period, the Company repurchased 41,900 shares for \$160,982. A total of 36,000 shares were canceled during the period with the excess purchase price over the cost of the shares of \$123,985, being charged to retained earnings. There remained 9,200 which were canceled in the current period.

**16. Earnings per share**

The following are the weighted average number of shares outstanding:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Net income and comprehensive income	\$ 1,381,852	\$ 1,533,740
Weighted average shares outstanding – basic and diluted	9,451,242	9,492,998
<b>Earnings per share – basic and diluted</b>	<b>\$ .15</b>	<b>\$ .16</b>

**17. Rental revenue**

The Company leases its commercial properties under operating leases with terms between 1 and 17 years. Some leases have options to extend for further five-year terms and a few leases are month to month.

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
No later than one year	\$ 13,638,391	\$ 12,851,744
2 – 5 years	38,009,994	36,354,022
Over 5 years	25,001,599	25,714,924
	<b>\$ 76,649,984</b>	<b>\$ 74,920,690</b>

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

## 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 21.

## 19. Capital risk management

The Company defines capital that it manages as the aggregate of its equity and interest-bearing debt. The Company's objectives when managing capital are to ensure that the Company will continue as a going concern so that it can sustain daily operations and provide adequate returns to its shareholders. The Company is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced, or may not be refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Company mitigates these risks by its continued efforts to stagger the maturity profile of its long-term debt, enhance the value of its real estate properties, and maintain high occupancy levels. The Company manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

	December 31, 2020	September 30, 2020
Mortgages	\$ 95,112,892	\$ 96,820,179
Lease liability	825,976	861,322
Bank operating facilities	26,302,476	26,275,887
Other financing	5,050,000	5,050,000
Total debt financing	127,391,344	129,007,388
Equity	93,643,589	92,261,736
<b>Total capital</b>	<b>\$ 221,934,933</b>	<b>\$ 221,269,124</b>

## 20. Financial instruments

	December 31, 2020	September 30, 2020
<b>Financial assets</b>		
Cash and cash equivalents	\$ 316,600	\$ 123,619
Receivables, net of provisions	32,500	264,875
Mortgage receivable	8,000,000	8,000,000
	<b>\$ 8,349,100</b>	<b>\$ 8,388,494</b>
<b>Financial liabilities</b>		
Bank operating facilities	\$ 26,302,476	\$ 26,275,887
Payables and accruals	904,350	1,335,226
Other financing	5,050,000	5,050,000
Lease liability	825,976	861,322
Security deposits	785,362	728,855
Mortgages	95,112,892	96,820,179
	<b>\$ 128,981,056</b>	<b>\$ 131,071,469</b>

The carrying value of cash and cash equivalents, receivables, 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 in the prior year 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, 2020 is \$96,256,764 (September 30, 2019 - \$98,065,439). These estimates are subjective as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible. The interest rate used for this calculation is 2.837% (September 30, 2020 – 2.837%).

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

#### **Credit risk**

The Company is exposed to credit risk equivalent to the balance of its tenant receivables of \$32,500 at December 31, 2020 (September 30, 2019 - \$264,875), and cash and cash equivalents of \$316,600 (September 30, 2020 - \$123,619). Credit risk on tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss with a policy of credit assessment for all new lessees and by limiting its exposure to any one tenant. For tenant accounts receivable, the Company applies the general approach to recognize expected credit losses ("ECL") in the next twelve months. Management uses historical credit losses adjusted for current and forward-looking information which may affect the ability of the customers to settle receivables. Historically the Company has very little credit losses as most tenants have been able to meet their financial obligations. There was no loss provision for the three month period ended December 31, 2020 (September 30, 2020 – Nil).

Accounts receivable are written off when there is no reasonable expectation of recovery. During the prior period, an amount of \$39,330 was written off for one tenant who leased space in an investment property that was sold during the period.

During the prior period the Company entered into a mortgage receivable for an investment property sold during the year. The term date of the mortgage is July 21, 2021. The Company expects to receive payment in full on the maturity date. No provision has been made for this mortgage.

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

#### **Interest rate risk**

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at December 31, 2020 is \$26,302,476 (September 30, 2020 - \$26,275,887). Under the assumption any balance of the debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$263,025 (September 30, 2020 - \$262,276). The Company minimizes its exposure to interest rate risk to the extent that all mortgages except one 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 enough available funds to meet current and foreseeable future financial requirements at a reasonable cost. Management manages its liquidity risk

with the use of the lines of credit available to the Company as well as short term financing from related parties and private parties. Management estimates that cash flows from operating activities will provide enough cash requirements to cover normal operating and budgeted expenditures.

At December 31, 2020, the Company exceeded the loan to value ratio on one of the bank operating facilities as an investment property that was sold during the prior period increased the ratio beyond the limit. The lender approved the increased ratio as of December 31, 2020. The Company anticipates it will require related party financing to meet its current future obligations until mortgages that are up for renewal can possibly provide further funds through the use of equity in the related properties.

#### Contractual obligations at December 31, 2020

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 36,185,467	\$ 35,952,177	\$ 29,775,866	\$ -	\$ 101,913,510
Payables and accruals	904,350	-	-	-	904,350
Lease liability	180,670	360,000	360,000	30,000	930,670
Security deposits	58,294	149,089	25,445	552,534	785,362
	<u>37,328,781</u>	<u>36,461,266</u>	<u>30,161,311</u>	<u>582,534</u>	<u>104,533,892</u>
Other financing	5,050,000	-	-	-	5,050,000
Operating facilities	26,302,476	-	-	-	26,302,476
	<u>\$ 68,681,257</u>	<u>\$ 36,461,266</u>	<u>\$ 30,161,311</u>	<u>\$ 582,534</u>	<u>\$ 135,886,368</u>

#### Contractual obligations at September 30, 2020

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 25,830,070	\$ 36,200,538	\$ 42,376,947	\$ -	\$ 104,407,555
Payables and accruals	1,335,226	-	-	-	1,335,226
Lease liability	181,675	360,000	360,000	75,000	976,675
Security deposits	91,350	176,563	-	460,942	728,855
	<u>27,438,321</u>	<u>36,737,101</u>	<u>42,736,947</u>	<u>535,942</u>	<u>107,448,311</u>
Other financing	5,050,000	-	-	-	5,050,000
Operating facilities	26,275,887	-	-	-	26,275,887
	<u>\$ 58,964,208</u>	<u>\$ 36,737,101</u>	<u>\$ 42,736,947</u>	<u>\$ 535,942</u>	<u>\$ 138,774,198</u>

#### COVID-19 risk

The impact of COVID-19 on companies continues to evolve rapidly and its future effects are uncertain, making it difficult to assess or predict the broad effects on industries and individual tenants. The actual impact will depend on many factors beyond the Company's control and knowledge. Management is responding to evolving events and planning for the uncertainties surrounding the effects of COVID-19 on the Company.

#### COVID-19 - impact on the financial condition and results of operations

The impact of COVID-19 on the consolidated financial statements included a write-down on some of the Company's properties where there is now more uncertainty surrounding leasing vacant space and more uncertainty whether leases up for renewal in the next twelve months will be renewed. The write-downs affected the earnings per share on the consolidated statements of income. The cash flows from operations were negatively affected during the year by the rent deferrals provided to some tenants due to COVID-19.

In light of changing trends and the overall economic outlook, COVID-19 will impact the near future operating cash flows, the availability of cash through the current credit facilities, and potentially, the availability of related party

financing to assist with short-term needs. In 2020, some of the Company's tenants requested some relief from rent obligations which was dealt with on a case by case basis. Fortunately, the Company has little exposure to retail tenants who have had to suspend operations during this pandemic.

The Company's long-term financial impact will be determined if some tenants are not able to survive the crisis and subsequently vacate the property.

Much of the rent relief offered is in the form of deferrals. Over the next few quarters, revenue from tenants that is deferred until 2021 and beyond will continue to impact the cashflows and affect the Company's liquidity.

#### **COVID-19 - impact on capital and financial resources**

The Company's access to capital and funding sources, such as revolving credit facilities, new mortgages, and related party financing has not changed during the year. The Company has begun the process of renewing three mortgages that are expiring in the next six months intending to leverage any available equity. The Company has relied on related-party financing to assist with operations in the short term.

At this reporting date, the Company has no known uncertainties as it relates to the ability to service the current debt and other financial obligations. The operating cashflows for the year were materially impacted by the deferred revenue from tenant leases, however, the Company anticipates that it has access to the required short-term financing to bridge the gap until cashflows return to normal over the next year.

#### **21. 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	\$85/hour for labour plus charges for truck, equipment, and parts
Project fees	large scale improvements to tenant space are negotiated at the time services are requested

##### ***Payments to North American Realty Corp.:***

Leasing	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 3% of the value of lease renewals to a maximum of five years
Acquisitions	1% of the purchase price of the property
Dispositions	3% of the sale price of investment property

<b><i>Payments for the years ending December 31,</i></b>	<b>2020</b>	<b>2019</b>
Property management and maintenance fees	\$ 312,924	\$ 242,430
Acquisition fees	-	66,700
Leasing fees	176,925	112,883
<b>Total payments</b>	<b>\$ 489,849</b>	<b>\$ 422,013</b>

<b>Amounts payable at December 31,</b>	<b>\$ -</b>	<b>\$ 3,245</b>
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b) *Other related party transactions*

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

	<b>2020</b>	<b>2019</b>
Leased office space and parking	\$ 46,005	\$ 25,050
Consulting fees	27,229	60,000
Rent at Sable Centre	(22,104)	(22,104)
<b>Net payments for the year</b>	<b>\$ 51,130</b>	<b>\$ 62,946</b>

ii) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the three month period were \$10,000 (December 31, 2019 – \$12,500).

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

<b>Period ending December 31,</b>	<b>2020</b>	<b>2019</b>
Sine Chadi	\$ 75,000	\$ 75,000
Patricia Misutka	45,000	15,000
Azza Osman	31,250	-
	<b>\$ 151,250</b>	<b>\$ 90,000</b>

vi) Other financing, unsecured

<b>Related Parties</b>	<b>Balance 1-Oct-20</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 31-Dec-20</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Sine Chadi, Shareholder <sup>1</sup>	\$ 1,550,000	-	-	1,550,000
Diane Buchanan, Shareholder <sup>1</sup>	\$ 1,500,000	-	-	1,500,000
<b>Total</b>	<b>\$ 5,050,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,050,000</b>

<b>Related Parties</b>	<b>Balance 1-Oct-19</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 30-Sep-20</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ -	\$ 6,100,000	\$ (4,100,000)	\$ 2,000,000
Sine Chadi, Shareholder <sup>1</sup>	-	1,550,000	-	1,550,000
NAMC <sup>2</sup>	-	200,000	(200,000)	-
Diane Buchanan, Shareholder <sup>1</sup>	-	1,500,000	-	1,500,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 9,350,000</b>	<b>\$ (4,300,000)</b>	<b>\$ 5,050,000</b>

1. Loans received from shareholders bear interest at an annual rate of 6%. No interest was paid during the period. In the prior period, total interest paid was \$105,703.
2. North American Mortgage Corp. (“NAMC”) is controlled by Mr. Sine Chadi, President of the Company. Total interest paid in the prior period at an annual rate of 6% was \$2,268.

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

## **22. Authorization of the consolidated financial statements**

The consolidated financial statements for the three-month period ending December 31, 2020 (including comparatives) were authorized for issue by the Board of Directors on February 17, 2021.

*Signed “Sine Chadi”, Director*

*Signed “Kevin Lynch”, Director*





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