IMPERIAL EQUITIES INC.

# 3rd Quarter Report 2024

## Three and Nine Months Ending June 30, 2024

IMPERIAL EQUITIES INC.

# Table of Contents

# President's Report

*for the third quarter ending June 30, 2024*

# President's Report

*Third Quarter*

*June 30, 2024*

*One of the things that has always best spoken to the strength of our Company is the consistent performance of the assets we hold. Maintaining full occupancy across all properties on a consistent basis means that we earn steady returns on what we own and can better plan for needed or desired investments over time.*

While we are not immune to tenant changeovers for a variety of reasons, we have worked hard to earn and keep strong tenant relationships. We benefit from our asset management record, as having well maintained properties in desirable locations led to a solid reputation as a landlord of choice for our tenants, something we hear time and again. In turn, we can achieve and maintain high occupancy rates and market competitive lease terms.

During this fiscal year, we faced two significant single tenant building vacancies. One of the buildings located in southeast Edmonton became vacant in Q3 2023. It was actively marketed and ultimately sold when the interested party indicated it would prefer an ownership position as opposed to leasing. Given the significant office component to the building, we knew it needed to attract a specific kind of tenant and we had decided to be open to what the market indicated. An offer to purchase was accepted and the transaction closed in Q3 2024, bringing our occupancy rate up to 95.2% this Quarter.

A second single-tenant building in Red Deer, Alberta became vacant within Q2-2024 as a result of a change of corporate ownership and subsequent consolidation. I am pleased that our marketing efforts here have paid off rather quickly. A new lease with a five-year term was secured subsequent to the end of this Q3. During the relatively short period of time while the building was vacant, management completed some upgrades to the property which appealed to the new incoming tenant. The lease of this property brings our vacancy down to our historical levels of less than one per cent of our leasable space. The lease rate is market competitive, though it is lower than the previous ten-year lease which was secured when the building was first constructed. As a result of these two transactions, we are as close to 100 per cent occupancy as our Company can get and it's another indicator that we are maximizing the value of our portfolio.

The sale of the building in southeast Edmonton was one of three property dispositions in Q3 2024, and the only revenue producing property to be sold. The other sales involved two raw land properties, one in southeast Edmonton and the other in northwest Edmonton. Total proceeds on the sales (net of transaction costs) were $19,910,054 with total cash proceeds being used to pay down debt and for operating funds. The purchaser of the southeast Edmonton building also assumed an existing $9,483,147 first mortgage. The Company agreed to a vendor take back mortgage on one of the raw land parcels in the amount of $5,866,664 as of the Closing Date on the transaction. As a result of these sales, the Company's total number of investment properties was reduced to 37 this quarter (from 40 at the end of Q1 2024), and its total leasable square feet reduced by 58,393 square feet.

Throughout this fiscal year, the Company has had some minor expenditures for building improvements, but no significant levels of investment have been required. We have begun to earmark funds for a next phase of ESG upgrades, specifically to improve the overall emissions profiles of our properties. An initial investment outlay of $1 million is anticipated in 2024 - 2025 for roof replacements and to increase overall insulation factors to a minimum of R40 across the portfolio. We are also investigating the suitability of several existing properties for installation of solar arrays.

These green retrofits will advance our overall ESG goals and improve the overall energy efficiency of our properties. They further move us forward in anticipation of further guidance from Canadian Securities Administrators and the Canadian Sustainability Standards Board on new sustainability disclosure requirements. Growing our own expertise in green building practices will help our tenants in assessing and reducing their own Scope 2 emissions. In conjunction with these investments, any new construction we may contemplate will factor in these higher and deeper green standards from initial construction.

Overall performance this quarter still reflected a loss per share overall, a reflection of overall decreases in some minimum rents and periods of vacancy in two properties where the Company had to absorb full operating costs. The other major impact to operating costs has been in increased property taxes which are paid in Q3 but will not be fully recovered from tenants until reconciliations are completed at year-end. Overall, we remain a lean organization in terms of operating costs and despite cost impacts, we continue to pay out our quarterly dividends without interruption, reflecting our ongoing commitment to our shareholders.

Subsequent to the end of Q3, we did see some positive indications of lower interest rates, with the Bank of Canada (BOC) reducing its policy rate to 4.5 per cent in July 2024. While overall economic growth is still forecast, overall inflationary factors have cooled enough for the BOC to apply a reduction for the first time in several quarters. This better positions our Company's overall financing picture in terms of refinancing and new growth and in terms of our overall cost structure which has been significantly impacted by higher rates.

The indication of additional economic slack and reduction in financing costs, in addition to our occupancy rates, has us focusing more of our attention on potential expansions and investment opportunities. We continue to evaluate a number of potential deals, especially in the NW Alberta and BC market areas which continue to show great promise.

As always, I thank you for your interest in our Company. Please don't hesitate to reach out to me anytime with your feedback.

Sincerely,

**Sine Chadi**
***President & CEO***

# MD & A

## Management's Discussion & Analysis

*for the third quarter ending June 30, 2024*

# Imperial Equities Inc. MD&A as at August 14, 2024

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. ("Imperial" or "Imperial Equities" or the "Company") and its subsidiaries. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 2024, and the related notes, as well as the audited consolidated financial statements and MD&A for the years ended September 30, 2023, and 2022.

Unless otherwise noted, all amounts in this MD&A are reported in Canadian dollars, which is the Company's presentation and functional currency. The information contained in this MD&A, including forward-looking statements, is based on information available to management as at August 14, 2024, except as otherwise noted.

Throughout the MD&A, Management will use measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar calculations presented by other issuers. These measures include operating expense recoveries, funds available for property improvements and growth, debt, debt to asset ratios, and unencumbered properties. A description of these measures and their limitations are discussed under "Non-IFRS financial Measures".

Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol "IEI". Additional information on the Company may be obtained by visiting www.sedarplus.ca. The Company's Board of Directors, at the recommendation of the Audit Committee have reviewed and approved this interim MD&A and the accompanying unaudited interim condensed consolidated financial statements.

# Forward-Looking Information

Some of the information that the Company provides in this document is forward-looking and therefore could change over time to reflect changes in the environment in which the Company operates and competes. This forward-looking information reflects the Company's intentions, plans, expectations, and beliefs, and is based on management's experience and assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances.

Forward-looking statements may involve but are not limited to, comments with respect to our initiatives for 2024 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results or outlook for our operations. By their nature, forward looking statements are subject to numerous risks and uncertainties including those discussed under Risks and Risk Management in the MD&A for the year ended September 30, 2023. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise, and as such, undue reliance should not be placed on forward- looking statements.

Actual results, performance or achievements could differ materially from those expressed in or implied by these forward-looking statements. Except as may be required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, made by the Company or on its behalf.

# Our Business

Based in Edmonton, Alberta, Imperial Equities is a publicly traded company that invests in and manages industrial, agricultural, and commercial properties in its targeted markets throughout Western Canada. Since operations started in 1998, the Company has continuously increased revenues, and the fair value of its portfolio of investment properties through growth via acquisitions, the construction of build-to-suit projects, proactive maintenance of its properties, and responsive property management to build strong relationships with long-term tenants.

There have been no significant changes to the Company's overall business during the three and nine months ended June 30, 2024.

Management and the Board monitor specific key performance indicators in four critical areas of the business: investment properties, leasing activities, property operations and financing, and the overall performance of the Company in governance, and environmental social and governance (ESG) impact. These key areas remain consistent with those discussed in the MD&A for the year ended September 30, 2023.

## Our Investment Properties

| *Investment Properties* | June 30, 2024 | September 30, 2023* |
|---|---|---|
| **Total number of investment properties** | 37 | 40 |
| **Raw land properties held for future development** | 6 | 8 |
| **Raw land properties under lease with tenants** | 4 | 4 |
| **Gross leaseable area** (GLA) in square feet** | 1,059,599 | 1,117,832 |

**The prior period figures have been updated to conform to the presentation in the current period.*
***Gross leaseable area is the square footage of space in the Company's investment properties that is leased or available to be leased to tenants.*

During the quarter ended June 30, 2024, the Company completed the sale of three investment properties that were classified as held for sale at the end of the prior quarter. The three properties consisted of one revenue producing investment property known as the EPCOR building, and two raw land properties.

Cash proceeds on the sales were $4,460,247 and were used to pay down outstanding debt, and for operational funds. Proceeds on the sales, net of transaction costs of $1,299,945 were $19,810,054. A mortgage on the EPCOR building, with a balance of $9,483,147 at the closing date was assumed by the purchaser. One of the raw land property sales was paid for by a vendor-take-back mortgage with the Company with a face value of $5,866,664 at the closing date.

The Company views these dispositions as strategic. The EPCOR building became vacant in fiscal 2023, and included a significant office component that management believes no longer holds significant value in the current market. The two raw land properties had growing carrying costs, but no immediate plans to develop the sites into revenue producing properties. The sales of these three properties reduced the Company's carrying costs, and in the case of the disposal of the EPCOR building, reduced the Company's exposure to the price pressures on buildings with significant office space.

The Company's gross leaseable area declined by 58,393 ft$^2$ due to the sale of the EPCOR building, and was increased by 160 ft$^2$ due to adjustments to the measurement of a building to agree to the certified square footage.

# Our Leasing Activities

| *By Gross Leasable Area ("GLA") in square feet* | Nine months ended June 30, 2024 | Year ended September 30, 2023 |
|---|---|---|
| **Lease retention** | 33,251 | 70,679 |
| **New tenant leases** | - | 100,901 |
| **GLA of leases expiring within twelve months** | 53,495 | 118,018 |
| **Space available for lease** | 50,675 | 65,512 |
| **Average lease term to maturity in years** | 4.59 | 4.49 |
| **Building occupancy** | 95.2% | 94.1% |

The Company has been focused on renewing expiring leases, and leasing or selling vacant buildings over the last nine months.

## Lease Expiries and Vacant Space

At June 30, 2024, the building occupancy increased to 95.2%, an increase of 1.1% compared to September 30, 2023, and 9.0% compared to the occupancy rate at March 31, 2024. During Q3, the sale of the EPCOR building that was vacant at September 30, 2023 and for the subsequent quarters resulted in an overall increase in building occupancy.

At June 30, 2024, the Company had the following space available for lease:

- 7,119 $ft^2$ of space available in a 70,660 $ft^2$ building in which the remaining space is occupied by a single tenant.
- 46,556 $ft^2$ single tenant building. Subsequent to June 30, 2024, a lease with a five-year term was signed with a new tenant on this building.

## GLA of leases expiring in the next twelve months

At June 30, 2024, there were three leases that were expiring within the next 12 months with a combined total of 53,495 $ft^2$ gross leaseable area. One lease, with a GLA of 12,124 $ft^2$ was renewed during Q3 2024 for a one year-term. Subsequent to June 30, 2024, one of the two remaining leases was renewed, and negotiations were underway on the second lease for a renewal with the existing tenant.

## Lease Rates

| *Average annual lease rates (by City) per square foot* | At June 30, 2024 | At September 30, 2023 |
|---|---|---|
| Edmonton, Alberta | $ 11.12 | $ 11.03 |
| Red Deer, Alberta | $ 17.89 | $ 22.43 |
| Fort Saskatchewan, Alberta* | $ 42.15 | $ 42.15 |
| Fort McMurray, Alberta | $ 40.16 | $ 34.34 |
| Leduc, Alberta | $ 17.27 | $ 17.66 |
| Hanna, Alberta | $ 19.91 | $ 19.75 |
| Nisku, Alberta | $ 13.39 | $ 13.39 |
| Vegreville, Alberta | $ 7.18 | $ 7.18 |
| Fort St. John, British Columbia | $ 14.75 | $ 14.75 |

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

The Company also monitors its lease rates, which are expected to remain stable due to the long-term leases in place. During Q2 2024, a building located in Red Deer, Alberta became vacant, and was not leased until subsequent to June 30, 2024, resulting in a lower annual lease rate in Red Deer at June 30, 2024 than at September 30, 2023.

The lease rate in Edmonton, Alberta increased slightly in Q3 2024 due to increases in lease rates for renewals coming into effect in the quarter, and step-ups in rent included in some lease agreements.

The lease rate in Fort McMurray, Alberta increased starting in Q1 of 2024 when a tenant commenced payment of rent on 25,200 $ft^2$ of build-to-suit space that was available prior to September 30, 2023, but with increased rental charges for the space not being effective until October 1, 2023.

# Our Operations

| *Property Operations* | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| % operating expense recoveries | 70% | 78% | 75% | 79% |
| Funds available for property improvement and growth | $ (362,100) | $ 465,019 | $ (437,704) | $ 563,757 |
| Investment property improvements | $ 204,972 | $ 775,779 | $ 210,798 | $ 3,819,336 |

## Operating Expense Recoveries

The percentage of operating expense recoveries provides an indication of the amount of non-recoverable expenses that has to be covered by minimum rental revenue. The percentage of operating expense recoveries may vary from quarter to quarter due to the timing of expenditures being different than the timing of the recognition of the recovery revenue, however on an annual basis, the historic operating cost recovery percentage is expected to be between 85 – 90%. In Q3 of each year, the percentage of operating expense recoveries is impacted by the adjustment of property tax expense to actual as property tax invoices for the calendar year are received in Q3. If property tax expenses are higher than budgeted, there will be a reduction in the percentage of operating expense recoveries until the reconciliation of budgeted to actual operating expenses is completed in Q4. In Q3 2024, the Company adjusted property tax expense to actual, which was higher than expected, however recovery revenue will not be adjusted for this increase until the annual reconciliation in Q4 2024, which will result in a lower percentage of operating expense recoveries in Q3.

During the three and nine months ended June 30, 2024 the Company incurred approximately $197,000, and $361,000 of non-recoverable operating expenses which were included in property operating expenses and reduced the operating expense recoveries percentage. These expenses included landscaping and drainage work, yard grading, HVAC improvements and building exterior improvements that were not recoverable operating costs under the terms of the leases. If the non-recoverable costs were removed from property operating expenses, the percentage of operating expense recoveries would have been 79% for the three months and 81% for the nine months ended June 30, 2024.

## Funds Available for Property Improvements and Growth

Funds available for property improvements and growth is a measure that indicates the available cash flow from property operations after payments of debt.

For the three and nine months ended June 30, 2024 there is a shortfall of funds available of $362,100 and $437,704 respectively. This is driven by a decrease in income from operations, and an increase in interest on financing. The decrease in income from operations is from decreased minimum rent due to vacancies in the nine months ended June 30, 2024, and from increased property operating expenses including increased property taxes, where the amount will ultimately be recoverable from tenants, and non-recoverable expenses, because of increased activity for property repairs in the current year. The increase in interest on financing is due to higher interest expenses as mortgage renewals have been completed at higher rates since the same period in the prior year, and higher bank operating facilities balances bearing interest at higher rates than the same periods in the prior year.

## Investment in Property Improvements

During the prior year, the Company was focused on two large projects, which resulted in increased spending on property additions throughout the year. These projects included the expansion of a tenant location in Fort McMurray, and the renovation of the Core Distribution centre for a new tenant. Both projects were substantially complete in Q3 of 2023. For the three and nine months ended June 30, 2024, property improvements consisted of roof replacement on a building, with no significant capital projects being undertaken during the current year to date.

# Our Financing

| *Financing* | June 30, 2024 | September 30, 2023 |
|---|---|---|
| **Debt to total assets ratio** | 48% | 50% |
| **Weighted average interest rates on mortgages** | 4.30% | 3.73% |

Management considers the ratio of debt to assets to be useful for evaluating the leverage the Company may have on its investment properties, including its ability to consider additional financing opportunities as needed for future growth. The debt to assets ratio decreased to 48% compared to 50% at year-end. This decrease is the result of the disposition of a property where the purchaser also assumed the related mortgage. This property had a debt to property value ratio of approximately 65% at September 30, 2023, and its disposition resulted in an overall improvement to the debt to total assets ratio as a result.

The Company monitors its interest rate on mortgages, as interest rates related to the financing of the properties are a key external factor that impacts the Company's overall profitability. The weighted average interest rate on mortgages has increased to 4.30% at June 30, 2024 compared to 3.73% at September 30, 2023. This trend is consistent with the prior two quarters and is because of mortgages being renewed at higher interest rates as they become due. The Company renewed six mortgages over the nine months ended June 30, 2024, with the weighted average interest rate on these mortgages increasing from 3.49% at September 30, 2023 to 6.53% at June 30, 2024.

Over the next 12 months, the Company has 10 mortgages, with a total principal balance of $36,466,890 at June 30, 2024 and a weighted average interest rate of 4.02% that will be up for renewal. Subsequent to period end, one of the mortgages was renewed, with an interest rate of 5.99% per annum, a reduction from the previous interest rate of 6.91% per annum. The Company continues to actively monitor the interest rate environment, and where appropriate, is choosing shorter renewal terms, with the anticipation of being able to take advantage of reductions in market rates that are expected to occur over the coming year.

# Our Governance

There have been no changes to the strategic objectives of Management or Board of Directors of the Company since those discussed in the MD&A for the year ended September 30, 2023.

During the quarter ended June 30, 2024, Management has been focused on closing three property dispositions, finding new tenants for vacant space, and pursuing and completing various lease renewals for leases with terms that expire in the coming year. The Company has also been reviewing its current financing and leverage structure and looking at opportunities to effectively access the equity in its building portfolio to fund the repayment of debt at higher interest rates and provide operating capital for potential acquisitions. The Company continues to actively evaluate and pursue opportunities to acquire investment properties which are strategic to the overall portfolio.

The Company has added a Director of Financial Planning, Reporting and Analysis to the finance team, whose role will include the analysis of financing options and cash flows, and assistance with financial reporting, including any required environmental, social and governance reporting.

## Our Environmental, Social and Governance ("ESG") Impact

There have been no changes to the regulatory environment since the year-ended September 30, 2023. Management continues to wait for communications from the Canadian Securities Administrators (CSA), and the Canadian Sustainability Standards Board (CSSB) related to the adoption of the requirements of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2 *Climate-related disclosures*, issued by the International Sustainability Standards Board (ISSB) for public companies.

As noted in the MD&A for the year ended September 30, 2023, the Company anticipates continuing to use the Global Reporting Initiative (GRI) as the framework for which to account for its environmental, social and governance related measures, and has commenced on assessing the requirements under GRI's Construction and Real Estate Disclosures in anticipation of including these measures in its 2024 annual report.

The Company continues to incorporate energy efficiency, and overall environmental awareness in its property operations including continuing to replace lighting in tenant locations with new energy efficient LED lighting as opportunities arise.

# Financial Performance

## Selected Income Statement Information

| *(in thousands of dollars)* | Three months ended June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2024** | **2023** | **Variance** | **2024** | **2023** | **Variance** |
| **Rental revenue** | **$ 4,670** | $ 5,196 | $ (526) | **$ 14,467** | $ 14,511 | $ (44) |
| Property operating expenses | **1,728** | 1,523 | 205 | **4,849** | 4,476 | 373 |
| **Income from operations** | **2,942** | 3,673 | (731) | **9,618** | 10,035 | (417) |
| **Finance costs** | **1,396** | 1,246 | 150 | **4,272** | 3,682 | 590 |
| **Administrative expenses** | **281** | 320 | (39) | **912** | 960 | (48) |
| **Amortization of deferred leasing** | **101** | 126 | (25) | **291** | 362 | (71) |
| **Amortization of right-of-use asset** | **38** | 38 | - | **112** | 113 | (1) |
| **Loss on sale of investment properties** | **1,485** | - | 1,485 | **1,485** | - | 1,485 |
| **Valuation net (gain) loss from investment properties** | **(115)** | 354 | (469) | **6,586** | (2,047) | 8,633 |
| **Income before income tax** | **(244)** | 1,589 | (1,833) | **(4,040)** | 6,965 | (11,005) |
| Income tax expense | **1,202** | 299 | 903 | **1,109** | 1,278 | (169) |
| **Net income and comprehensive income** | **$(1,446)** | $ 1,290 | $(2,736) | **$ (5,149)** | $ 5,687 | $(10,836) |
| **Earnings per share basic and diluted (in dollars)** | **$ (0.15)** | $ 0.14 | $ (0.29) | **$ (0.54)** | $ 0.60 | $ (0.06) |
| **Dividends per share (in dollars)** | **$ 0.02** | $ 0.02 | $ - | **$ 0.06** | $ 0.06 | $ - |

**Rental revenue** includes minimum rent, which is recorded on a straight-line basis over the terms of the related leases, as well as property tax, insurance and occupancy cost recovery revenue. Rental revenue also includes adjustments for amortization of tenant inducements, as well as any other miscellaneous revenue including settlements with tenants for departures and damages.

Rental revenue decreased for the three and nine months ended June 30, 2024 compared to the same periods in the prior year. The overall decreases were related to decreased minimum rent, because of vacancies that were not fully offset by new occupancies and rent increases, and an increase in Q3 2023 to rental revenue for the recognition of a significant straight line rent receivable for the commencement of a new lease during that period, which was not repeated in Q3, 2024. For the nine months ended June 30, 2024, increased property tax and insurance and operating expense recoveries due to budgeted inflationary increases were offset by increased amortization of tenant inducements. Tenant inducement amortization increased as a result of the completion of the project on the Core Distribution building in the prior year, and commencement of the amortization of the tenant inducement costs incurred on that project.

**Income from operations** decreased for the three and nine months ended June 30, 2024 because of decreased rental revenue, and increased property operating costs as discussed below.

**Net income** for the three and nine months ended June 30, 2024 decreased compared to the same periods in the prior year, due to the decreases in income from operations, and an increase in financing costs due to increased interest rates and debt balances. In addition, there was a loss on disposition of properties that impacted the three and nine month period, and a loss on the fair value of investment properties that impacted the nine month period.

| *Property Operating Expenses* | Three months ended June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | Variance | 2024 | 2023 | Variance |
| **Property taxes** | $ 928,310 | $ 753,451 | $ 174,859 | $ 2,562,993 | $2,246,170 | $ 316,823 |
| **Insurance** | 60,671 | 60,944 | (273) | 183,582 | 184,103 | (521) |
| **Repairs and maintenance** | 588,114 | 579,573 | 8,541 | 1,680,264 | 1,674,176 | 6,088 |
| **Utilities** | 150,543 | 128,677 | 21,866 | 422,386 | 372,037 | 50,349 |
| | $1,727,638 | $1,522,645 | $ 204,993 | $ 4,849,225 | $4,476,486 | $ 372,739 |

The increase in property operating expenses for the three and nine months ended June 30, 2024 is due primarily to increased property taxes. Property tax expense is adjusted to actual in Q3 of each year when the property tax invoices are received, resulting in additional expense in the three month period as the expenses are adjusted. For the three and nine month periods ended June 30, 2024, there was additional property tax expense recorded of $51,000 and $142,000 respectively, on a property that was previously exempt from property taxes, and where property taxes were not assessed and accrued until Q4 of the 2023 year. There was also an additional $88,000 of property tax expense for the nine months ended June 30, 2024 related to a vacant property, where the previous tenant paid the property taxes directly, so there was no expense recorded in the same period of the prior year.

Utilities expense increased in the three and nine month period ended June 30, 2024 as a result of the Company paying for utilities in vacant locations, that were previously paid for by tenants. The expense is partially offset by properties where vacancies were filled during fiscal 2023.

| *Finance Costs* | Three months ended June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | Variance | 2024 | 2023 | Variance |
| Interest on mortgages | $ 997,554 | $ 891,747 | $ 105,807 | $ 3,039,733 | $2,577,408 | $ 462,325 |
| Interest on bank operating facilities | 341,045 | 267,470 | 73,575 | 1,059,394 | 866,660 | 192,734 |
| Interest on other unsecured financing | 29,775 | 72,643 | (42,868) | 129,237 | 204,357 | (75,120) |
| Interest on lease obligations | 4,145 | 6,114 | (1,969) | 12,435 | 18,343 | (5,908) |
| Financing fees | 35,476 | - | 35,476 | 35,476 | - | 35,476 |
| Amortization of deferred financing fees | 37,317 | 24,484 | 12,833 | 76,461 | 67,262 | 9,199 |
| Interest income | (49,242) | (16,167) | (33,075) | (81,105) | (51,607) | (29,498) |
| | $ 1,396,070 | $1,246,291 | $ 149,779 | $ 4,271,631 | $3,682,423 | $ 589,208 |

Finance costs have increased primarily due to increased interest rates. The bank operating facilities bear interest at a floating rate, therefore higher bank prime rates over the three and nine months ended June 30, 2024 compared to the same periods in the prior year have increased overall interest expense on the facilities. In addition, mortgages that were renewed during fiscal 2023 were renewed at higher rates, resulting in increased mortgage interest in 2024 compared to the same periods in the prior year. For the three and nine months ended June 30, 2024, the interest paid on other unsecured financing decreased because of the decrease in the outstanding balance over the nine months ended June 30, 2024. Financing fees incurred in Q3 2024 relate to costs incurred on amendments to the two bank operating facilities and have been expensed as the facilities are due on demand.

| *Administrative Expenses* | Three months ended June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | Variance | 2024 | 2023 | Variance |
| Salaries and benefits | $ 175,845 | $ 183,538 | $ (7,693) | $ 521,906 | $ 532,708 | $ (10,802) |
| Public company costs | 14,896 | 19,141 | (4,245) | 83,310 | 72,182 | 11,128 |
| Professional fees | 3,886 | - | 3,886 | 24,935 | 3,721 | 21,214 |
| Office and other | 86,461 | 117,764 | (31,303) | 282,084 | 351,253 | (69,169) |
| | $ 281,088 | $ 320,443 | $ (39,355) | $ 912,235 | $ 959,864 | $ (47,629) |

Administration expenses decreased in both the three and nine months ended June 30, 2024 compared to the same periods in the prior year. The decreases were primarily related to decreased office and other expenses. Included in the three- and-nine months ended June 30, 2023 was $24,000 and $65,000 of consulting fees, related to contract financial reporting assistance while the former CFO was on leave. In the current year, there has been no such expenses. Additionally, in the three and nine month periods ending June 30, 2024, there were lower interest and penalties on taxes than in the same periods in the prior year.

These decreases were offset by increased promotional and charitable donations in the three and nine months ended June 30, 2024 compared to the prior year and increased professional fees for the nine months ended June 30, 2024 due to the timing of payment of tax preparation fees, which were billed and paid in Q1 2024 in the current year, and in the prior year were paid over several quarters.

**Amortization of deferred leasing and right-of-use asset** are related to the accounting for deferred leasing costs and right-of-use asset. The amounts related to the right-of-use asset remain consistent with the prior year as there has been no change to the asset balance. The amortization of deferred leasing costs has decreased from the same periods in the prior year due to balances being fully amortized in the prior year and over the first two quarters of 2024.

**Valuation loss (gains) from investment properties**, net is the result of adjusting the investment properties to fair value at the end of each reporting period. The change in investment property fair value is discussed below in “Investment properties”.

## Selected Statement of Financial Position Information

*(in thousands)*

| | As at June 30, 2024 | As at September 30, 2023 | Variance |
|---|---|---|---|
| Investment properties | $ 232,608 | $ 260,517 | $ (27,909) |
| Right-of use asset | 250 | 363 | (113) |
| Mortgages and loans receivable | 5,607 | - | 5,607 |
| **Total non-current assets** | **238,465** | 260,880 | (22,415) |
| Current portion of mortgage receivable | 1,539 | 1,439 | 100 |
| Current assets | 2,527 | 1,716 | 811 |
| **Total current assets** | **4,066** | 3,155 | 911 |
| **Total assets** | **$ 242,531** | $ 264,035 | $ (21,504) |
| Mortgages | $ 51,909 | $ 78,886 | $ (26,977) |
| Security deposits | 746 | 746 | - |
| Lease liability | 117 | 246 | (129) |
| Deferred taxes | 16,249 | 16,721 | (472) |
| **Total non-current liabilities** | **69,021** | 96,599 | (27,578) |
| Other financing | 700 | 3,565 | (2,865) |
| Current portion of mortgages | 40,616 | 28,852 | 11,764 |
| Bank operating facilities | 22,871 | 19,874 | 2,997 |
| Other current liabilities | 3,112 | 3,217 | (105) |
| **Total current liabilities** | **67,299** | 55,508 | 11,791 |
| **Total liabilities** | **136,320** | 152,107 | (15,787) |
| **Equity** | **106,211** | 111,928 | (5,717) |
| **Total equity and liabilities** | **$ 242,531** | $ 264,035 | $ (21,504) |

## Investment Properties

Investment properties are carried at fair value, which is determined by management using valuation methodologies at the end of each reporting period. In Q1 and Q2 2024, the Company changed the investment property valuation approach for two properties to the direct comparison approach compared to the income approach used at September 30, 2023. The methodology for valuing the properties was changed as both properties has offers to purchase that management assessed provided reliable estimates of value. One of the properties was sold during Q3 2024. There was no change in valuation methodologies applied at June 30, 2024 compared to those used at September 30, 2023 for any other properties.

At the end of Q2 2024, three investment properties were classified as held for sale. The sales of all three properties were completed during Q3 2024, and no new properties were classified as held for sale at June 30, 2024.

Changes in investment properties since the fiscal year-end of September 30, 2023, are detailed below.

| | Income producing properties | Held for development | Total investment properties |
|---|---|---|---|
| **Balance, September 30, 2023** | $ 247,539,383 | $ 12,977,636 | $ 260,517,019 |
| *Additions:* | | | |
| Property improvements and additions | 109,529 | 101,269 | 210,798 |
| Leasing commissions | 148,460 | - | 148,460 |
| Amortization of tenant inducements | (115,775) | - | (115,775) |
| Amortization of deferred leasing commissions | (291,048) | - | (291,048) |
| Change in straight-line rental revenue | (165,039) | - | (165,039) |
| Reclassification to investment property held for sale | (13,790,000) | (7,320,000) | (21,110,000) |
| Revaluation gains (losses), net | (6,012,801) | (573,270) | (6,586,071) |
| **Balance, June 30, 2024** | **$ 227,422,79** | **$ 5,185,635** | **$ 232,608,344** |

During the three months ended June 30, 2024 the fair value of investment properties increased from $232,472,344 at March 31, 2024 to $232,608,344 at June 30, 2024 as a result of the following:

- Vacant land that was previously leased and included in the income producing property was reclassified to vacant land held for development and separately valued. A net increase of $160,000 was recognized on this reclassification.

- Several buildings had increased rental revenue because of lease steps ups, which were offset by increases in capitalization rates on several properties, to maintain a fair value that was consistent with overall market values. The net of these changes was a decrease in fair value of $32,000.

For the nine months ended June 30, 2024, the following fair value adjustments impacted the investment properties:

- Reclassification of three investment properties to held for sale resulting in a $21,110,000 decrease in the balance included in investment properties. A decrease in fair value of $2,344,000 was recorded in valuation loss on investment properties in Q1 and Q2 2024 for the properties

- A total valuation loss of $6,355,000 for a property that was vacated in February 2024, where net operating income expected was lower than previously received. Related vacant land was reclassified to land held for development in Q3 2024.

- The above reductions to fair value were offset by an increase in fair value on $1,222,000 on a property where management received an offer to purchase in Q2 2024 and reassessed the fair value of the property as a result.

- Several buildings had increased rental revenue because of lease steps ups, and two tenants leased additional space that increased the rental revenue by tenant over the following 12-month period. This was offset by increases in capitalization rates on several properties, to maintain a fair value that was consistent with overall market values. The net of these changes was an increase in fair value of $453,000.

- There was a gain on the fair value of the Company's property in Fort St. John of $220,000 because of a change in the capitalization rate to 8.00% compared to 8.50% at September 30, 2023. Management decreased the capitalization rate to reflect the increased economic and market activity in the region which the building is located, which has impacted the overall market prices.

**Mortgages and loans receivable** increased at June 30, 2024 as the result of a new loan and new vendor-take-back ("VTB") mortgage.

During Q3, 2024 the Company entered into a financing arrangement with a tenant to provide up front financing for certain improvements that the tenant wished to undertake with a total cost of $46,000. The loan bears interest at 5.5% per annum and is being repaid as part of monthly lease payments by the tenant. If the lease is not renewed, the balance outstanding at the end of the lease is payable in full by the tenant.

As part of a property sale that closed in Q3 2024, the Company provided a VTB mortgage with a balance of $5,866,664 to the purchaser of the property. The VTB mortgage bears interest at 5% per annum, matures May 28, 2026 and is repayable in monthly payments of principal and interest of $34,315. An adjustment to the fair value of the mortgage receivable of $184,994 was recorded through the loss on sale and will subsequently be amortized into interest income over the term of the receivable.

The VTB mortgage, which was outstanding at September 30, 2023 had no changes to its terms at June 30, 2024. The VTB mortgage was to mature at July 31, 2024 and be due in full. Subsequent to Q3 2024, the Company agreed to an extension of the VTB mortgage for one year, with a new maturity date of July 31, 2025, an increase in interest to 8% per annum and monthly payments of principal and interest of $10,303.

**Right-of-use asset and lease liability** are for the Company's office lease and have been recorded in accordance with the requirements of IFRS 16 Leases. There have been no changes to the asset or lease liability since the year ended September 30, 2023. Lease payments for the three and nine months ended June 30, 2024 were $45,000 and $135,000 respectively.

**Current assets** include receivables from tenants, prepaid expenses and deposits and cash balances with banks. The balance of current assets increased at June 30, 2024 compared to September 30, 2023 because of increases in prepaid property taxes and insurance. Property taxes are based on a calendar year-end and are invoiced and paid in full in June for most of the Company's properties. Insurance is paid in Q3 each year for a 12-month period. As a result, in Q3, 2024 the prepaid balance is higher than at year-end.

**Mortgages** including both current and long-term portions and excluding transaction fees have a balance of $92,596,238 at June 30, 2024 (September 30, 2023 - $107,870,842). The decrease in mortgages is as a result of paying down mortgages through monthly principal payments. The Company has maintained the amortization periods of its mortgages as they have been renewed, resulting in higher monthly payments being required. There were no new mortgages advanced in the period.
One mortgage was renewed in the three months ended June 30, 2024, with a total principal balance of $3,374,449 at June 30, 2024. The interest rate on this mortgage increased from 2.110% to 6.010% because of increases in overall bank prime rates since the last renewal.

Subsequent to period end, an additional mortgage with a balance of $1,302,166 at June 30, 2024 was renewed at 5.990% compared to the prior rate of 6.910%.

Also subsequent to June 30, 2024, the Company entered into a commitment letter to obtain additional financing on the renewal of two mortgages which were secured by two buildings on the same property (See "Liquidity and Capital Resources" for further details).

**Security deposits** have not changed at June 30, 2024 compared to September 30, 2023 and March 31, 2024. The current portion of security deposits, which is included in payables and accruals, and is related to leases with terms that expire in the next twelve months is $56,844 at June 30, 2024, which is a reduction of $2,500 from March 31, 2024 due to the repayment of a security deposit on a month-to-month lease that was terminated.

**Deferred taxes** are recorded on the difference between the accounting and tax bases of assets and liabilities. The difference between the fair value of investment properties recorded for accounting purposes, and the cost basis used for tax purposes generates the largest deferred tax liability at June 30, 2024 of $15,598,948 (September 30, 2023 – $15,842,858). The decrease in deferred tax is due to the decreased fair value of the investment properties for accounting purposes at June 30, 2024 compared to the value at September 30, 2023 which was due to the sale of three investment properties, and fair value losses on the remaining properties in the nine months ended June 30, 2024. The decrease in Q3 2024 was offset by an increase in the deferred tax liability to reflect a change in tax rates on capital gains. On June 25, 2024, the capital gains inclusion rate increased from 1/2 to 2/3. This rate change resulted in an increase of approximately $1,800,000 in the deferred tax liability.

**Bank operating facilities** at June 30, 2024 have a balance of $22,870,920 with two of the Company's major lenders (September 30, 2023 - $19,873,766). The increase in the balance of the operating facilities since September 30, 2023 reflects the use of the facilities to repay other financing and repay the balance outstanding at September 30, 2023 on construction projects completed in fiscal 2023.

During Q3 2024, the Company completed an amendment to one of its operating facilities to increase the available balance from $6,000,000 to $8,000,000. There were no changes to the terms of the facility. The fair value of the properties securing the facility was $24,636,000 at June 30, 2024 (September 30, 2023 - $32,209,073).

The Company also entered into an amending agreement on its other operating facility with an available balance of $15,500,000, which revised the properties used for security on the facility. The facility maintained a fixed rate, fixed term ("FRFT") component, and a variable component, with an increase to the available variable component as a result of principal repayments on the FRFT component since the last amendment. There were no changes to the required covenants or the other terms of the facility.

The fair value of the properties securing the facility was $46,727,000 at June 30, 2024 (September 30, 2023 - $37,157,449). During Q3 2024, the Company was in violation of the covenant on the facility which required a minimum 90% occupancy of secured properties, as the result of a vacancy in one of the properties. With the amendment, which made changes to the properties securing the facility, the vacant property was removed as security, and the Company was in compliance with all covenants at June 30, 2024.

**Other financing** of $700,000 at June 30, 2024 has decreased since September 30, 2023 because of repayments. The balance is unsecured and bears interest at an annual rate of 6%. The Company received advances of $650,000 during the nine months ended June 30, 2024, and repaid $3,515,000.

**Other current liabilities** include payables and accruals, income taxes payable and the current portion of the lease liability, the total of which decreased slightly at June 30, 2024 compared to the total balance at September 30, 2024. This was the result of a decrease in payables and accruals of approximately $1,250,000 from September 30, 2023 to June 30, 2024, offset by an increase in income taxes payable of $1,141,812 during Q3. The decrease in payables and accruals is due to a final progress billing on the Company's construction project in Fort McMurray being included in the balance at September 30, 2023 and paid during Q1 2024. The increase in income taxes payable during Q3 2024 is due to the sale of investment property with a taxable gain.

## Selected Cash Flow Information

| *(in thousands)* | Three months ended June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2024** | **2023** | **Variance** | **2024** | **2023** | **Variance** |
| Cash (used in) provided by operating activities | **$ ( 264)** | $ 718 | $ (982) | **$ 7,096** | $ 7,458 | $ (362) |
| Cash provided by (used in) investing activities | **4,287** | (1,316) | 5,603 | **3,394** | (5,791) | 9,185 |
| Cash (used in)provided by financing activities | **(4,256)** | 789 | (5,045) | **(10,673)** | (1,263) | (9,410) |
| (Decrease) increase in cash and cash equivalents | **(233)** | 191 | (424) | **(183)** | 404 | (587) |
| Cash and cash equivalents, beginning of period | **474** | 446 | 28 | **424** | 233 | 191 |
| Cash and cash equivalents, end of period | **$ 241** | $ 637 | $ (396) | **$ 241** | $ 637 | $ (396) |

**Cash (used in) provided by operating activities** for the three and nine months ended June 30, 2024 decreased from the same period in the prior year. For the three and nine months ended June 30, 2024, the decrease in net income (loss) due to lower rental revenue and higher property operating and finance costs resulted in reduced cash provided by operations compared to the same periods in the prior year. In addition, in Q3 2024, the cash from operations was impacted by the payment of property taxes, and the corresponding increase in prepaid expenses. The Company continues to generate positive cash flows from operations which cover operating expenses, additions to investment properties, and payments on financing for the nine months ended June 30, 2024.

**Cash provided by operating activities** for the three and nine months ended June 30, 2024 compared to the same periods in the prior year. In Q3 2024, there were sales of three investment properties, which generated $4,460,247 in cash proceeds. There were no property sales in the comparable periods in the prior year. Additionally, in the prior year, there were significant property additions related to the property expansion in Fort McMurray, and renovations to the Core Distribution building which used cash, while no significant capital projects were undertaken in the current periods.

**Cash used in financing activities** for the three and nine months ended June 30, 2024, was lower than the same periods in the prior year. In both periods in the current year, there was increased cash used for the repayment of other financing, and for increased financing costs compared to the same periods in the prior year. Additionally, the advances provided by bank operating facilities were lower in the three and nine months ending June 30, 2024 compared to the same periods in the prior year. The increased finance costs relate to higher interest rates on mortgages and bank operating facilities.

The repayments of the other financing increased due to a focus on repaying the related party balances from the proceeds of the sales of investment properties and from financing, as these balances were intended to be short-term in nature.

For the three and nine months ended June 30, 2024 there was a **net decrease in cash** as a result of the above.

# Summary of Consolidated Quarterly Results

| *(in thousands)* | 2024 Q3 | 2024 Q2 | 2024 Q1 | 2023 Q4 | 2023 Q3 | 2023 Q2 | 2023 Q1 | 2022 Q4 |
|---|---|---|---|---|---|---|---|---|
| Revenue | **$ 4,670** | $ 4,846 | $ 4,950 | $ 5,226 | $ 5,196 | $ 4,651 | $ 4,664 | $ 4,772 |
| Total Comprehensive (Loss) Income | **$ (1,446)** | $(2,162) | $ (1,542) | $ 1,126 | $ 1,289 | $ 1,321 | $ 3,077 | $ 1,648 |
| *(in dollars)* EPS-Basic | **$ (0.15)** | $ (0.23) | $ (0.16) | $ 0.12 | $ 0.14 | $ 0.14 | $ 0.33 | $ 0.17 |
| EPS-Diluted | **$ (0.15)** | $ (0.23) | $ (0.16) | $ 0.12 | $ 0.14 | $ 0.14 | $ 0.33 | $ 0.17 |

The Company is not significantly impacted by seasonality in its operations. Minimum rental revenue is recorded on a straight-line basis over the term of the lease, and property operating recoveries are recorded at estimated amounts throughout the year, with a reconciliation to actual recoveries completed at Q4 each year. As a result, the revenue in Q4 may increase in comparison to prior quarters, as amounts receivable from tenants over the budgeted recoveries are accrued.

In Q2 and Q3 2024 the decrease in rental revenue is related to a vacancy that commenced in March of 2024.

The increase in revenue in Q3 and Q4 in fiscal 2023 relates to increased rental revenue from new tenant leases that commenced during the respective quarters including the recording of straight line rent receivables for these new leases.

Additionally, in Q4 2023, approximately $170,000 of settlement revenue was received from a tenant that vacated a property, in lieu of returning the property to its original state. In fiscal 2022, the Company had vacancies that arose in Q4 and were not filled until fiscal 2023 which resulted in lower revenue in Q4 2022 and Q1 and Q2 2023.

Changes in comprehensive income relate primarily to fluctuations in the net valuation gain (loss) from investment properties and loss on sale of investment properties and increases in finance costs. In fiscal 2023 and continuing into fiscal 2024, the Company continued to have increasing finance costs due to higher balances on the bank operating facilities, and higher interest rates on mortgages renewed since fiscal 2022.

The fluctuations in the valuation (losses) gains, net from investment properties is summarized below:

| *(in thousands)* | 2024 Q3 | 2024 Q2 | 2023 Q1 | 2023 Q4 | 2023 Q3 | 2023 Q2 | 2023 Q1 | 2022 Q4 |
|---|---|---|---|---|---|---|---|---|
| Valuation (losses) gains, net | **$ 115** | $ (3,651) | $ (3,050) | $ 86 | **$ (354)** | $ 205 | $ 2,197 | $ 668 |

Fluctuations in the valuation gains (losses) from investment properties quarter over quarter primarily reflect adjustments to the fair value of investment properties related to the completion of new or renewed leases, changes in expected revenue for vacant buildings or under the terms of new leases, and the completion or progress on redevelopment projects that improve the overall value of the buildings. During Q1 and Q2 2023, the Company had fair value gains as the result of progress on large redevelopment projects as well as the impact of increased operating income from lease renewals and decreased vacancy.

In Q3 2023, the Company recognized a loss in fair value on a property that was vacated, which was offset in part due to a gain on a project under construction which moved closer to completion.

In Q4 2023, the Company recorded gains on the completion of two projects that resulted in increased rental revenue and overall building value, which was offset by valuation losses on a property which was vacant at year-end.

In Q1 and Q2 2024, the Company recorded losses related to properties that were reclassified to held for sale, and on a property where a tenant indicated they were not renewing their lease in fiscal 2024, and the expected lease rate on the building was anticipated to decrease. In Q2, 2024 the losses were offset by a gain on a property where an offer to purchase provided evidence of an increased fair value.

In Q3 2024 the reclassification and valuation of a piece of vacant land that was no longer being leased with an adjacent investment property resulted in a gain.

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

# Liquidity and Capital Resources

There have been no significant changes in the Company's liquidity or capital resources available during the three or nine months ended June 30, 2024.

The Company has the following available room under its bank operating facilities:

| | June 30, 2024 | September 30, 2023 |
|---|---|---|
| Available bank credit facilities | $ 23,500,000 | $ 21,500,000 |
| Bank facilities outstanding | 22,870,920 | 19,873,766 |
| Available credit facilities | $ 629,080 | $ 1,626,234 |

The Company considers its sources of financing to be mortgages, bank operating facilities, other financing, and cash generated from operating activities.

The Company continues to renew mortgages as they come due. A total of six mortgages have been renewed in the nine months ended June 30, 2024, with total principal balances of $17,187,727 at June 30, 2024.

At June 30, 2024 ten mortgages are due in the next twelve months with combined principal balances of $36,466,980. One mortgage with a total principal balance of $1,302,166 at June 30, 2024 was renewed subsequent to quarter end.

Subsequent to quarter end, the Company entered into a commitment letter to refinance two mortgages with an outstanding combined principal balance of $14,450,635 at June 30, 2024, consisting of a first and second charge on the same property. The refinancing would result in combining the mortgages into one first charge on the property and increase the total mortgage to $17,400,000. The Company is currently completing the lender's required due diligence and expects conditions to be waived and the mortgage to be in place by the end of Q4 2024. The additional funds available from this mortgage in excess of the two existing mortgages will be used to reduce debt and provide additional cash flows for operations and financing of potential acquisitions.

The fair value of investment properties unencumbered with debt is $15,134,346 at June 30, 2024 (September 30, 2023 - $22,714,118). This amount has decreased from September 30, 2023 as a result of the sale of two unencumbered properties, which had a value of $8,640,000 at September 30, 2023.

During the three months ended June 30, 2024, the Company completed the sales of three investment properties that were classified as held for sale at the end of Q2 2024 and received total cash proceeds of $4,460,247. The funds were used for operations, and to pay down other financing and bank operating facilities.

During the nine months ended June 30, 2024, the Company paid $1,254,777 for final progress billings and holdbacks payable on the completion of the construction project in Fort McMurray. This amount was paid from operating cash, and additional financing provided by related parties.

# Related Party Transactions

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

**Property management and maintenance fees** of $424,766 and $1,165,614 (2023 – $362,325 and $1,030,172) for the three and nine months ended June 30, 2024, were paid to Sable Realty & Management Ltd. ("Sable"), a company controlled by Sine Chadi, a director and officer of the Company.

**Acquisition, disposition and leasing fees** in the aggregate of $639,483 and $692,870 (2023 – $nil and $91,975) for the three and nine months ended June 30, 2024 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 $45,000 and $135,000 for the three and nine months ended June 30, 2024 (2023 - $45,000 and $135,000).

**Rent collected** from Sable for commercial lease space was $23,731 and $71,192 for the three and nine months ended June 30, 2024 (2023 – $23,731 and $71,192).

**Vehicle lease payments** of $4,800 and $14,400 (2023 - $7,500 and $22,500) for the three and nine months ended June 30, 2024 were paid to North American Mortgage & Leasing Inc. ("NAML"), a company controlled by Sine Chadi, a director and officer of the Company.

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

*Contracts with Sable and NARC have been in place since 1999 with no changes to the terms. They can be viewed on-line at <www.sedarplus.ca>. These contracts and the associated fees and rates are reviewed by the Company's Board of Directors, and a summary of the terms is included in the annual MD&A for the year ended September 30, 2023.*

## Paid to Directors

Directors' fees paid to independent directors for attending directors' meetings during the three- and nine months ended June 30, 2024 were $10,000 and $27,500 (2023- $10,000 and $35,000).

## Compensation to Key Management Personnel

| | Salaries and wages | Short-term benefits | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|---|---|
| | | | 2024 | 2023 | 2024 | 2023 |
| Sine Chadi, President & CEO | $ 75,000 | $ 1,947 | $ 76,947 | $ 76,863 | $ 230,863 | $231,292 |
| Meghan DeRoo McConnan, CFO * | 55,000 | 2,346 | 57,346 | 19,425 | 163,460 | 19,425 |
| Azza Osman, Former CFO** | - | - | - | - | - | 40,341 |
| **Total** | $130,000 | $ 4,293 | $134,293 | $ 96,288 | $ 394,323 | $291,058 |

** The CFO joined the Company May 23, 2023 as Interim CFO and became CFO effective January 1, 2024.*
*** The former CFO was on leave commencing December 9, 2022 and departed the Company July 6, 2023.*

## Unsecured Financing

| ***Related Parties*** | October 1, 2023 | Advances | Repayments | June 30, 2024 |
|---|---|---|---|---|
| Jamel Chadi, Shareholder [1] | $ 1,965,000 | $ - | $ (1,965,000) | $ - |
| Sine Chadi, Shareholder [1] | 1,600,000 | 200,000 | (1,100,000) | 700,000 |
| NAMC [2] | - | 450,000 | (450,000) | - |
| **Total** | $ 3,565,000 | $ 650,000 | $ (3,515,000) | $ 700,000 |

1) *Loans received from shareholders bear interest at an annual rate of 6%. Total interest expense during the three months and nine ended June 30, 2024 was $28,479 and $122,499 respectively (2023 - $65,973 and $183,889). Accrued interest on the loans at June 30, 2024 was $159,912 (September 30, 2023 - $240,789) and is included in payables and accruals.*

2) *Loans from North American Mortgage Corp. ("NAMC"), a company controlled by the President and CEO of the Company, bear interest at 6% per annum. Total interest expense for the three and nine months ended June 30, 2024, was $1,296 and $6,738 respectively (2023 - $6,670 and $20,468).*

# Planned Expenditures

During the year ended September 30, 2023, the Company entered into a purchase agreement to acquire land for a total purchase price of $8,000,000. The agreement required an initial deposit of $100,000 which was paid by the Company and included in prepaids and deposits at September 30, 2023. During Q2 2024, the Company discontinued the purchase, and the deposit was fully repaid. The related build-to-suit has been delayed, and the Company continues to keep in touch with the tenant as they determine their requirements.

The Company is actively pursuing certain opportunities to acquire properties that have been identified as strategic fits with the current portfolio. The Company will continue to evaluate opportunities to purchase other properties currently on the market as they arise. Cash needed to fund an acquisition of property will be provided through cash flows from operations, available funds through current bank credit facilities, and securing long-term financing. Related-party financing is also available to the Company, generally on a short-term basis.

# Changes in Accounting Policies and Critical Accounting Estimates

## New and Amended Standards Adopted

Certain amendments disclosed in Note 2 of the unaudited interim condensed consolidated financial statements for the three-and-nine months ended June 30, 2024 had an effective date of October 1, 2023 for the Company but did not have a material impact on the consolidated financial statement or accounting policies for the three and nine months ended June 30, 2024.

## Future Accounting Standards

Standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective are described in Note 2 of the audited consolidated financial statements for the year ended September 30, 2023. None of the amendments are anticipated to have a material impact on the Company's interim condensed consolidated financial statements.

## Critical Judgments and Accounting Estimates

The preparation of condensed consolidated financial statements in accordance with IFRS requires the Company to make various estimates and assumptions. Future events may result in significant differences between estimates and actual results.

There has been no significant change in our critical judgements or accounting estimates in Q3 2024 from those described in the MD&A for the year ended September 30, 2023, in the Changes in Accounting Policies and Critical Accounting Estimates section and Note 3 of the September 30, 2023 audited consolidated financial statements.

# Other

## Risks and Risk Management

The nature and extent of the Company's significant risks has not changed materially from those described in the Risks and Risk Management section of the MD&A for the year ended September 30, 2023.

## Financial Instruments and Market Risk

At June 30, 2024, the nature and extent of the Company's use of financial instruments did not change materially from those described in the Financial Instruments section of the MD&A for the year ended September 30, 2023.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Disclosure controls and procedures

There have been no material changes to the risks associated with disclosure controls and procedures and internal controls over financial reporting since those described in the Disclosure Controls and Procedures section of the MD&A for the year ended September 30, 2023.

## Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at August 14, 2024 are 9,451,242. There are currently no options outstanding.

## Dividends

During the three months ended June 30, 2024, the Company declared and paid dividends of $0.02 per share, totaling $189,025.

Subsequent to June 30, 2024, the Company issued a press release on July 3, 2024 announcing the declaration of a quarterly dividend of $0.02 per share payable on August 8, 2024 to shareholders of record effective July 19, 2024.

# Non-IFRS Financial Measures

Operating expense recoveries, funds available for property improvements and growth, debt, debt to asset ratios and unencumbered properties are not measures recognized by IFRS, and do not have a standardized meaning prescribed by IFRS.

Investors are cautioned that these measures should not replace net income or loss (as determined in accordance with IFRS) as an indicator of the Company's performance, of its cash flows from its operating, investing and financing activities or as a measure of its liquidity and cash flows.

Furthermore, the Company's method of calculating these measures may differ from the methods used by other issuers. Therefore, the Company's calculation of these measures may not be comparable to similar measure presented by other issuers.

**Operating expense recoveries and percentage of property operating expense recoveries:** Total operating expense recoveries is a non-IFRS financial measure which is calculated below. The percentage of property operating expense recoveries is calculated as the total property operating recoveries divided by total property operating expense. Management believes that this measure is important as it indicates how much of property operating expenses are required to be recovered from other sources of revenue.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Property tax and insurance recoveries | $ 800,334 | $ 902,307 | $ 2,403,223 | $ 2,357,943 |
| Operating expense recoveries | 402,651 | 280,793 | 1,254,461 | 1,180,044 |
| Total recoveries | $ 1,202,985 | $ 1,183,100 | $ 3,657,684 | $ 3,537,987 |
| Total property operating expenses | $ 1,727,638 | $ 1,522,645 | $ 4,849,225 | $ 4,476,486 |
| % of property operating expense recoveries | 70% | 78% | 75% | 79% |

**Funds available for property improvements and growth:** Funds available for property improvements and future growth is a non-IFRS financial measure and is defined as income from operations, less interest on financing adjusted for interest income, interest on lease liabilities, amortization of deferred financing fees and capitalized interest, and principal repayments on mortgages. Management believes that this measure provides information about the funds available to the Company to use for reinvestment in properties or growth.

The calculation is as follows:

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Income from operations | **$ 2,942,716** | $ 3,672,994 | **$ 9,617,598** | $ 10,034,454 |
| Less: Interest on financing | | | | |
| Finance costs | **1,396,070** | 1,246,291 | **4,271,631** | 3,682,423 |
| Add interest income | **49,243** | 16,168 | **81,107** | 51,607 |
| Less interest on lease obligation | **(4,145)** | (6,114) | **(12,435)** | (18,343) |
| Less amortization of deferred financing | **(37,317)** | (24,484) | **(76,461)** | (67,262) |
| Add capitalized interest | - | 75,000 | - | 154,472 |
| | **1,403,851** | 1,306,861 | **4,263,842** | 3,802,897 |
| Less: Principal instalments on mortgages | **1,900,965** | 1,901,114 | **5,791,460** | 5,667,800 |
| Funds available for property improvements and growth | **$ (362,100)** | $ 465,019 | **$ (437,704)** | $ 563,757 |

**Debt, and ratio of debt to assets:** Debt is a non IFRS financial measure and is calculated below. The debt to asset ratio is calculated as total debt divided by total assets. Management uses this measure to monitor the Company's current leverage, and the ability to obtain additional financing if needed.

| | As at June 30, 2024 | As at September 30, 2023 |
|---|---|---|
| **Total Assets** | **$ 242,531,985** | **$ 264,034,687** |
| Mortgages excluding transaction fees | 92,596,238 | 107,870,842 |
| Other financing | 700,000 | 3,565,000 |
| Bank operating facilities | 22,870,920 | 19,873,766 |
| **Debt** | **$ 116,167,158** | **$ 131,309,608** |
| | | |
| **Ratio of debt to assets** | **48%** | **50%** |

**Unencumbered properties:** Unencumbered properties is a non-IFRS measure and is calculated as the fair value of properties which are not security for mortgages or bank operating facilities. Management uses this measure to evaluate the ability of the Company to obtain additional leverage through the ability to mortgage properties that currently are not security for debt.

# Financial Statements

*for the third quarter ending June 30, 2024*

# IMPERIAL EQUITIES INC.

## Q3 2024 Interim Financial Statements

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

**Under National Instrument 51-102, Part 4, Subsection 4.4(4)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.**

**The accompanying unaudited interim condensed consolidated financial statements of Imperial Equities Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.**

**The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.**

## IMPERIAL EQUITIES INC.

### INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Notes | June 30, 2024 (unaudited) | September 30, 2023 (audited) |
|---|---|---|---|
| **Assets** | | | |
| Investment properties | 3 | **$ 232,608,344** | $ 260,517,019 |
| Right-of-use asset | | **250,068** | 362,598 |
| Mortgages and loans receivable | 4 | **5,607,386** | - |
| ***Total non-current assets*** | | **238,465,798** | 260,879,617 |
| Current portion of mortgages and loans receivable | 4 | **1,539,419** | 1,439,324 |
| Receivables | | **447,790** | 237,344 |
| Prepaid expenses and deposits | 5 | **1,837,609** | 1,053,951 |
| Cash | | **241,369** | 424,451 |
| ***Total current assets*** | | **4,066,187** | 3,155,070 |
| **Total Assets** | | **$ 242,531,985** | $ 264,034,687 |
| **Liabilities** | | | |
| Mortgages | 6 | **$ 51,909,376** | $ 78,886,257 |
| Security deposits | | **745,791** | 745,791 |
| Lease liability | | **117,043** | 245,776 |
| Deferred taxes | 8 | **16,249,164** | 16,721,444 |
| ***Total non-current liabilities*** | | **69,021,374** | 96,599,268 |
| Other financing | 13 | **700,000** | 3,565,000 |
| Income taxes payable | | **1,581,400** | 439,588 |
| Current portion of lease liability | | **169,587** | 163,419 |
| Current portion of mortgages | 6 | **40,615,792** | 28,851,657 |
| Bank operating facilities | 7 | **22,870,920** | 19,873,766 |
| Payables and accruals | | **1,362,299** | 2,614,324 |
| ***Total current liabilities*** | | **67,299,998** | 55,507,754 |
| **Total Liabilities** | | **136,321,372** | 152,107,022 |
| **Equity** | | | |
| Issued share capital | | **5,947,346** | 5,947,346 |
| Retained earnings | | **100,263,267** | 105,980,319 |
| ***Total Equity*** | | **106,210,613** | 111,927,665 |
| **Total Equity and Liabilities** | | **$ 242,531,985** | $ 264,034,687 |

Post-reporting date events (Note 14)

Approved on Behalf of the Board

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

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

## IMPERIAL EQUITIES INC.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)**

| | Notes | Three months ended June 30, 2024 | Three months ended June 30, 2023 | Nine months ended June 30, 2024 | Nine months ended June 30, 2023 |
|---|---|---|---|---|---|
| Rental revenue | 9 | **$ 4,670,354** | $ 5,195,639 | **$ 14,466,823** | $ 14,510,940 |
| Property operating expenses | | **1,727,638** | 1,522,645 | **4,849,225** | 4,476,486 |
| **Income from operations** | | **2,942,716** | 3,672,994 | **9,617,598** | 10,034,454 |
| Finance costs | 10 | **1,396,070** | 1,246,291 | **4,271,631** | 3,682,423 |
| Administration expenses | | **281,088** | 320,443 | **912,235** | 959,864 |
| Amortization of deferred leasing | | **101,313** | 126,445 | **291,048** | 361,806 |
| Amortization of right-of-use asset | | **37,510** | 37,510 | **112,530** | 112,530 |
| Loss on the sale of investment properties | 3 | **1,484,940** | - | **1,484,940** | - |
| Valuation loss (gain) from investment properties, net | 3 | **(114,985)** | 354,077 | **6,586,071** | (2,047,397) |
| **(Loss) income before income tax** | | **(243,220)** | 1,588,228 | **(4,040,857)** | 6,965,228 |
| Income tax expense | 8 | **1,202,397** | 299,001 | **1,109,120** | 1,278,088 |
| **Net (loss) income and comprehensive (loss) income** | | **$ (1,445,617)** | $ 1,289,227 | **$ (5,149,977)** | $ 5,687,140 |
| **Weighted average number of shares outstanding - basic & diluted** | | **9,451,242** | 9,451,242 | **9,451,242** | 9,451,242 |
| **Earnings (loss) per share basic and diluted** | | **$ (0.15)** | $ 0.14 | **$ (0.54)** | $ 0.60 |

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

## IMPERIAL EQUITIES INC.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**(Unaudited)**

| | Number of shares | Capital stock | Retained earnings | Total |
|---|---|---|---|---|
| Balance, October 1, 2022 | 9,451,242 | $ 5,947,346 | $ 99,923,488 | **$ 105,870,834** |
| Dividends paid | - | - | (756,099) | **(756,099)** |
| Net income and comprehensive income | - | - | 6,812,930 | **6,812,930** |
| Balance, September 30, 2023 | 9,451,242 | 5,947,346 | 105,980,319 | **111,927,665** |
| Dividends paid | - | - | (567,075) | **(567,075)** |
| Net loss and comprehensive loss | - | - | (5,149,977) | **(5,149,977)** |
| Balance, June 30, 2024 | 9,451,242 | $ 5,947,346 | $ 100,263,267 | **$ 106,210,613** |

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

# IMPERIAL EQUITIES INC.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## (Unaudited)

| | Notes | Three months ended June 30, 2024 | Three months ended June 30, 2023 | Nine months ended June 30, 2024 | Nine months ended June 30, 2023 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net (loss) income | | **$ (1,445,617)** | $ 1,289,227 | **$ (5,149,977)** | $ 5,687,140 |
| Finance costs | | **1,396,070** | 1,246,291 | **4,271,631** | 3,682,423 |
| Leasing commissions | | **(6,183)** | - | **(148,460)** | (376,727) |
| Items not affecting cash: | | | | | |
| Amortization of right-of-use asset | | **37,510** | 37,510 | **112,530** | 112,530 |
| Amortization of tenant inducements | | **38,591** | (5,332) | **115,775** | 17,769 |
| Amortization of deferred leasing commissions | | **101,313** | 126,447 | **291,048** | 361,808 |
| Loss on sale of investment properties | | **1,484,940** | - | **1,484,940** | - |
| Valuation (gain) loss on investment properties | | **(114,985)** | 354,077 | **6,586,071** | (2,047,397) |
| Straight-line rental revenue | | **50,235** | (214,817) | **165,039** | 77,319 |
| Deferred income taxes | 8 | **(157,342)** | 180,531 | **(472,280)** | 931,776 |
| Net change in operating working capital | 11 | **(1,648,684)** | (2,295,782) | **(160,201)** | (988,570) |
| **Cash (used in) provided by operating activities** | | **(264,152)** | 718,152 | **7,096,116** | 7,458,071 |
| **Investing activities** | | | | | |
| Proceeds on sale of investment properties | | **4,460,247** | - | **4,460,247** | - |
| Improvements and additions to investment properties | | **(204,972)** | (1,211,138) | **(210,798)** | (4,254,675) |
| Advances on loans and mortgages receivable | | **(46,000)** | - | **(46,000)** | - |
| Proceeds from mortgage receivable | | **79,197** | 8,294 | **96,251** | 24,606 |
| Change in payables and accruals for investing | | **-** | (113,964) | **(905,836)** | (1,561,326) |
| **Cash provided by (used in) investing activities** | | **4,288,472** | (1,316,808) | **3,393,864** | (5,791,395) |
| **Financing activities** | | | | | |
| Repayment of mortgages | | **(1,900,965)** | (1,901,114) | **(5,791,460)** | (5,667,800) |
| Fees associated with new or renewed mortgages | | **(5,374)** | (5,228) | **(14,604)** | (13,877) |
| Advances from other financing | | **-** | 350,000 | **650,000** | 3,065,000 |
| Repayment of other financing | | **(2,215,000)** | - | **(3,515,000)** | (1,040,000) |
| Finance costs paid | | **(1,622,912)** | (1,129,251) | **(4,297,077)** | (3,377,484) |
| Principal repayments on lease liability | | **(45,000)** | (45,000) | **(135,000)** | (115,000) |
| Dividends paid | | **(189,025)** | (189,025) | **(567,075)** | (567,075) |
| Net advances from bank operating facilities | | **1,721,862** | 3,708,945 | **2,997,154** | 6,453,697 |
| **Cash (used in) provided by financing activities** | | **(4,256,414)** | 789,327 | **(10,673,062)** | (1,262,539) |
| **(Decrease) increase in cash and cash equivalents** | | **(232,094)** | 190,671 | **(183,082)** | 404,137 |
| Cash and cash equivalents, beginning of period | | **473,463** | 446,464 | **424,451** | 232,998 |
| **Cash and cash equivalents, end of period** | | **$ 241,369** | $ 637,135 | **$ 241,369** | $ 637,135 |

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

# IMPERIAL EQUITIES INC.
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

## 1. General information and nature of operations

Imperial Equities Inc. ("the Company") was incorporated in Edmonton, Alberta, Canada. The registered and operating office of the Company is 2151, 10060 Jasper Avenue, Edmonton, Alberta T5J 3R8. The Company's operations consist of the acquisition, development, and redevelopment of industrial, agricultural, and commercial properties primarily in Edmonton, throughout Alberta and in British Columbia. The Company's common shares trade on the TSX Venture Exchange (TSXV) under the symbol "IEI".

## 2. Statement of compliance and basis of preparation

**Statement of compliance**
These interim condensed consolidated financial statements have been prepared in accordance with International Financial Standards ("IAS") 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in the annual financial statements have been omitted or condensed.

The Board of Directors authorized these interim condensed consolidated financial statements for issue on August 14, 2024.

**Basis of preparation**
These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2023, except as explained below, and should be read in conjunction with the Company's annual September 30, 2023 consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The interim condensed consolidated statements are for the three and nine months ended June 30, 2024, and are presented in Canadian dollars, which is the functional currency of the parent and subsidiary companies.

The interim condensed 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. All significant intercompany balances and transactions have been eliminated.

**Use of estimates judgments and assumptions**
The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. The significant judgments made by management when applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's annual September 30, 2023 audited consolidated financial statements.

**New and amended standards adopted**
Amendments to IAS 1 *Presentation of Financial Statements,* and IFRS Practice Statement 2 *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments will have an impact on the Company's disclosures of accounting policies in its annual consolidated financial statements, but not on the measurement, recognition, or presentation of any items in the Company's financial statements. The amendments did not have a material effect on the disclosures included in these interim condensed consolidated financial statements.

# IMPERIAL EQUITIES INC.
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

## 2. Statement of compliance and basis of preparation (cont'd)

Amendments to IAS 12 *Income Tax* narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The effective date of these amendments is for annual periods beginning on or after January 1, 2023 and it is to be applied retrospectively. There was no material impact to the Company's interim condensed consolidated financial statements to as a result of the adoption of this amendment.

**New and amended standards not yet adopted**
The IASB has published several new, but not yet effective, standards, amendments to existing standards, and interpretations. None of these standards, amendments to existing standards, or interpretations have been early adopted by the Company, and management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. No pronouncements have been disclosed as they are not expected to have a material impact on the Company's interim condensed consolidated financial statements.

## 3. Investment properties

| | Income producing properties | Held for development | Total investment properties |
|---|---|---|---|
| **Balance, September 30, 2023** | $ 247,539,383 | $ 12,977,636 | $ 260,517,019 |
| *Additions:* | | | |
| Property improvements and additions | 109,529 | 101,269 | 210,798 |
| Leasing commissions | 148,460 | - | 148,460 |
| Amortization of tenant inducements | (115,775) | - | (115,775) |
| Amortization of deferred leasing commissions | (291,048) | - | (291,048) |
| Change in straight-line rental revenue | (165,039) | - | (165,039) |
| Reclassification to investment property held for sale | (13,790,000) | (7,320,000) | (21,110,000) |
| Valuation gains (losses), net | (6,012,801) | (573,270) | (6,586,071) |
| **Balance, June 30, 2024** | **$ 227,422,709** | **$ 5,185,635** | **$ 232,608,344** |

**Investment properties held for sale**
During the quarter ended June 30, 2024, the Company closed the sales of the three investment properties classified as "held for sale" at March 31, 2024.

The property sales consisted of the following;

- Sale of land and building for total gross proceeds of $13,790,000 with transaction costs of $827,410. The purchaser assumed the related mortgage with an outstanding balance of $9,483,147 at the closing date. The valuation loss on investment properties for the nine months ended June 30, 2024 includes a loss of $1,023,855 for the adjustment to fair value. The loss on sale of investment properties includes $827,410 for the sale of this property.
- Sale of land for total gross proceeds of $820,000, with transaction costs of $49,200. The valuation loss on investment properties for the nine months ended June 30, 2024 includes a loss of $80,000 for the adjustment to fair value. The loss on the sale of investment properties includes $49,200 for the sale of this property.

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

**3. Investment properties** (cont'd)

- Sale of land for total gross proceeds of $6,500,000, with transaction costs of $423,336. Of the purchase price, $600,000 was paid in cash, and the remaining balance of $5,866,664 was in the form of a vendor-take-back mortgage (Note 4). The valuation loss on investment properties for the nine months ended June 30, 2024 includes $1,240,000 for the adjustment to fair value prior. The loss on disposal of investment properties includes $607,999 for the disposal of the property including an adjustment to the value of the consideration on the sale of $184,994 for the significant financing component in the form of the vendor-take-back mortgage.

The key Level 3 valuation inputs for the investment properties are set out below.

| | June 30, 2024 | September 30, 2023 |
|---|---|---|
| **Income producing property** | | |
| Range of capitalization rates applied to investment properties | **4.50% - 8.00%** | 4.50% - 8.50% |
| Fair values of properties where direct comparison approach was used | **$ 10,524,000** | $ 5,041,295 |
| Fair values of properties where capitalization rates were applied | **$ 212,988,000** | $ 238,587,382 |
| Weighted average capitalization rates on properties valued using income capitalization approach | **6.44%** | 6.47% |
| Weighted average net operating income for properties valued using income capitalization approach | **$ 716,508** | $ 752,048 |
| Fair value impact of increasing average capitalization rate by 0.25% | **$ (7,965,955)** | $ (8,883,294) |
| Fair value impact of a 1% decrease in net operating income | **$ (2,132,643)** | $ (2,388,624) |
| **Land held for development** | | |
| Average price per acre of land | **$ 91,329** | $ 189,316 |
| Number of acres held | **56.78** | 68.55 |
| Total fair value | **$ 5,185,636** | $ 12,977,635 |
| Impact of a 10% decrease in the price per acre | **$ (518,564)** | $ (1,297,764) |
| **Land under lease agreements with tenants** | | |
| Number of acres leased | **4.90** | 4.90 |
| Average price per acre | **$ 798,104** | $ 798,104 |
| Total fair values of leased land | **$ 3,910,710** | $ 3,910,710 |
| Impact of a 10% decrease in average price per acre | **$ (391,071)** | $ (391,071) |

## IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

### 4. Mortgages and loans receivable

| | | June 30, 2024 | | September 30, 2023 |
|---|---|---|---|---|
| Loan receivable from a tenant, bearing interest at 5.5% per annum, repayable in equal monthly payments of principal and interest of $496, with a maturity date of May 1, 2028, at which time any outstanding balance is repayable in full. | **$** | **45,714** | $ | - |
| Mortgage receivable, bearing interest at 4.50% per annum, repayable in monthly blended payments of principal and interest of $8,164, with a maturity date of July 31, 2024. Secured by a first mortgage charge against land and building (Note 4 (i)). | | **1,413,599** | | 1,439,324 |
| Mortgage receivable, bearing interest at 5.5% per annum, with monthly blended payments of principal and interest of $34,315, and a maturity date of May 28, 2027. Secured by a first mortgage charge against land (Note 4(ii)). | | **5,687,492** | | - |
| | | **7,146,805** | | 1,439,324 |
| Less current portion | | **(1,539,419)** | | (1,439,324) |
| Long-term portion | **$** | **5,607,386** | $ | - |

i) Subsequent to June 30, 2024, the Company entered into a mortgage amending agreement on the vendor take back ("VTB") mortgage. The amendment adjusted the interest rate to 8.00% per annum, the monthly blended payments to $10,303, and amended the maturity date to July 31, 2025.

ii) During the three months ended June 30, 2024, the Company entered into a VTB mortgage agreement on the sale of an investment property (Note 3). The consideration assigned to the VTB mortgage as a component of the sales price was $4,907,196, using a discount rate of 6.010%. The face value of the VTB mortgage at inception was $5,866,664. The resulting difference between the value of the consideration and the sales price of $184,994 was included in the loss on sale. Finance income related to the amortization of the difference is included in interest income in finance costs on the statement of comprehensive loss.

### 5. Prepaid expenses and deposits

| | | June 30, 2024 | | September 30, 2023 |
|---|---|---|---|---|
| Prepaid operating expenses | **$** | **1,837,609** | $ | 926,932 |
| Security deposits with municipalities | | **-** | | 27,019 |
| Deposits held in trust | | **-** | | 100,000 |
| Total | **$** | **1,837,609** | $ | 1,053,951 |

## IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

### 6. Mortgages

| | Maturity Date | Monthly blended principal and interest payments | Rate | June 30, 2024 | September 30, 2023 |
|---|---|---|---|---|---|
| | | $ | | $ | $ |
| | Maturity October 2024 | - | - | - | 11,229 |
| ** | Assumed (Note 3) | - | - | - | 9,898,484 |
| | July 1, 2024 | 22,084 | 6.910% | 1,302,166 | 1,430,709 |
| | August 1, 2024 | 71,809 | 3.300% | 7,441,982 | 7,899,062 |
| | November 1, 2024 | 63,681 | 3.555% | 6,652,899 | 7,044,169 |
| | December 1, 2024 | 33,003 | 6.073% | 2,632,173 | 2,806,416 |
| | December 1, 2024 | 29,985 | 6.073% | 2,391,475 | 2,549,785 |
| | February 1, 2025 | 35,507 | 3.420% | 3,808,261 | 4,027,712 |
| | February 1, 2025 | 47,279 | 3.310% | 3,840,202 | 4,166,544 |
| | February 1, 2025 | 17,662 | 5.720% | 1,449,509 | 1,544,751 |
| | April 1, 2025 | 27,830 | 5.290% | 2,941,556 | 3,073,687 |
| | April 1, 2025 | 34,847 | 2.310% | 4,006,667 | 4,248,881 |
| | August 1, 2025 | 27,279 | 2.837% | 3,132,596 | 3,309,756 |
| * | October 1, 2025 | 53,312 | 7.020% | 4,389,744 | 4,639,139 |
| | October 1, 2025 | 63,227 | 6.720% | 7,008,653 | 7,200,000 |
| * | November 1, 2025 | 35,967 | 6.640% | 3,027,333 | 3,202,558 |
| * | December 1, 2025 | 43,161 | 6.763% | 3,637,374 | 3,846,275 |
| * | January 1, 2026 | 23,512 | 5.930% | 1,538,107 | 1,682,599 |
| * | January 1, 2026 | 18,660 | 5.930% | 1,220,720 | 1,335,396 |
| | April 1, 2026 | 23,715 | 2.675% | 2,010,230 | 2,181,648 |
| * | April 1, 2026 | 33,136 | 6.010% | 3,374,449 | 3,551,844 |
| | July 1, 2026 | 76,219 | 2.710% | 9,423,822 | 9,913,807 |
| | July 1, 2026 | 39,884 | 2.710% | 4,931,312 | 5,187,713 |
| | October 1, 2026 | 65,250 | 2.940% | 8,100,143 | 8,504,926 |
| | June 11, 2029 | 42,759 | 3.480% | 4,334,865 | 4,613,752 |
| | *Total mortgages* | | | 92,596,238 | 107,870,842 |
| | *Less: current portion of principal payments* | | | (40,615,792) | (28,851,657) |
| | *Less: Balance of unamortized finance fees* | | | (71,070) | (132,928) |
| | | | | 51,909,376 | 78,886,257 |
| | Weighted average rate | | | 4.30% | 3.73% |

*These mortgages were renewed during the nine months ended June 30, 2024.
**This mortgage was assumed by the purchaser of the related investment property (Note 3).

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

## 7. Bank operating facilities

The Company has two credit facilities consisting of operating lines of credit (“LOC”).

i) During the quarter ended June 30, 2024, the Company completed an amending agreement on its LOC with a $6,000,000 limit to increase the available balance from $6,000,000 to $8,000,000. This credit facility continues to bear interest at prime plus 0.95% per annum and be secured by specific revenue-producing properties with fair values totaling $24,636,000 at June 30, 2024 (September 30, 2023 - $32,209,073). The balance on this facility at June 30, 2024 was $7,845,476 (September 30, 2023 - $4,769,549). There are no specific covenants or margin formulas for this line of credit.

ii) During the quarter the Company entered into an amending agreement on its LOC with a limit of $15,500,000. The fixed rate fixed term (“FRFT”) component of the line of credit will be reset to $7,815,340 with the revolving portion increasing to $7,684,660. The balance of the FRFT component will continue to bear interest at 3.36% per annum, with a three-year term ending February 1, 2025. The revolving component of the LOC will continue to bear interest at prime plus 1% per annum. The LOC is secured by specific revenue producing properties with fair values totaling $46,727,000 at June 30, 2024 (September 30, 2024 - $37,157,449). The balance of this facility at June 30, 2024 was $15,025,443 (September 30, 2023 - $15,104,226). The specific covenants related to this facility remained the same as at September 30, 2023.

During the quarter, the Company was in violation of the covenant requiring a minimum of 90% occupancy of the secured buildings as the result of the vacancy of a building commencing March 1, 2024. The lender was aware of this violation, and during the quarter determined that the 6-month grace period to remedy the violation commenced March 1, 2024 and ended September 30, 2024. As part of the amending agreement, the properties securing the LOC were modified and the vacant property was removed. As a result, as of June 30, 2024, the Company was in compliance with this covenant.

## 8. Income taxes

### a) Provision for income taxes

Components of income tax (recovery) expense

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Current tax expense | **$ 1,359,739** | $ 121,358 | **$ 1,581,400** | $ 341,574 |
| Prior period adjustments | **-** | (2,888) | **-** | 4,738 |
| Deferred tax expense | **(157,342)** | 180,531 | **(472,280)** | 931,776 |
| | **$ 1,202,397** | $ 299,001 | **$ 1,109,120** | $ 1,278,088 |

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

**8. Income taxes** (cont'd)

**b) Deferred taxes**

| | | June 30, 2024 | | September 30, 2023 |
|---|---|---|---|---|
| Deferred tax assets are attributable to the following: | | | | |
| Lease liability | **$** | **65,925** | $ | 94,115 |
| Capital losses | | **108,340** | | - |
| Mortgages receivable | | **41,210** | | - |
| Finance fees | | **4,036** | | - |
| Total deferred tax assets | | **219,511** | | 94,115 |
| Offset of deferred tax liabilities | | **(219,511)** | | (94,115) |
| Net deferred tax assets | **$** | **-** | $ | - |
| Deferred tax liabilities are attributable to the following: | | | | |
| Straight-line rent receivable | **$** | **424,189** | $ | 462,148 |
| Investment properties | | **15,598,948** | | 15,842,858 |
| Finance fees | | **-** | | 3,479 |
| Deferred leasing | | **380,221** | | 413,016 |
| Right-of-use-asset | | **57,516** | | 83,398 |
| Capital gain reserve | | **7,801** | | 10,660 |
| Total deferred tax liabilities | | **16,468,675** | | 16,815,559 |
| Offset of deferred tax assets | | **(219,511)** | | (94,115) |
| Net deferred tax liabilities | **$** | **16,249,164** | $ | 16,721,444 |

**9. Rental revenue**

| | Three months ended June 30, | | | | Nine months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2024** | | 2023 | | **2024** | | 2023 |
| Rental revenue, contractual amount | **$** | **3,555,995** | $ | 3,769,773 | **$** | **11,089,753** | $ | 11,020,423 |
| Property tax and insurance recoveries | | **800,334** | | 902,307 | | **2,403,223** | | 2,357,943 |
| Amortization of tenant inducements | | **(38,591)** | | (19,669) | | **(115,775)** | | (17,770) |
| Straight-line rental revenue | | **(50,235)** | | 214,816 | | **(165,039)** | | (77,319) |
| Other | | **200** | | 47,619 | | **200** | | 47,619 |
| Lease income | | **4,267,703** | | 4,914,846 | | **13,212,362** | | 13,330,896 |
| Operating expense recoveries | | **402,651** | | 280,793 | | **1,254,461** | | 1,180,044 |
| Total Rental Revenue | **$** | **4,670,354** | $ | 5,195,639 | **$** | **14,466,823** | $ | 14,510,940 |

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

## 9. Rental revenue (cont'd)

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

| | **2024** | 2023 |
|---|---|---|
| One year | **$ 13,768,967** | $ 14,904,289 |
| One to two years | **12,755,886** | 12,846,741 |
| Two to three years | **11,253,117** | 12,334,777 |
| Three to four years | **9,384,335** | 10,440,496 |
| Four to five years | **7,052,220** | 9,266,130 |
| Thereafter | **29,791,538** | 38,526,441 |
| | **$ 84,006,063** | $ 98,318,874 |

## 10. Finance costs

| | **Three months ended June 30,** | | **Nine months ended June 30,** | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Interest on mortgages | **$ 997,555** | $ 891,748 | **$ 3,039,735** | $ 2,577,408 |
| Interest on bank operating facilities | **341,045** | 267,470 | **1,059,394** | 866,660 |
| Interest on other unsecured financing | **29,775** | 72,643 | **129,237** | 204,357 |
| Interest on lease obligations | **4,145** | 6,114 | **12,435** | 18,343 |
| Amortization of deferred financing fees | **37,317** | 24,484 | **76,461** | 67,262 |
| Finance fees | **35,476** | - | **35,476** | - |
| Interest income | **(49,243)** | (16,168) | **(81,107)** | (51,607) |
| Total | **$ 1,396,070** | $ 1,246,291 | **$ 4,271,631** | $ 3,682,423 |

## 11. Supplemental consolidated cash flow information

| | **Three months ended June 30,** | | **Nine months ended June 30,** | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| ***Change in operating working capital:*** | | | | |
| Receivables | **$ 26,382** | $ (37,638) | **$ (210,446)** | $ 180,257 |
| Prepaid expenses and deposits | **(1,763,764)** | (1,492,645) | **(783,658)** | (632,249) |
| Security deposits | **-** | 18,550 | **-** | 17,600 |
| Payables and accruals | **(526,249)** | (905,404) | **(307,909)** | (9,671) |
| Contract liabilities | **(300,000)** | - | **-** | - |
| Income taxes payable | **914,947** | 121,355 | **1,141,812** | (544,507) |
| Net change in operating working capital | **$ (1,648,684)** | $ (2,295,782) | **$ (160,201)** | $ (988,570) |
| | | | | |
| Interest paid | **$ 1,564,761** | $ 882,706 | **$ 4,279,080** | $ 3,409,093 |
| Income taxes paid | **$ 449,687** | $ 452,000 | **$ 486,837** | $ 703,042 |

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

## 12. Fair value of financial instruments

**Financial assets and liabilities:**

| | | June 30, 2024 | | September 30, 2023 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | $ | **241,369** | $ | 424,451 |
| Receivables | | **447,790** | | 237,344 |
| Mortgages and loans receivable | | **7,146,805** | | 1,439,324 |
| | | **7,835,964** | | 2,101,119 |
| | | | | |
| **Financial liabilities** | | | | |
| Bank operating facilities | $ | **22,870,920** | $ | 19,873,766 |
| Payables and accruals | | **1,362,297** | | 2,614,324 |
| Other financing | | **700,000** | | 3,565,000 |
| Lease liability | | **286,630** | | 409,195 |
| Security deposits | | **745,791** | | 745,791 |
| Mortgages | | **92,596,239** | | 107,870,842 |
| | $ | **118,561,877** | $ | 135,078,918 |

**Measurement of fair value**

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 mortgages and loans receivable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar debt with similar terms and conditions. The estimated fair value of the mortgages and loans receivable using a discount rate of 6.010% is approximately $7,143,000.

The fair value of mortgages payable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable at June 30, 2024 is approximately $89,595,000 (September 30, 2023 - $102,248,000). The interest rate used for this calculation was 6.84% (September 30, 2023 – 6.84%).

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.

## 13. Related party transactions

The following are the related party transactions the Company entered into during the three and nine months ended June 30, 2024.

a) *Management agreements*

Sable Realty & Management Ltd. ("Sable") provides property management services to the Company. North American Realty Corp. ("NARC"), which is provides asset management services to the Company. North American Mortgage & Leasing Inc.("NAML") leases vehicles to the Company. All three companies are controlled by the President and CEO of the Company.

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

**13. Related party transactions** (cont'd)

Transactions with these three entities during the period under the terms of the management agreements and leases are summarized below:

| | Three months ending June 30, | | Nine months ending June 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Property management and maintenance fees paid to Sable | **$ 424,766** | $ 362,325 | **$ 1,165,614** | $ 1,030,172 |
| Leasing fees paid to NARC | **639,483** | - | **692,870** | 91,975 |
| Vehicle lease payments paid to NAML | **4,800** | 7,500 | **14,400** | 22,500 |
| Total payments | **$ 1,069,049** | $ 369,825 | **$ 1,872,884** | $ 1,144,647 |

At June 30, 2024, the Company has $nil (2023- $nil) in outstanding payables to Sable, NARC and NAML.

b) *Other related party transactions*

i) Payments made to (received from) Sable in the normal course of business are as follows:

| | Three months ending June 30, | | Nine months ending June 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Leased office space and parking | **$ 45,000** | $ 45,000 | **$ 135,000** | $ 135,000 |
| Rent at Sable Centre | **(23,731)** | (23,731) | **(71,192)** | (71,192) |
| Net payments for the period | **$ 21,269** | $ 21,269 | **$ 63,808** | $ 63,808 |

i) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the three months ending June 30, 2024 were $10,000 (2023 – $10,000) and $37,500 for the nine months ending June 30, 2024 (2023 - $35,000).

ii) Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The amount disclosed in the table is recognized as an expense in the period. There were no other transactions with key management personnel in the period.

| | Three months ending June 30, | | Nine months ending June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Salaries and wages | **$ 130,000** | $ 94,425 | **$ 381,250** | $ 280,007 |
| Short-term employee benefits | **4,293** | 1,863 | **13,073** | 11,051 |
| Total | **$ 134,293** | $ 96,288 | **$ 394,323** | $ 291,058 |

# IMPERIAL EQUITIES INC.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and nine months ended June 30, 2024**
**(Unaudited)**

## 13. Related party transactions (cont'd)

iii) Other financing, unsecured

| Related Parties | Balance October 1, 2023 | Advances | Repayments | Balance June 30, 2024 |
|---|---|---|---|---|
| Jamel Chadi, Shareholder[1] | $ 1,965,000 | $ - | $ (1,965,000) | **$ -** |
| Sine Chadi, Shareholder[1] | 1,600,000 | 200,000 | (1,100,000) | **700,000** |
| NAMC[2] | - | 450,000 | (450,000) | **-** |
| ***Total*** | $ 3,565,000 | $ 650,000 | $ (3,515,000) | **$ 700,000** |

1) Loans received from shareholders bear interest at an annual rate of 6%. Total interest expense during the three months and nine ended June 30, 2024 was $28,479 and $122,499 respectively (2023 - $65,973 and $183,889). Accrued interest on the loans at June 30, 2024 was $159,912 (September 30, 2023 - $240,789) and is included in payables and accruals.

2) Loans from North American Mortgage Corp. ("NAMC"), a company controlled by the President and CEO of the Company, bear interest at 6% per annum. Total interest expense for the three and nine months ended June 30, 2024, was $1,296 and $6,738 respectively (2023 - $6,670 and $20,468).

All related party financing is unsecured with no specified dates of repayment and 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.

## 14. Post-reporting date events

Subsequent to period end, the Company declared a quarterly dividend of $0.02 per share totalling $189,025 which was paid on August 8, 2024 to shareholders of record effective July 19, 2024.

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