



Independent Auditor's report

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To the Shareholders of
Imperial Equities Inc.

We have audited the accompanying consolidated financial statements of Imperial Equities Inc., which comprise the consolidated statements of financial position as at September 30, 2017 and September 30, 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Imperial Equities Inc. as at September 30, 2017 and September 30, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada

November 30, 2017

Grant Thornton LLP

Chartered Professional Accountants

IMPERIAL EQUITIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	September 30, 2017	September 30, 2016
Assets			
Investment properties	3	185,896,325	159,634,487
Loan receivable	4	-	482,063
Total non-current assets		185,896,325	160,116,550
Investment properties held for sale	3	-	8,104,500
Current portion of loan receivable	4	496,414	496,362
Receivables	5	81,534	110,585
Income taxes recoverable		-	27,586
Prepaid expenses and deposits	6	2,008,256	494,762
Cash and cash equivalents		843,336	2,115,033
Total current assets		3,429,540	11,348,828
Total Assets		189,325,865	171,465,378
Liabilities			
Mortgages	7	68,629,558	55,563,817
Security deposits		325,538	256,314
Deferred taxes	11	13,810,232	12,991,319
Total non-current liabilities		82,765,328	68,811,450
Current portion of mortgages	7	11,020,384	19,813,977
Other financing	8	1,300,000	-
Bank operating facilities	9	9,506,115	2,502,387
Deposit on investment property for sale	3	-	250,000
Payables and accruals	10	672,789	818,739
Income taxes payable		852,725	683,929
Total current liabilities		23,352,013	24,069,032
Total Liabilities		106,117,341	92,880,482
Equity			
Issued share capital	13	6,050,152	5,946,742
Contributed surplus	13	593,750	593,750
Retained earnings		76,564,622	72,044,404
Total Equity		83,208,524	78,584,896
Total Equity and Liabilities		189,325,865	171,465,378

Post-reporting date events (Note 21)
Guarantees and contingencies (Note 17)

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended September 30,

	Notes	2017	2016
Rental revenue	16 (a)	10,325,117	8,742,539
Property operating expense revenue		2,552,493	2,007,034
Property operating expenses	16 (b)	(2,971,617)	(2,443,207)
Income from operations		9,905,993	8,306,366
Administration expenses		(1,444,655)	(992,405)
Amortization		(326,666)	(342,891)
Forfeited deposit	3	238,095	-
Loss on the sale of equipment	3	(51,034)	-
Gain on the sale of investment property	3	-	39,427
Valuation net gains from investment properties	3	612,790	1,135,699
Income before interest and income tax		8,934,523	8,146,196
Interest income		19,636	31,243
Interest expense		(2,545,127)	(2,365,610)
Income before income tax		6,409,032	5,811,829
Income tax expense	11	(1,671,639)	(1,397,846)
Net income from continuing operations		4,737,393	4,413,983
Discontinued operations	4		
Income from discontinued operations		-	1,293,850
Income tax expense		-	(170,887)
Net income from discontinued operations		-	1,122,963
Net income and total comprehensive income		4,737,393	5,536,946
Earnings per share, basic and diluted			
From continuing operations	14	.49	.46
From discontinued operations		-	.12
Earnings per share basic and diluted	14	.49	.58

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended September 30,

	Number of shares	Capital stock	Contributed surplus	Retained earnings	Total
October 1, 2016	9,671,442	\$ 5,946,742	\$ 593,750	\$ 72,044,404	\$ 78,584,896
Shares held in treasury at beginning of year	-	139,322	-	-	139,322
Shares cancelled during the year	(57,000)	(35,912)	-	(217,175)	(253,087)
Net income	-	-	-	4,737,393	4,737,393
Balance September 30, 2017	9,614,442	\$ 6,050,152	\$593,750	\$ 76,564,622	\$ 83,208,524

	Number of shares	Capital stock	Contributed surplus	Retained earnings	Total
October 1, 2015	9,747,042	\$ 6,133,681	\$ 593,750	\$ 66,790,046	\$ 73,517,477
Shares repurchased during the year	-	(139,322)	-	-	(139,322)
Shares cancelled during the year	(75,600)	(47,617)	-	(282,588)	(330,205)
Net income	-	-	-	5,536,946	5,536,946
Balance September 30, 2016	9,671,442	\$ 5,946,742	\$593,750	\$ 72,044,404	\$ 78,584,896

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended September 30,

	Notes	2017	2016
Operating activities			
Net income from continuing operations		4,737,393	4,413,983
Interest on financing		2,545,127	2,456,214
Items not affecting cash:			
Forfeited deposit on agreement to sell investment property		(238,095)	-
Amortization of discount on loan receivable		(17,989)	(21,675)
Amortization of tenant inducements		36,364	27,273
Fair value changes on investment properties		(612,790)	(1,135,699)
Amortization		326,666	342,891
Straight-line rental revenue		(190,965)	(112,541)
Loss on sale of equipment		51,034	-
Gain on the sale of investment property		-	(39,427)
Deferred income taxes		818,914	795,834
Change in non-cash working capital	12	(1,376,694)	140,842
Cash inflow from operating activities of continuing operations		6,078,965	6,867,695
Cash (outflow) from discontinued operations		-	(1,791,665)
Investing activities			
Purchase of investment properties		(17,133,798)	(12,436,069)
Additions to investment properties		(308,470)	(364,194)
Tenant inducements		-	(400,000)
Proceeds on sale of investment property, net of disposal costs of \$209,260		-	3,190,740
Proceeds on sale of equipment		23,000	-
Proceeds from loan receivable		500,000	-
Direct leasing costs		(268,611)	(66,320)
Cash outflow used for investing activities of continuing operations		(17,187,879)	(10,075,843)
Cash inflow from disposition of discontinued operations, net of disposal costs of \$213,077	4	-	3,048,133
Financing activities			
Proceeds from mortgages		10,250,000	25,494,000
Repayment of mortgages		(5,951,302)	(11,459,756)
Transaction costs paid		(106,317)	(151,040)
Advances from other financing		3,350,000	500,000
Repayment of other financing		(2,050,000)	(3,425,000)
Interest on financing		(2,545,127)	(2,456,214)
Purchase of common shares for cancellation		(113,765)	(469,527)
Net advances (repayment) on bank operating facilities		7,003,728	(7,254,460)
Cash inflow from financing activities of continuing operations		9,837,217	778,003
Cash inflow from financing of discontinued operations		-	2,278,992
(Decrease) increase in cash and cash equivalents		(1,271,697)	1,105,315
Cash and cash equivalents, beginning of year		2,115,033	1,009,718
Cash and cash equivalents, end of year		843,336	2,115,033

Supplemental consolidated cash flow information (Note 12)
See accompanying notes to the consolidated financial statements.

1. Nature of operations

Imperial Equities Inc. (“the Company”) was incorporated in Edmonton, Alberta, Canada. The registered and operating office of the Company is 2151, 10060 Jasper Avenue, Edmonton, Alberta T5J 3R8. The Company’s operations consist of the acquisition, development and redevelopment of commercial and industrial properties primarily in Edmonton and throughout Alberta. The Company’s operations also included the sale and distribution of pharmaceuticals to the date of disposal of Imperial Distributors Canada Inc. (“IDCI”). At December 31, 2015, subject to certain escrow conditions, the Company sold its wholly owned subsidiary IDCI. The results of this former subsidiary are presented as discontinued operations in these consolidated financial statements (Note 4). All the operations of Imperial Equities Inc. are conducted in Canadian funds. The Company’s common shares trade on the TSX Venture Exchange (TSXV) under the symbol “IEI”. These consolidated financial statements include the Company and its wholly owned subsidiaries, Imperial Equities Properties Ltd. (“IEPL”), Imperial Distributors Canada Inc. (“IDCI”) to the date of disposition, Imperial One Limited, Imperial Two Limited, Imperial Three Limited, Imperial Four Limited, Imperial Five Limited, Imperial Six Limited, Imperial Seven Limited and Imperial Eight Limited.

2. Significant accounting policies

(a) Statement of compliance, basis of presentation and consolidation

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

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

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

(b) Investment properties

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

Investment properties

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

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

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

Investment properties are derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment

property are recognized in the consolidated statements of comprehensive income in the period of retirement or disposal. Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous reporting period financial statements.

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

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

Investment properties under construction

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

Borrowing costs related to properties under construction

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

(c) Business combinations

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

(d) Impairment of assets

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

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

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statement of comprehensive income. After the recognition of an impairment loss, the depreciation charge related to that asset is also revised for the adjusted carrying amount on a systematic basis over the remaining useful life of the asset. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in the consolidated statements of comprehensive income. However, the reversal of an impairment loss will not increase the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized.

(e) Assets held for sale and discontinued operations

(i) Assets (or disposal groups) held for sale

Non-current assets and groups of assets and liabilities, which comprise disposal groups, are categorized as assets (or disposal groups) held for sale where the asset (or disposal group) is available for sale in its present condition and the sale is highly probable. For this purpose, a sale is highly probable: (a) if management is committed to a plan to achieve the sale, (b) there is an active program to find a buyer, (c) the non-current asset (or disposal group) is being actively marketed at a reasonable price, (d) the sale is anticipated to be completed within one year from the date of classification, and (e) it is unlikely there will be changes to the plan. Where an asset (or disposal group) is acquired with a view to resale, it is classified as held for sale if the disposal is expected to take place within one year of the acquisition and it is highly likely that the other conditions referred to above will be met within a brief period following the acquisition. Retrospective application is not required; therefore, comparative figures will not be adjusted to reflect non-current assets held for sale. The gains or losses arising on a sale of assets (or disposal groups) that does not meet the definition of discontinued operations will be recognized as part of continuing operations, while the gains or losses arising on a sale of assets (or disposal groups) that meets the definition of discontinued operations will be reported as part of discontinued operations in the consolidated statement of comprehensive income.

(ii) Discontinued operations

An asset or group of assets will be classified as a discontinued operation when it is a component of an entity that has either been disposed of or is classified as held for sale and represents a separate major line of business, it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or it is a subsidiary acquired exclusively with a view to resell. Profits and gains or losses related to the disposal of discontinued operations are measured based on fair value less cost to sell or on the disposal of the assets (or disposal groups) and are presented in the consolidated financial statements on an after-tax basis in accordance with IFRS 5. In addition, retrospective application is required; therefore, comparative figures will be changed to reflect discontinued operations. As an individual building or a group of buildings in a non-core municipal region does not constitute a major line of business, these sales are not treated as discontinued operations.

(f) Investment properties held for sale

Investment property is transferred to current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable. For the sale to be highly probable, the Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the plan must have been initiated. The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. On re-classification to or from investment properties held for sale, investment property that is measured at fair value continues to be so measured.

(g) Leases – Company as lessor

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

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

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

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

(h) Segment reporting

Operating segments are defined as components of the Company for which separate financial information is available and is evaluated by the chief decision makers in allocating resources and assessing performance. Up to the date of disposal of IDCI at December 31, 2015, the Company operated in two business segments, real estate and pharmaceutical sales, based on the diverse types of business activities and the different economic environments they operated in. All the Company's operations are solely in Canada and are now under one business, real estate.

(i) Income tax

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

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

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

(j) Provisions

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

(k) Revenue recognition

(i) Real estate operations

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

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

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

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

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

(ii) Pharmaceutical operations – prior year discontinued operations

Revenue from the sale of pharmaceuticals, up to the date of disposal in the prior year, was recognized when the Company had transferred to the customers the significant risks and rewards of ownership of the products. The Company retained neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the products sold. Revenues were recorded as gross revenue being the amount charged to customers net of rebates and any discounts or sales returns by customers. In management's opinion, the sales returns were insignificant, and the Company provided a sales return allowance for each reporting period based on experience.

There were instances when customers would request that the Company bill and hold their shipments until the customers were prepared to receive the goods. Revenue on bill and hold arrangements was recognized when the customer was invoiced for the goods that had been purchased and made ready for shipment, as the risk of ownership of the goods had been assumed by the customer. The terms and collections experienced on the related billings were consistent with all other sales.

(l) Fair value measurements

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

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

- In the principal market for the asset or liability

or

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

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

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

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

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

(m) Financial instruments

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

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

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

<u>Financial assets and liabilities</u>	<u>Classification</u>	<u>Subsequent measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Receivables and loan receivable	Loans and receivables	Amortized cost
Bank operating facilities	Other financial liabilities	Amortized cost
Payables and accruals	Other financial liabilities	Amortized cost
Other financing	Other financial liabilities	Amortized cost
Mortgages	Other financial liabilities	Amortized cost
Security deposits	Other financial liabilities	Amortized cost

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

(n) Cash and cash equivalents

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

(o) Stock based compensation

The Company has established a stock option plan for its directors, management and key employees as described in Note 15. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. For stock options which expire unexercised, the corresponding amount in contributed surplus is transferred to retained earnings. There is no adjustment to past compensation expense. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

(p) Normal course issuers bid

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

(q) Critical judgments in applying accounting policies

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

(i) Leases

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

(ii) Investment properties

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

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

(iii) Income tax

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change.

As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

(r) Critical accounting estimates and assumptions

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

(i) Investment properties

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

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

Investment property under construction is also valued at fair value, except if such value cannot be reliably determined. In the exceptional case when a fair value cannot be reliably determined, such property is recorded at cost. The fair value of investment property under construction is determined using either the discounted cash flow method or the IAS 16 cost method with use of a residual value of zero.

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

(ii) Income taxes

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

(iii) Stock-based compensation

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

(s) Future accounting pronouncements

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

IFRS 2 Share-based Payment has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in June 2016. The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact this new standard will have on its consolidated financial statements.

IFRS 9, “Financial Instruments” (“IFRS 9”), issued in July 2014, and replaces IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss (“FVTPL”) and to measure equity-based financial assets as either held-for-trading or as fair value through other comprehensive income (“FVTOCI”). No amounts are reclassified out of other comprehensive income (“OCI”) if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9. A new general hedge accounting standard, part of IFRS 9 (2013), was issued in November 2013, permitting additional hedging strategies used for risk management to qualify for hedge accounting. The IASB has set January 1, 2018 as the effective date for the mandatory application of IFRS 9. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, “Revenue from Contracts with Customers” was issued in May 2014, which will replace IAS 11, Construction Contracts, IAS 18 Revenue Recognition, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue-Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, Consolidated Financial Statements and IFRS 11, Joint Arrangements. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of some gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

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

IAS 40 “Investment Property” has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in December 2016. The amendments clarify that:

- an entity transfers property to, or from, investment property when, and only when, there is evidence that a change in use of the property has occurred; and

- the entity must have taken observable actions to support such a change — management's intentions alone do not provide evidence of a change in use.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact this new standard will have on its consolidated financial statements.

IAS 7 "Statement of Cash Flows" has been revised to incorporate amendments issued by the IASB. The amendments required enhanced disclosures about changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes (such as foreign exchange). The amendments are effective for annual periods beginning on or after January 1, 2017, applied prospectively. The Company is in the process of assessing the impact on its consolidated financial statements.

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

3. Investment properties

Level 3	Year ended September 30, 2017	Year ended September 30, 2016
Balance beginning of year	\$ 159,634,487	\$ 148,563,735
Additions (decreases):		
Capital expenditures	308,470	364,194
Tenant inducements net of amortization	(36,365)	372,727
Leasing commissions net of amortization	21,713	(199,170)
Property acquisitions	17,133,798	12,436,069
Transfer from investment properties held for sale	8,104,500	-
Revaluation gains, net	612,790	1,135,699
Sale of equipment	(74,033)	-
Investment property sold	-	(3,151,308)
Change in straight-line revenues	190,965	112,541
Balance end of year	\$ 185,896,325	\$ 159,634,487

Valuation methodology and processes

The fair value of investment properties as of September 30, 2017 and September 30, 2016 is determined internally by management using the assumptions and market information obtained from industry professionals and qualified external appraisers. Management uses inputs from external appraisers as additional sources of information when recording property specific attributes. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all the investment properties are classified as Level 3 assets, except for investment property held for sale at September 30, 2016. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The investment property held for sale at September 30, 2016 was classified as a Level 2 asset. This property was transferred to a Level 3 asset at September 30, 2017. There were no transfers in or out of Level 3 fair value measurements for investment properties during the year ended September 30, 2016.

Management's primary internal valuation model is based on a capitalization of forecasted normalized net operating income approach. The Company determines the forecasted normalized net operating income using a one-year

income forecast for each property based on current in-place rents and assumptions about occupancy, less cash outflows expected to operate and manage each individual property within the portfolio. Capitalization rates used to estimate fair market value consider many factors including but not limited to; the location of the property, the size of the land parcel, site coverage, the quality and strength of tenants, whether lease rates are over or under current market rates, demand for the type and use of the property, the age of the building, any special use characteristics of the building or area, whether it is single tenant or multi tenanted and vacancy rates in the area. Market information related to the external sale of similar buildings within a similar geographic location is also taken into consideration.

These factors were used to determine the fair value of investment properties at each reporting date. Investment properties are valued on a highest and best use basis. For all the Company's investment properties, except for the Oliver Crossing property and vacant land, the current use is the highest and best use. The Company's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation. Management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

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

	September 30, 2017	September 30, 2016
Range of capitalization rates applied to investment properties	5.00%-7.0%	5.75%-6.5%
Fair values of properties where cap rates were applied	\$ 166,047,426	\$ 147,890,087
Weighted average cap rates	6.24%	6.07%
Fair value impact of increasing average cap rate by 0.25%	\$ (9,635,229)	\$ (5,862,213)
Fair value impact of a 1% decrease in net operating income	\$ (4,993,344)	\$ (1,488,191)

This calculation was used on all the investment properties except for Oliver Crossing, vacant land, and properties that were held for sale in the prior year.

The market value of Oliver Crossing is based on the total square footage of land multiplied by a dollar value per square foot. Vacant land was valued using management's research of similar vacant land that has sold recently, or is available for sale. Investment properties held for sale at September 30, 2016 were valued at the purchase sale agreement.

	September 30, 2017	September 30, 2016
Oliver Crossing		
Fair value	\$ 8,400,000	\$ 8,400,000
Impact of a \$10 change in price per square foot	\$ 525,000	\$ 525,000
Vacant land		
Average price per acre of land held	\$ 698,956	\$ 958,281
Number of acres held	16.38	3.49
Total fair values of land held	\$ 11,448,900	\$ 3,344,400
Impact of a 10% change in average price per acre	\$ 1,144,890	\$ 334,400

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

	September 30, 2017	September 30, 2016
Straight line rent receivable	\$ 1,406,063	\$ 1,215,098
Leasing costs	832,744	811,031
Tenant inducements	336,364	372,727
	<u>\$ 2,575,171</u>	<u>\$ 2,398,856</u>

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

Investment properties held for sale-prior year

At September 30, 2015, the Company entered into an unconditional purchase and sale agreement with an arm's length purchaser to sell 12.89 acres of vacant land in Edmonton. The closing of the sale was expected to take place in Q3 2016 but was extended to allow the purchaser to obtain financing. A deposit on the sale agreement of \$250,000 was received by the Company at September 30, 2015 and held until Q2 2017 when the purchaser could not complete the agreement. The deposit was forfeited by the purchaser and the Company recorded it as other income, net of GST, in these consolidated financial statements. The 12.89 acres is classified as investment properties at September 30, 2017 as the conditions for classification as held for sale are no longer applicable.

Loss on sale of equipment

During Q2 2017, the Company accepted an arm's length offer to sell a 10-ton crane that was surplus to the Company's needs. The total sale price of \$23,000 resulted in a loss for accounting purposes of \$51,034.

Gain on the sale of investment property-prior year

At September 1, 2016, the Company completed a purchase and sale agreement with an arm's length purchaser to sell an investment property located in southeast Edmonton. The total sale price of \$3,400,000 resulted in a gain of \$39,427.

4. Income or loss from discontinued operations-prior year

The discontinued operations consist of the operations of IDCI in which the Company sold its 100% equity interest on December 31, 2015. IDCI's operations were previously recorded as an identifiable operating segment.

Income or loss from discontinued operations are presented as a single amount in the consolidated statements of comprehensive income and cash flows. This amount comprises the post-tax loss of the discontinued operations and the post-tax gain resulting from the measurement and disposal of their assets and liabilities.

The consideration paid by the purchaser for the purchased shares of IDCI was \$1,500,000 with the Company carrying a loan receivable in the amount of \$1,000,000 net of a discount of \$43,250, to net cash on closing of \$500,000. The loan receivable is repayable in two instalments of \$500,000 on the first and second anniversary of the sale date. At December 31, 2016, the Company received the first instalment of \$500,000. The Company is carrying the balance; a non-interest bearing loan receivable of \$500,000 less the unamortized discount of \$3,586 at September 30, 2017. Subsequent to the year end, the Company agreed to terms for the balance owing of \$500,000. Payment of \$100,000 is due December 31, 2017. The balance of \$400,000 will earn interest at an annual rate of 6.5% beginning January 1, 2018 and will be paid by six monthly instalments of \$67,919 each, commencing February 1, 2018. The shares of IDCI are held in escrow until this loan receivable has been repaid. During the prior year, the Company received additional payment of \$2,761,212 from the purchaser on the inter-company loan with IDCI.

Loan receivable net of discount at September 30, 2016	\$ 978,425
Payment received during the year	(500,000)
Amortization of the discount at September 30, 2017	17,989
Loan receivable at September 30, 2017	\$ 496,414

The operating loss of IDCI to the date of disposal, and the gain from the disposal of the assets and liabilities are summarised as follows:

	Three months ended December 31, 2015
Sales of pharmaceuticals	\$ 10,070,816
Cost of sales of pharmaceuticals	(9,766,926)
Pharmaceuticals income	303,890
Administrative expenses	(346,496)
Amortization	(3,913)
	(350,409)
Loss from discontinued operations before interest and income taxes	(46,519)
Interest expense	(35,203)
Loss from discontinued operations before income taxes	(81,722)
Income tax recovery	3,947
Loss for the period	\$ (77,775)
Net proceeds from the sale of IDCI	\$ 1,456,750
Net liabilities disposed	131,899
Disposition costs	(213,077)
Accounting gain on the sale before income tax	1,375,572
Income tax expense	(174,834)
Accounting gain on the sale of IDCI	\$ 1,200,738
Net income from discontinued operations	\$ 1,122,963

5. Receivables

	September 30, 2017	September 30, 2016
Tenant receivables	\$ 97,595	\$ 110,585
Less provision for impairment, beginning of year	-	-
Provision for impairment during the year	(16,061)	-
Receivables, net	\$ 81,534	\$ 110,585

The Company has many tenants that are multinational companies with solid credit ratings. The receivables at September 30, 2017 and 2016 include invoices for occupancy costs that were reconciled at year end.

At September 30, 2017 there is one tenant with rental arrears and the Company has recorded a provision for impairment of this receivable. There was no provision for impaired receivables at September 30, 2016 as the Company assessed the receivables to be collectible, and collected all amounts outstanding at September 30, 2016.

6. Prepaid expenses and deposits

	September 30, 2017	September 30, 2016
Prepaid operating expenses	\$ 430,207	\$ 335,762
Deposits on offers to purchase investment property	1,517,049	150,000
Security deposits with municipalities	20,000	9,000
Refundable deposits	41,000	-
Total prepaid expenses and deposits	\$ 2,008,256	\$ 494,762

Prepaid operating expenses at September 30 each year are for property insurance and property taxes.

At September 30, 2017 the Company has placed deposits on agreements to purchase investment property as follows:

- A deposit of \$100,000, and cash to close of \$1,342,049 was placed pursuant to an agreement to purchase 1.7 acres of vacant land in southeast Edmonton, adjacent to the newly acquired property in Q3 2017. The total purchase price is \$1,435,600. The acquisition closed in Q1 2018.
- The Company placed a deposit of \$25,000 pursuant to an agreement to purchase 1.49 acres of land in southeast Edmonton. The total purchase price is \$1,080,250 and the acquisition will close in Q1 2018.
- A deposit of \$50,000 was placed pursuant to an agreement to purchase 2.19 acres of land with a 24,855 square foot building adjacent to the 1.49 acres above. The total purchase price is \$2,769,200 and it will close in Q1 2018.

In the prior year, at September 30, 2016, a deposit of \$150,000 was placed pursuant to an agreement to purchase the Coppertone VIII property. The acquisition was completed in Q1 2017 on November 30, 2016.

Deposits are refundable in the event the counter-party does not complete the sale.

7. Mortgages

Maturity	Rate	September 30, 2017	September 30, 2016	Lender
October 1, 2021	2.470%	8,445,018	8,900,000	RBC
January 1, 2019	2.630%	2,743,490	2,913,260	RBC
January 1, 2021	2.980%	3,988,201	4,228,624	RBC
January 1, 2021	2.980%	6,171,024	6,543,036	RBC
January 1, 2019	2.630%	2,177,932	2,312,338	RBC
January 1, 2019	2.620%	1,904,583	2,062,814	RBC
April 1, 2021	2.880%	6,371,859	6,750,298	RBC
October 1, 2021	2.470%	7,253,384	7,814,010	RBC
April 1, 2017	3.525%	-	853,823	CIBC
June 1, 2022	2.730%	2,594,914	2,779,193	RBC
September 1, 2017	3.486%	2,564,288	2,775,287	CIBC
October 1, 2017	3.357%	2,248,805	2,433,395	CIBC
January 1, 2018	3.100%	884,065	955,634	RBC
October 1, 2018	3.610%	731,921	837,714	RBC
July 1, 2019	3.450%	11,043,785	11,520,792	RBC
November 1, 2019	3.334%	9,847,403	10,266,587	CIBC
February 1, 2022	3.040%	6,540,597	-	RBC
April 1, 2021	2.948%	3,422,088	-	CIBC
July 1, 2024	5.000%	958,459	1,646,312	Private
Total mortgages		79,891,816	75,593,117	
Less current portion:		(11,020,384)	(19,813,977)	
Less transactions costs		(241,874)	(215,323)	
		68,629,558	55,563,817	
Weighted average rates		3.00%	3.10%	

All the above mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property.

The two mortgages maturing September 1, 2017 and October 1, 2017 were renewed after the year end (Note 21).

8. Other financing

	September 30, 2017	September 30, 2016
Other financing, beginning of the year	\$ -	\$ 2,925,000
Advances from related parties	3,350,000	500,000
Repayments of other financing	(2,050,000)	(3,425,000)
Other financing, end of the year	\$ 1,300,000	\$ -

Principal repayments in the amount of \$1,350,000 made to related parties were repaid with interest at an annual rate of 8% (Note 20(b)). Principal repayments of \$700,000 made to related parties were repaid with interest at an annual rate of 6% (Note 20(b)). The balance outstanding at September 30, 2017 of \$1,300,000 is owing to a related party, is unsecured, and bears interest at an annual rate of 6%. This loan has no specified date of repayment and is due on demand.

Principal repayments of advances from related parties made during the prior year in the amount of \$3,425,000 were repaid with interest at a rate of 8% per annum (Note 20(b)).

The fair value of related party loans at September 30, 2017 approximates their carrying value as the amounts are due on demand.

9. Bank operating facilities

	September 30, 2017	September 30, 2016
Imperial Equities Inc.	\$ 9,506,115	\$ 2,502,387

The Company has credit facilities set out as follows:

During Q2 2017, the Company chose not to renew a line of credit that was previously used for general business purposes with a limit of \$1,800,000 (September 30, 2016 - \$1,800,000). At September 30, 2016 the balance on the line of credit was zero. There were no financial covenant ratios required for this line of credit.

At September 30, 2017 Imperial Equities Inc. has an operating line of credit (LOC) with a limit of \$8,000,000 and provisions for a temporary increase of an additional \$3,000,000 (September 30, 2016 limit - \$3,000,000). This LOC is used to assist with property acquisitions and general operations and has a balance at September 30, 2017 of \$9,506,115 (September 30, 2016 - \$2,502,387). The credit facility bears interest at prime plus 1% per annum (September 30, 2016 – interest at prime plus 1% per annum) and is secured by specific revenue producing properties with combined fair values of \$17,227,241 (September 30, 2016 – one property with a fair value of \$6,772,780). The Company pays a standby fee of .25% per annum, payable monthly on the un-drawn portion of the facility. Specific covenants of this credit facility are that there be a minimum of 90% occupancy of the secured buildings and adherence to a margin formula as outlined below.

Availability under the facility will be restricted to the lending value assigned to the properties which will be the lesser of: a) the level at which a Debt Service Coverage Ratio of 1.30 can be maintained, less the Prior Debt on the properties, or b) the level at which a Loan to Value Ratio of 65% can be maintained with respect to the secured properties, over which the Lender has a 1st mortgage and 60% with respect to the secured properties over which the Lender holds a 2nd mortgage, less the prior debt on the properties. For these secured properties, the loan to value is set at 65%, unchanged from the prior year.

Debt service = annual principal and interest payments based on 25-year amortization and an interest rate that is the greater of 5.5% or the Government of Canada Benchmark Bond Yields plus 225 basis points.

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

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

At September 30, 2017 the debt service coverage ratio is 1.31 and the loan to value ratio is 77% (September 30, 2016 the debt service coverage ratio was 5.93 and the loan to value ratio was 13%).

The Company's lender that holds the credit facility has allowed the Company to overdraw the facility at the fiscal year end of September 30, 2017. At the year end, the Company was in the process of paying out two mortgages that were due on September 1, 2017 and October 1, 2017 and replacing them with two new mortgages through the same lender. The two new mortgages would provide additional capital to complete a purchase agreement immediately following the year end. As the lender was unable to fund the mortgages prior to the year end, the lender agreed to allow the Company to overdraw the credit facility and allow the loan to value ratio to exceed 65% at September 30, 2017, until the mortgages were fully advanced (Note 21). The Company did not breach any financial covenants during the current year, or prior year.

10. Payables and accruals

	September 30, 2017	September 30, 2016
Trade payables	\$ 68,118	\$ 275,758
Accrued loan interest	195,136	176,141
Current portion of tenant security deposits	37,850	79,619
Accrued payables	193,529	110,244
Prepaid rents	178,156	176,977
Total payables and accruals	\$ 672,789	\$ 818,739

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

11. Income taxes

a) Provision for income taxes

Components of income tax expense

	2017	2016
Current tax expense	\$ 852,725	\$ 654,646
Deferred tax expense	818,914	914,087
	\$ 1,671,639	\$ 1,568,733

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

	2017	2016
Expected income tax expense at 27% (2016-27%)	\$ 1,730,439	\$ 1,918,534
<i>Increase (decrease) resulting from:</i>		
Non-deductible items	23,926	3,599
Rate differences	(82,726)	(335,903)
Other	-	(17,497)
	\$ 1,671,639	\$ 1,568,733

b) Deferred taxes

Deferred tax assets are attributable to the following:

	September 30, 2017	September 30, 2016
Financing fees	\$ 10,319	\$ 12,883
Loan receivable	968	5,825
Non-capital losses	-	12,253
Cumulative eligible capital	-	616
Deferred tax assets	11,287	31,577
Offset of tax	(11,287)	(31,577)
Net deferred tax assets	\$ -	\$ -

Deferred tax liabilities are attributable to the following:

	September 30, 2017	September 30, 2016
Straight-line rent receivable	\$ 379,637	\$ 328,076
Investment properties	13,087,371	12,258,648
Tenant inducements	90,818	100,636
Capital gain reserve	38,852	116,557
Deferred leasing	224,841	218,979
Tax liabilities	13,821,519	13,022,896
Offset of tax	(11,287)	(31,577)
Net tax liabilities	\$ 13,810,232	\$ 12,991,319

\$30,273,649 (September 30, 2016 - \$30,273,649) related to investments in certain subsidiaries was not recognized because it was not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized.

c) Non-capital losses

At September 30, 2017 the Company has \$nil federal or provincial non-capital losses carried forward (September 30, 2016 - \$45,381).

12. Supplemental consolidated cash flow information from continuing operations

<i>Change in non-cash working capital</i>	2017	2016
Decrease in receivables	\$ 29,051	\$ 147,539
Increase in prepaid expenses and deposits	(1,513,494)	(35,890)
Decrease in payables and accruals	(157,856)	(74,204)
Increase in income taxes payable	196,382	136,553
Increase (decrease) in security deposits	69,223	(33,156)
Total change in non-cash working capital	\$ (1,376,694)	\$ 140,842
Interest paid from continuing operations	\$ 2,526,560	\$ 2,456,214
Income taxes paid	\$ 683,930	\$ 465,458

13. Share capital

a) The Company has unlimited authorized common share capital.

	September 30, 2017	September 30, 2016
Number of shares issued		
Balance beginning of year	9,671,442	9,747,042
Shares cancelled during the year	(57,000)	(75,600)
Ending number of shares	9,614,442	9,671,442

	September 30, 2017	September 30, 2016
Capital stock		
Balance beginning of year	\$ 5,946,742	\$ 6,133,681
Shares repurchased and held in treasury	-	(139,322)
Shares previously held in in treasury	139,322	-
Shares cancelled during the year	(35,912)	(47,617)
Ending capital stock	\$ 6,050,152	\$ 5,946,742

The Company received approval from the TSX Venture Exchange to purchase up to 487,577 common shares representing 5% of the outstanding shares under a normal course issuer bid (“NCIB”) that expired August 31, 2017. Prior to the expiry date, the Company received further approval to purchase up to 480,227 common shares under a NCIB which expires August 30, 2018.

During the current year, 26,200 shares were repurchased for a total cost of \$113,765. All the shares were cancelled along with the 30,800 shares held in treasury from the prior year. The excess of the purchase price over the cost of the shares in the amount of \$217,175, was charged to retained earnings.

During the prior year, 106,400 shares were repurchased for a total purchase price of \$469,527. Of the shares repurchased, 75,600 were cancelled and the excess purchase price over the cost of the shares issued in the amount of \$282,588 was charged to retained earnings. The balance of 30,800 shares was held in treasury until cancelled in the current year.

b) Contributed surplus

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

	September 30, 2017	September 30, 2016
Contributed surplus, beginning and end of year	\$ 593,750	\$ 593,750

14. Earnings per share

The following are the weighted average number of shares outstanding:

	2017	2016
Net income and total comprehensive income for the year	\$ 4,737,393	\$ 5,536,946
Weighted average shares outstanding – basic	9,604,975	9,678,019
Unexercised dilutive options	27,899	18,529
Weighted average shares outstanding – diluted	9,632,874	9,696,548

Earnings per share – basic and diluted

From continuing operations	\$.49	\$.46
From discontinued operations	\$	-	\$.12
Total earnings per share, basic and diluted	\$.49	\$.58

15. Stock-based compensation plan

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

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)
Opening balance at October 1, 2016	475,000	\$ 4.25	2.92
Ending balance at September 30, 2017	475,000	\$ 4.25	1.92

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)
Opening balance at October 1, 2015	475,000	\$ 4.25	3.92
Ending balance at September 30, 2016	475,000	\$ 4.25	2.92

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

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Company does not have a past practice of cash settlement for these share options. All the options outstanding as of September 30, 2017 and September 30, 2016 are exercisable.

16. Rental revenue

The Company leases commercial properties under operating leases with lease terms generally between 3 and 15 years. Some leases have options to extend for further five-year terms, one land lease is month to month, and two small tenant leases are month to month.

a) Rental revenue

	2017	2016
Rental revenue, contractual amount	\$ 10,170,516	\$ 8,657,271
Amortization of tenant inducements	(36,364)	(27,273)
Straight line of rental revenue from leases	190,965	112,541
Rental revenue on statement of comprehensive income	\$ 10,325,117	\$ 8,742,539

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

	2017	2016
No later than one year	\$ 10,691,138	\$ 9,203,566
2 – 5 years	36,519,292	33,190,326
Over 5 years	24,569,133	29,111,453
Total	\$ 71,779,563	\$ 71,505,345

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

b) Property operating expenses

	2017	2016
Property taxes	\$ 1,660,344	\$ 1,366,689
Insurance	102,465	98,746
Repairs and maintenance	553,321	415,177
Management fees	564,251	495,923
Utilities	91,236	66,672
Total property operating expenses	\$ 2,971,617	\$ 2,443,207

17. Guarantees and contingencies

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

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

c) The Company has contracts in place with related parties to provide property management and asset management. Both contracts have been in place since 1999 and have been renewed on an annual basis with no changes to the terms. Further information can be found in the Related Party Transactions in Note 20.

18. Capital risk management

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

	September 30, 2017	September 30 2016
Mortgages	\$ 79,891,815	\$ 75,593,117
Bank operating facilities	9,506,115	2,502,387
Other financing	1,300,000	-
Total debt financing	90,697,930	78,095,504
Equity	83,208,524	78,584,896
Total capital	\$ 173,906,454	\$ 156,680,400

19. Financial instruments

	September 30, 2017	September 30, 2016
Financial assets		
Loans and receivables		
Cash and cash equivalents	\$ 843,336	\$ 2,115,033
Receivables, net of provisions	81,534	110,585
Loan receivable, net of amortized discount	496,414	978,425
	\$ 1,421,284	\$ 3,204,043

Financial liabilities

Other financial liabilities

Bank operating facilities	\$ 9,506,115	\$ 2,502,387
Payables and accruals	672,789	818,739
Other financing	1,300,000	-
Security deposits	325,538	256,314
Mortgages	79,891,815	75,593,117
	\$ 91,696,257	\$ 79,170,557

The carrying value of cash and cash equivalents, receivables, loan receivable, bank operating facilities, other financing, payables and security deposits approximate their fair value because of the near-term maturity of those instruments. The fair value of mortgages payable is a level 2 measurement and are based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable as at September 30, 2017 is \$78,566,380 (September 30, 2016 - \$78,528,168). These estimates are subjective in nature as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible. The interest rate used for this calculation is 3.448% (September 30, 2016 – 2.47%).

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

Credit risk

The Company's maximum exposure to credit risk is the balance of its trade receivables of \$81,534 (September 30, 2016 - \$110,585) and cash and cash equivalents of \$843,336 (September 30, 2016 - \$2,115,033). Credit risk for Imperial Equities Inc. arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss with a policy of credit assessment for all new lessees and by limiting its exposure to any one tenant. Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions.

Trade accounts receivable that have been deemed uncollectible are expensed as bad debts and charged to net income in the period when the account is determined to be doubtful. During the current year, the Company had a tenant that experienced difficulty paying their rent. Subsequent to the year end, this tenant was put into receivership and the Company wrote off the rent receivable of \$257,209 at September 30, 2017 as a bad debt. Estimates for the allowance for doubtful accounts are determined on a tenant-by-tenant evaluation of collectability at each reporting date. As at September 30, 2017, an allowance for doubtful accounts was recorded in the amount of \$16,061 for one small tenant. The Company will continue to closely monitor this tenant for financial stability. At September 30, 2016 the Company did not record a provision for bad debts as it deemed all accounts as collectible. All receivables outstanding at September 30, 2016 were collected.

Interest rate risk

The Company's exposure to interest rate risk relates to its short term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at September 30, 2017 is \$9,506,115 (September 30, 2016 - \$2,502,387). Under the assumption any balance of debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$95,062 (September 30, 2016 - \$25,024). The Company minimizes its exposure to interest rate risk to the extent that all mortgages have fixed rates with terms varying from one to seven years.

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure

that the Company will not be able to meet its obligations associated with financial liabilities. The Company actively monitors its financing obligations and cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Management manages its liquidity risk with the use of the lines of credit available to the Company as well as short term financing from related parties and private parties. Management estimates that cash flows from real estate activities will provide sufficient cash requirements to cover normal operating and budgeted expenditures.

The Company was successful during the year in receiving new mortgage financing at low rates of interest and renewing a mortgage at a lower interest rate than the previous term. The proceeds of the mortgages were used to repay one mortgage at its maturity that had a balance at September 30, 2016 of \$853,823. After the year end, the Company paid out the balance at maturity of two mortgages that were up for renewal, at September 1, 2017 and October 1, 2017. New mortgages providing additional capital were received from the same lender (Note 21). After the year end, the Company secured a new credit facility with one of the Company's major lenders to be used for property acquisitions and general operations (Note 21).

The Company will be able to meet its future obligations through normal operations and current credit facilities.

Contractual obligations at September 30, 2017

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 12,166,612	\$ 35,755,205	\$ 36,819,106	\$ -	\$ 84,740,923
Payables and accruals	672,789	-	-	-	672,789
Security deposits	37,850	22,493	191,374	111,671	363,388
	<u>\$ 12,877,251</u>	<u>\$ 35,777,698</u>	<u>\$ 37,010,480</u>	<u>\$ 111,671</u>	<u>\$ 85,777,100</u>
Other financing	1,300,000	-	-	-	1,300,000
Operating facilities	9,506,115	-	-	-	9,506,115
	<u>\$ 23,683,366</u>	<u>\$ 35,777,698</u>	<u>\$ 37,010,480</u>	<u>\$ 111,671</u>	<u>\$ 96,583,215</u>

Contractual obligations at September 30, 2016

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 19,565,613	\$ 29,084,039	\$ 32,982,457	\$ -	\$ 81,632,109
Payables and accruals	818,739	-	-	-	818,739
Security deposits	79,619	23,904	74,833	157,451	335,807
	<u>\$ 20,463,971</u>	<u>\$ 29,107,943</u>	<u>\$ 33,057,290</u>	<u>\$ 157,451</u>	<u>\$ 82,786,655</u>
Operating facilities	2,502,387	-	-	-	2,502,387
	<u>\$ 22,966,358</u>	<u>\$ 29,107,943</u>	<u>\$ 33,057,290</u>	<u>\$ 157,451</u>	<u>\$ 85,289,042</u>

20. Related party transactions

The following are the related party transactions of the Company.

a) Management Agreements

Sable Realty & Management Ltd. provides property management services to Imperial Equities Inc. The company is controlled by the President and CEO of the Company, Sine Chadi. North American Realty Corp. is also controlled by Mr. Chadi and provides asset management services to the Company. North American Mortgage & Leasing Corp. is controlled by Sine Chadi and provided leased vehicles to IDCI in the prior year.

Fee structure

Payments to Sable Realty & Management Ltd.:

Property management	4% of gross rents paid plus a flat fee for ground maintenance on certain properties
Property maintenance	\$50-\$65/hour for labour plus charges for truck, equipment and parts (September 30, 2016 - \$50/hour)
Project management	contracted directly with the tenant and charged back under the terms of their lease
Office rent and parking	flat rate of \$8,000 monthly
Warehouse lease space	market rate for comparable leased space
Leasehold improvements	contracted directly with the tenant and charged back under the terms of their lease
Fees for CFO	\$210,000 (\$183,000-September 30, 2016)

Payments to North American Realty Corp.:

Leasing	3% of the value of lease renewals to a maximum of five years 6% of the value of new leases for the first five years plus 3% of the value of the leases that extend from six years to a maximum of ten years
Acquisitions	1% of the purchase price of the property
Dispositions	3% of the sale price of investment property IDCI disposition fee (September 30, 2016-1.5% of the total assets held in IDCI at the sale date excluding deferred taxes plus 1.5% of the proceeds of the sale of the shares)

<i>Payments for the year ending September 30,</i>	2017	2016
Property management and maintenance fees	\$ 796,651	\$ 588,432
Acquisition fees	169,000	122,500
Leasing fees	215,980	43,574
Disposition fees	-	261,792
Vehicle leases	-	5,226
Office rent and parking	96,000	96,000
Warehouse lease space	35,450	29,919
Fees for CFO	210,000	183,000
Total payments	\$ 1,523,081	\$ 1,330,443
Amounts payable at September 30	\$ -	\$ 162,961

b) *Other related party transactions*

- i) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the year ending September 30, 2017 were \$47,500 (September 30, 2016 – \$46,500).
- ii) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The Company's key management personnel include the President Sine Chadi who is also a director of the Company. Total compensation paid to Mr. Chadi for the year ending September 30, 2017 was \$300,000 (September 30, 2016 - \$300,000).

iii) Other financing

Related Parties	Balance Oct 1'16	Advances	Repayments	Balance Sep 30'17
NAMC ¹	\$ -	\$ 675,000	\$ (675,000)	\$ -
Jamel Chadi, Shareholder ²	-	1,900,000	(600,000)	1,300,000
Sine Chadi, Shareholder ²	-	775,000	(775,000)	-
Total	\$ -	\$ 3,350,000	\$ (2,050,000)	\$ 1,300,000

Related Parties	Balance Oct 1'15	Advances	Repayments	Balance Sep 30'16
NAMC ¹	\$ 1,325,000	\$ 100,000	\$ (1,425,000)	\$ -
Directors ³	1,000,000	400,000	(1,400,000)	-
Imperial Land ⁴	250,000	-	(250,000)	-
<i>Subtotals</i>	\$ 2,575,000	\$ 500,000	\$ (3,075,000)	\$ -
Unrelated party	350,000	-	(350,000)	-
Total	\$ 2,925,000	\$ 500,000	\$ (3,425,000)	\$ -

1. NAMC is owned 100% by a director and major shareholder of the Company. Total interest paid at September 30, 2017 was \$12,845 (September 30, 2016 - \$5,415).
2. Total interest paid to shareholders at September 30, 2017 was \$10,653.
3. Total interest paid to directors in the prior year was \$16,763.
4. Imperial Land Corp. is controlled by a director and named executive officer of the Company. Total interest paid in the prior year was \$4,093.

21. Post-reporting date events

After the year end, the Company completed a purchase agreement to acquire 1.7 acres in southeast Edmonton. The total purchase price of \$1,435,600 was completed with funds from operations and available credit facilities. A land lease agreement with a current tenant to lease the 1.7 acres commences November 1, 2018.

After the year end, the Company placed additional deposits in the amount of \$225,000 on agreements to purchase investment properties that were entered into in Q4 2017. The agreements are to acquire a 24,855 square foot building on 2.19 acres, and an adjacent site of 1.49 acres in southeast Edmonton. The total purchase price of both properties is \$3,849,450. Cash to close will be completed with funds from operations, available credit facilities and conventional mortgage financing. The purchase agreements along with a tenant lease will be completed in Q1 2018.

In Q1 2018, construction has begun on a 12,000 square foot building called Coppertone III in northwest Edmonton. The building is situated on 1.25 acres of vacant land, part of the Company's Coppertone Industrial Common.

After the year end, the Company received a new \$4.5 million credit facility with one of the Company's major lenders. This facility is in addition to the current facility with a limit of \$8 million and bears interest at prime plus 0.95% per annum. Available credit will be used to fund new acquisitions.

Also after the year end, the Company received mortgage proceeds of \$7,825,000 relating to two mortgages that were up for renewal at their term dates of September 1, 2017 and October 1, 2017. The proceeds repaid the balance owing on the mortgages at September 30, 2017 of \$4,813,093 and the additional proceeds were applied to the same lender's credit facility that had a balance at September 30, 2017 of \$9,506,115. The mortgages bear interest at 3.67% per annum.

22. Authorization of consolidated financial statements

The consolidated financial statements for the year ending September 30, 2017 (including comparatives) were authorized for issue by the Board of Directors on November 30, 2017.

Signed "Sine Chadi", Director

Signed "Kevin Lynch", Director