

IMPERIAL EQUITIES INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	Notes	June 30, 2017	September 30, 2016
Assets			
Investment properties	3	177,302,806	159,634,487
Loan receivable		-	482,060
Total non-current assets		177,302,806	160,116,550
Investment properties held for sale	3	8,104,500	8,104,500
Current portion of loan receivable	4	492,826	496,362
Receivables	5	675,187	110,585
Income taxes recoverable		-	27,586
Prepaid expenses and deposits	6	939,746	494,762
Cash and cash equivalents		53,011	2,115,033
Total current assets		10,265,270	11,348,828
Total Assets		187,568,076	171,465,378
Liabilities			
Mortgages	7	71,148,424	55,563,817
Security deposits		325,538	256,314
Deferred taxes	11	14,352,163	12,991,319
Total non-current liabilities		85,826,125	68,811,450
Current portion of mortgages	7	10,328,224	19,813,977
Other financing	9	700,000	-
Bank operating facilities	8	7,993,803	2,502,387
Deposit on investment property for sale	3	-	250,000
Payables and accruals	10	563,296	818,739
Income taxes payable		710,192	683,929
Total current liabilities		20,295,515	24,069,032
Total Liabilities		106,121,640	92,880,482
Equity			
Issued share capital	13	6,058,144	5,946,742
Contributed surplus	13	593,750	593,750
Retained earnings		74,794,542	72,044,404
Total Equity		81,446,436	78,584,896
Total Equity and Liabilities		187,568,076	171,465,378

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

See accompanying notes to the consolidated interim financial statements.

IMPERIAL EQUITIES INC.
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
For the period ending June 30,
(unaudited)

	Notes	3 Months 2017	3 Months 2016	9 Months 2017	9 Months 2016
Rental revenue	16(a)	2,658,804	2,187,360	7,632,380	6,588,976
Property operating expense recoveries		660,580	497,478	1,849,226	1,511,964
Property operating expenses	16(b)	(735,741)	(533,010)	(2,119,919)	(1,837,730)
Income from operations		2,583,643	2,151,828	7,361,687	6,263,210
Administration expenses		(239,684)	(203,115)	(851,995)	(668,946)
Amortization		(85,463)	(97,884)	(241,353)	(262,048)
Loss on the sale of equipment	3	-	-	(51,034)	-
Valuation gains from investment property	3	(197,446)	(463,113)	331,823	395,752
Income from operations before interest and other		2,061,050	1,387,716	6,549,128	5,727,968
Income earned on deposit	3	-	-	250,000	-
Interest income		3,722	7,357	16,048	23,254
Interest expense		(662,322)	(555,194)	(1,866,965)	(1,798,358)
Net income before tax		1,402,450	839,879	4,948,211	3,952,864
Income tax expense	11	(838,137)	(122,578)	(2,071,036)	(1,185,350)
Net income from continuing operations		564,313	717,301	2,877,175	2,767,514
Discontinued operations	4				
(Loss) income from discontinued operations		-	(9,152)	-	1,293,850
Income tax recovery (expense)		-	1,236	-	(167,855)
Net (loss) income from discontinued operations		-	(7,916)	-	1,125,995
Net income and total comprehensive income for the period		564,313	709,385	2,877,175	3,893,509
Earnings per share, basic and diluted	16				
From continuing operations		0.06	0.07	0.30	0.29
From discontinued operations		-	-	-	0.12
		0.06	0.07	0.30	0.41

See accompanying notes to the consolidated interim financial statements.

IMPERIAL EQUITIES INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
Nine months ended June 30,

	Number of shares	Capital stock	Contributed surplus	Retained earnings	Total
October 1, 2016	9,640,642	\$ 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 period	(32,600)	(20,540)	-	(127,037)	(147,577)
Shares repurchased during the period	(1,700)	(7,380)	-	-	(7,380)
Net income	-	-	-	2,877,175	2,877,175
Balance June 30, 2017	9,606,342	\$ 6,058,144	\$593,750	\$ 74,794,542	\$ 81,446,436

	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 period	(4,300)	(18,195)	-	-	(18,195)
Shares cancelled during the period	(75,600)	(47,617)	-	(282,588)	(330,205)
Net income	-	-	-	3,893,509	3,893,509
Balance June 30, 2016	9,667,142	\$ 6,067,869	\$593,750	\$ 70,400,967	\$ 77,062,586

See accompanying notes to the consolidated interim financial statements.

IMPERIAL EQUITIES INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the nine months ended June 30,

	Notes	2017	2016
Operating activities			
Net income from continuing operations		2,877,175	2,767,514
Interest on financing		1,866,965	1,798,358
Items not affecting cash:			
Income from deposit on property		(250,000)	-
Amortization of discount on loan receivable		(14,401)	(14,450)
Amortization of tenant inducements		27,273	-
Loss on the sale of equipment		51,034	-
Fair value changes on investment properties		(331,823)	(395,752)
Amortization		241,353	262,048
Straight-line rental revenue		(154,788)	(105,070)
Deferred income taxes		1,360,844	844,142
Change in non-cash working capital	12	(1,141,959)	(874,564)
Cash inflow from operating activities of continuing operations		4,531,673	4,282,228
Cash outflow from discontinued operations		-	(1,791,665)
Investing activities			
Purchase of investment properties		(17,102,312)	-
Improvements to investment properties		(164,192)	(689,187)
Proceeds on sale of equipment		23,000	-
Proceeds from loan receivable		500,000	-
Direct leasing costs		(198,037)	(66,324)
Cash outflow used for investing activities of continuing operations		(16,941,541)	(755,511)
Cash inflow from disposition of discontinued operations			
net of disposal costs of \$207,872	4	-	3,473,472
Financing activities			
Proceeds from mortgages		10,250,000	16,594,000
Repayment of mortgages		(4,131,367)	(9,007,400)
Transaction costs paid		(79,603)	(125,434)
Advances from other financing		2,050,000	500,000
Repayment of other financing		(1,350,000)	(3,425,000)
Interest on financing		(1,866,965)	(1,798,358)
Purchase of common shares for cancellation		(15,635)	(348,400)
Net advances (repayment) on bank operating facilities		5,491,416	(9,756,847)
Cash inflow (outflow) from financing activities of continuing operations		10,347,846	(7,367,439)
Cash inflow from financing of discontinued operations		-	2,278,992
(Decrease) increase, in cash and cash equivalents		(2,062,022)	120,077
Cash and cash equivalents, beginning of year		2,115,033	1,009,718
Cash and cash equivalents, end of period		53,011	1,129,795

Supplemental consolidated cash flow information (Note 12)

See accompanying notes to the consolidated interim financial statements.

1. Nature of operations

Imperial Equities Inc. (“the Company”) was incorporated in Edmonton, Alberta, Canada. The registered and operating office of the Company is 2151, 10060 Jasper Avenue, Edmonton, Alberta T5J 3R8. The Company’s operations consist of the acquisition, development and redevelopment of commercial and industrial properties primarily in Edmonton and throughout Alberta. 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 in the prior year are presented as discontinued operations in these consolidated interim financial statements (Note 4). The operations of Imperial Equities Inc. are conducted in Canadian funds. The Company’s common shares trade on the TSX Venture Exchange (TSXV) under the symbol “IEI”. These consolidated interim financial statements include the Company and its wholly owned subsidiaries, Imperial Equities Properties Ltd. (“IEPL”), Imperial 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

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

These consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the most recent annual financial statements. These statements have not been reviewed by the Company’s auditors and should be read in conjunction with the Company’s 2016 annual consolidated financial statements. The preparation of interim financial statements in conformity with IAS34 requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

These consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, which are the entities over which the Company has control. The Company controls the entity when the Company is exposed to, or has rights to variable returns from its involvement with the entity and can affect those returns. The results of operations of the former subsidiary IDCI are reported in the prior year 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 and initial leasing commissions 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. Tenant incentives are 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 to investment properties when, and only when, there is a change in use, or property under construction becomes available for use. 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 "Assets held for sale" when the criteria set out in IFRS 5 "Non-Current Asset Held for Sale and Discontinued Operations" are met (Note 3(e)).

Vacant land owned by the Company is held for capital appreciation 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 for the purpose of providing 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, 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. The Company's operations are solely in Canada and are now under one business, real estate.

(i) Income tax

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

Current income taxes 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.

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

Revenue from the sale of pharmaceuticals up to the date of disposal in the prior year, is recognized when the Company has transferred to the customers the significant risks and rewards of ownership of the products. The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold. Revenues are 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 are insignificant and the Company provides a sales return allowance for each reporting period based on experience.

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

(l) Fair value measurements

The Company measures certain financial instruments such as derivatives, and 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 interim 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 interim 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) 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 14. 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.

(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 judgement 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:

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.

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.

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.

Sales returns provision

The Company had an informal policy whereby it accepted product returns from customers in its pharmaceutical segment, in the prior year. The provision recorded for estimated product returns was based on historical experience, market conditions, and knowledge of business. Actual sales return experienced may differ from this estimate. The provision was presented as net against the pharmaceutical sales.

(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 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 has not yet begun 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.

3. Investment properties

Level 3	Nine months ended June 30, 2017	Year ended September 30, 2016
Balance beginning of year	\$ 159,634,487	\$ 148,563,735
Additions:		
Capital expenditures	164,192	364,194
Tenant inducements net of amortization	(27,273)	372,727
Leasing commissions net of amortization	16,511	(199,170)
Property acquisitions	17,102,312	12,436,069
Net unrealized gains in investment property fair values	331,823	1,135,699
Sale of equipment	(74,034)	-
Investment property sold	-	(3,151,308)
Change in straight-line revenues	154,788	112,541
Balance end of period	\$ 177,302,806	\$ 159,634,487

Valuation methodology and processes

The fair value of investment properties as of June 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. The Company’s policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer

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

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 specific 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, apart from 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:

	June 30, 2017	September 30, 2016
Range of capitalization rates applied to investment properties	5.00%-7.00%	5.75%-6.50%
Fair values of properties where cap rates were applied	\$ 165,558,409	\$ 147,890,087
Weighted average cap rates	6.24%	6.07%
Fair value impact of increasing average cap rate by 0.25%	\$ (9,615,525)	\$ (5,862,213)

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

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 are valued at the purchase sale agreement.

	June 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	\$ 958,281	\$ 958,281
Number of acres held	3.49	3.49
Total fair values of land held	\$ 3,344,400	\$ 3,344,400
Impact of a 10% change in average price per acre	\$ 334,400	\$ 334,400

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

	June 30, 2017	September 30, 2016
Straight line rent receivable	\$ 1,369,887	\$ 1,215,098
Leasing costs	827,541	811,031
Tenant inducements receivable	345,455	372,727
	\$ 2,542,883	\$ 2,398,856

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

Investment properties held for sale – Level 2

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 in these consolidated interim financial statements.

The 12.89 acres continues to be actively marketed for sale.

Loss on sale of equipment

During Q2 2017, the Company accepted an arms 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.

4. Income or loss from discontinued operations

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 have previously been recorded as an identifiable operating segment.

Income or loss from discontinued operations are presented as a single amount in the consolidated interim 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 shares of IDCI are held in escrow until this loan receivable has been repaid. During the prior year, the Company received payment of \$2,761,212 from the purchaser on the inter-company loan with IDCI.

Note receivable net of discount at September 30, 2016	\$ 978,425
Payment received during the period	(500,000)
<u>Amortization of the discount at June 30, 2017</u>	<u>14,401</u>
Balance owing at June 30, 2017	\$ 492,826

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)
<u>Pharmaceuticals income</u>	<u>303,890</u>
Administrative expenses	(346,496)
<u>Amortization</u>	<u>(3,913)</u>
	<u>(350,409)</u>
Loss from discontinued operations before interest and income taxes	(46,519)
<u>Interest expense</u>	<u>(35,203)</u>
Loss from discontinued operations before income taxes	(81,722)
<u>Income tax recovery</u>	<u>-</u>
<u>Loss for the period</u>	<u>\$ (81,722)</u>

Net proceeds from the sale of IDCI	\$ 1,456,750
Net liabilities disposed	131,899
<u>Disposition costs</u>	<u>(213,077)</u>
Accounting gain on the sale before income tax	1,375,572
<u>Income tax expense</u>	<u>(167,855)</u>
<u>Accounting gain on the sale of IDCI</u>	<u>\$ 1,207,717</u>
 <u>Net income from discontinued operations</u>	 <u>\$ 1,125,995</u>

5. Receivables

	June 30, 2017	September 30, 2016
Tenant receivables	\$ 675,187	\$ 110,585

The Company has many tenants that are multinational in scope who have solid credit ratings. The receivables at September 30, 2016 include invoices for occupancy costs that were reconciled at September 30, 2016 and subsequently collected. Reflected in the receivables at June 30, 2017 and September 30, 2016, is one small tenant with rental arrears who continues to work with the Company to bring their account current. In Q2 2017 a large tenant with exposure to the oil industry had part of their contracted monthly lease payments deferred to the end of this fiscal year. During Q3 2017 a new tenant that was previously a subtenant of the building, has deferred their rent for several months while they catch up on their receivables. During the next three months, management will assess all three tenants' ability to fulfil their lease obligations. If deemed necessary, management will make a provision for an impairment of receivables.

Receivables at June 30, 2017 include an annual billing to a tenant for property taxes in the amount of \$117,180. The tenant paid the amount in full subsequent to the quarter ending.

There was no provision for impaired receivables at June 30, 2017 and September 30, 2016 as management has assessed the receivables to be collectible.

6. Prepaid expenses and deposits

	June 30, 2017	September 30, 2016
Prepaid operating expenses	\$ 830,570	\$ 335,762
Deposits on offers to purchase investment property	100,176	150,000
Security deposits with municipalities	9,000	9,000
Total	\$ 939,746	\$ 494,762

Prepaid operating expenses at June 30, 2017 and September 30, 2016 are for property taxes and property insurance.

The Company entered into an agreement to purchase 1.7 acres of vacant land in southeast Edmonton, adjacent to a newly acquired property in Q3 2017. The total purchase price is \$1,435,600 and it is expected to close in Q1 2018.

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 on November 30, 2016.

7. Mortgages

Maturity	Rate	June 30, 2017	September 30, 2016	Lender
October 1, 2021	2.470%	8,570,121	8,900,000	RBC
January 1, 2019	2.630%	2,786,350	2,913,260	RBC
January 1, 2021	2.980%	4,048,975	4,228,624	RBC
January 1, 2021	2.980%	6,265,061	6,543,036	RBC
January 1, 2019	2.630%	2,211,865	2,312,338	RBC
January 1, 2019	2.620%	1,944,530	2,062,814	RBC
April 1, 2021	2.880%	6,467,485	6,750,298	RBC
October 1, 2021	2.470%	7,395,309	7,814,010	RBC
April 1, 2017	3.525%	-	853,823	CIBC
June 1, 2022	2.730%	2,641,637	2,779,193	RBC
September 1, 2017	3.486%	2,617,723	2,775,287	CIBC
October 1, 2017	3.357%	2,295,530	2,433,395	CIBC
January 1, 2018	3.100%	902,164	955,634	RBC
October 1, 2018	3.610%	758,725	837,714	RBC
July 1, 2019	3.450%	11,164,571	11,520,792	RBC
November 1, 2019	3.334%	9,953,502	10,266,587	CIBC
February 1, 2022	3.040%	6,630,793	-	RBC
April 2, 2021	2.948%	3,468,949	-	CIBC
July 1, 2024	5.000%	1,588,462	1,646,312	Private
Total mortgages		81,711,749	75,593,117	
Less current portion:		(10,328,224)	(19,813,977)	
Less transactions costs:		(235,101)	(215,323)	
		71,148,424	55,563,817	
Weighted average rates		3.02%	3.10%	

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

8. Bank operating facilities

	June 30, 2017	September 30, 2016
	\$ 7,993,803	\$ 2,502,387

The Company has credit facilities set out as follows:

At September 30, 2016 Imperial Equities had an operating line of credit for general business purposes with a limit of \$1,800,000 and a Nil balance at that date. During Q2 2017, the Company closed this line of credit.

At June 30, 2017 and September 30, 2016 Imperial Equities Inc. has an additional operating line of credit to assist with property acquisitions and general operations of the real estate segment with a limit of \$3,000,000 at September 30, 2016 and a balance of \$2,502,387 at that date.

During the current period, the Company received two increases in the limit to this line of credit from \$3,000,000 to \$8,000,000. At June 30, 2017, the balance is \$7,993,803. This facility bears interest at prime plus 1% per annum (September 30, 2016 – prime plus 1%) and is secured by three specific revenue producing properties with a fair value of \$17,227,241 at June 30, 2017 (September 30, 2016 – secured by 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 remain unchanged during the period and include; 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 property, or b) the level at which a Loan to Value Ratio of 65% can be maintained with respect to the secured property, over which the Lender has a 1st mortgage and 60% with respect to the secured property over which the Lender holds a 2nd mortgage, less the prior debt on the property. For these secured properties, the loan to value is set at 65%.

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 property adjusted for normal operating expenses, common area maintenance expenses, property taxes and other expenses that are not recovered from the tenant.

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

At June 30, 2017, the debt service coverage ratio is 1.36 and the loan to value ratio is 65%. (September 30, 2016 the debt service coverage ratio was 5.93 and the loan to value ratio was 13%)

9. Other financing

	June 30, 2017	September 30, 2016
Other financing, beginning of year	\$ -	\$ -
Advances from related parties during the period	2,050,000	-
Repayments of advances during the period	(1,350,000)	-
Total other financing, end of the period	\$ 700,000	\$ -

Advances from related parties are unsecured with no specified date of repayment. The loans repaid during the period incurred interest at an annual rate of 8%. The balance of \$700,000 at June 30, 2017 bears interest at a rate of 6% per annum. The fair value of related party loans at June 30, 2017 approximates the carrying value as the amounts are due on demand.

10. Payables and accruals

	June 30, 2017	September 30, 2016
Trade payables	\$ -	\$ 275,758
Accrued loan interest	198,138	176,141
Current portion of tenant security deposits	37,851	79,619
Accrued payables	68,882	110,244
Prepaid rents	258,425	176,977
Total	\$ 563,296	\$ 818,739

Prepaid rents from tenants largely relates to rent due on the first of the following month. The balance of rents paid in advance are amortized 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	June 30, 2017	June 30, 2016
Current tax expense	\$ 710,191	\$ 341,208
Deferred tax expense	1,360,844	844,142
	\$ 2,071,036	\$ 1,185,350

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:

	June 30, 2017	June 30, 2016
Expected income tax expense at 27% (2016-27.00%)	\$ 1,336,017	\$ 1,067,273
<i>Increase (decrease) resulting from:</i>		
Non-deductible items	16,430	-
Rate differences	-	517,132
Other	718,588	(399,055)
	\$ 2,071,036	\$ 1,185,350

b) Deferred taxes

Current year deferred tax assets are attributable to the following:

	June 30, 2017	September 30, 2016
Financing fees	\$ 14,737	\$ 12,883
Loan receivable	1,937	5,825
Non-capital losses	-	12,253
Cumulative eligible capital	573	616
Deferred tax assets	17,247	31,577
Offset of tax	(17,247)	(31,577)
Net deferred tax assets	\$ -	\$ -

Current year deferred tax liabilities are attributable to the following:

	June 30, 2017	September 30, 2016
Straight-line rent receivable	\$ 369,869	\$ 328,076
Investment properties	13,643,977	12,258,648
Tenant inducements	93,273	100,636
Capital gain reserve	38,852	116,557
Deferred leasing	223,436	218,979
Tax liabilities	14,369,407	13,022,896
Offset of tax	(17,247)	(31,577)
Net tax liabilities	\$ 14,352,160	\$ 12,991,319

\$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 June 30, 2017, the Company has zero non-capital losses carried forward (September 30, 2016 - \$45,381).

12. Supplemental consolidated cash flow information from continuing operations

	2017	2016
<i>Change in non-cash working capital</i>		
Change in receivables	\$ (564,603)	\$ (393,811)
Change in prepaid expenses and deposits	(444,984)	(101,213)
Change in payables and accruals	(255,443)	(319,146)
Change in income taxes payable	53,848	(64,143)
Change in security deposits	69,224	3,749
Total	\$ (1,141,959)	\$ (874,564)
Interest paid from continuing operations	\$ 1,845,379	\$ 1,882,622
Income taxes paid	\$ 683,930	\$ 465,458

13. Share capital

a) The Company has unlimited authorized common share capital.

	June 30, 2017	September 30, 2016
Number of shares issued		
Balance beginning of year	9,640,642	9,747,042
Shares repurchased during the period	(1,700)	(30,800)
Shares cancelled during the period	(32,600)	(75,600)
Ending number of shares	9,606,342	9,640,642

	June 30, 2017	September 30, 2016
Capital stock		
Balance beginning of year	\$ 5,946,742	\$ 6,133,681
Shares held in treasury beginning of year	139,322	-
Shares repurchased during the period	(7,380)	(139,322)
Shares cancelled during the period	(20,540)	(47,617)
Ending capital stock	\$ 6,058,144	\$ 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 expires August 30, 2017.

During the prior year 30,800 shares were repurchased for a total purchase price of \$139,322. All the repurchased shares were held in treasury at September 30, 2016.

During the current period, an additional 3,500 shares were repurchased for a total purchase price of \$15,635. Of the total shares repurchased and held in treasury, 32,600 were cancelled and the excess purchase price over the cost of the shares issued in the amount of \$127,037 was charged to retained earnings. The remaining 1,700 shares are held in treasury until they are cancelled.

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.

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

14. Earnings per share

The following are the weighted average number of shares outstanding for the six months ended,

	June 30, 2017	June 30, 2016
Net income and total comprehensive income for the period	\$ 2,877,175	\$ 3,184,125
Weighted average shares outstanding – basic	9,607,799	9,717,674
Unexercised dilutive options	39,527	17,502
Weighted average shares outstanding – diluted	9,647,326	9,735,177

Earnings per share – basic and diluted

From continuing operations	\$.30	\$.21
From discontinued operations	\$ -	\$.12
Total earnings per share, basic and diluted	\$.30	\$.33

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 June 30, 2017	475,000	\$ 4.25	2.17

	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 31, 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 June 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 and two leases are currently month to month.

a) Rental revenue

For the nine months ending June 30 is as follows:

	2017	2016
Rental revenue, contractual amount	\$ 7,504,865	\$ 6,694,046
Amortization of tenant inducements	(27,273)	-
Straight line of rental revenue from leases	154,788	105,070
Rental revenue on statement of comprehensive income	\$ 7,632,380	\$ 6,588,976

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

	2017	2016
No later than one year	\$ 10,483,183	\$ 8,452,336
2 – 5 years	35,651,841	28,004,885
Over 5 years	25,441,430	25,153,486
Total	\$ 71,576,454	\$ 61,610,707

b) Property operating expenses

	2017	2016
Property taxes	\$ 1,223,222	\$ 1,016,424
Insurance	82,569	73,320
Repairs and maintenance	328,852	327,459
Management fees	415,397	368,189
Utilities	69,879	52,338
Total	\$ 2,119,919	\$ 1,837,730

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.

	Nine months ended June 30, 2017	Year ended September 30 2016
Mortgages	\$ 81,711,749	\$ 75,593,117
Bank operating facilities	7,993,803	2,502,387
Other financing	700,000	-
Total debt financing	\$ 90,405,552	78,095,504
Equity	81,446,436	78,584,896
	\$ 171,851,988	\$ 156,680,400

19. Financial instruments

	Nine months ended June 30, 2017	Year ended September 30, 2016
Financial assets		
Loans and receivables		
Cash and cash equivalents	\$ 53,011	\$ 2,115,033
Receivables	675,187	110,585
Loan receivable (net of amortized discount)	492,826	978,425
	\$ 1,221,024	\$ 3,204,043
Financial liabilities		
Other financial liabilities		
Bank operating facilities	\$ 7,993,803	\$ 2,502,387
Other financing	700,000	-
Payables and accruals	563,296	818,739
Security deposits	325,538	256,314
Mortgages	81,711,749	75,593,117
	\$ 91,294,386	\$ 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 is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable as at June 30, 2017 is \$83,436,990 (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 2.948% (September 30, 2016 – 2.470%).

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 \$675,187 (September 30, 2016 - \$110,585) and cash and cash equivalents of \$53,011 (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.

The Company's receivables at September 30, 2016 are mostly related to yearend adjustments billed to the tenants for occupancy costs which are recovered in the subsequent quarter. At June 30, 2017 three tenants have fallen into

arrears on their rent; a small tenant with whom the Company is working with to bring their balance current, one large tenant situated in Fort McMurray, and one large tenant situated in Edmonton. The Fort McMurray tenant is deferring a portion of their monthly rent for a few months with the intent to bring their account current by the end of the fiscal year. The tenant in Edmonton has three months arrears. Management is giving this tenant some time to secure financing for their operations, at which date they will bring their account current.

The Company will decide in the next quarter, the value of these receivables and if necessary, there will be an allowance made for any perceived doubtful accounts. Trade accounts receivable deemed uncollectible are expensed as bad debts and charged to net income in the period when the account is determined to be doubtful. Estimates for the allowance for doubtful accounts are determined on a tenant-by-tenant evaluation of collectability at each reporting date. As at June 30, 2017 and September 30, 2016 the Company has not recorded any provision for bad debts as it deems all accounts as collectible.

Interest rate risk

The Company's exposure to interest rate risk relates to its short term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at June 30, 2017 is \$7,993,803 (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 \$79,938. The Company minimizes its exposure to interest rate risk to the extent that all mortgages have fixed rates with terms expiring from one to five years.

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. The Company actively monitors its financing obligations and cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Management manages its liquidity risk with the use of the lines of credit available to the Company as well as short term financing from related parties and private parties. Management estimates that cash flows from real estate activities will provide sufficient cash requirements to cover normal operating and budgeted property expenditures. Cash needed to fund new acquisitions will come from available cash on the unused portion of credit facilities, long term financing on new acquisitions, and interim related party financing. As mortgages come up for renewal Management will look at options to increase leverage where available, if necessary.

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

Contractual obligations at June 30, 2017

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 15,578,893	\$ 36,862,873	\$ 38,512,809	\$ -	\$ 90,954,575
Payables and accruals	563,296	-	-	-	563,296
Security deposits	37,850	22,493	191,374	111,670	363,387
	\$ 16,180,039	\$ 36,885,366	\$ 38,704,183	\$ 111,670	\$ 91,881,258
Operating facilities	7,993,803	-	-	-	7,993,803
	\$ 24,173,842	\$ 36,885,366	\$ 38,704,183	\$ 111,670	\$ 99,875,061

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
	\$ 20,463,971	\$ 29,107,943	\$ 33,057,290	\$ 157,451	\$ 82,786,655
Operating facilities	2,502,387	-	-	-	2,502,387
	\$ 22,966,358	\$ 29,107,943	\$ 33,057,290	\$ 157,451	\$ 85,289,042

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. North American Realty Corp. provides asset management services to the Company. North American Mortgage & Leasing Corp. provided leased vehicles to IDCI. All three of these companies are controlled by Sine Chadi.

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	\$65/hr for labour plus charges for truck, equipment and parts (2016 - \$50./hr)
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 annually 2017 (2016 - \$183,000 annually)

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 was 1.5% of the total assets held in IDCI at the sale date excluding deferred taxes and 1.5% of the proceeds of the sale of the shares

Payments to North American Mortgage & Leasing Corp.:

Vehicle leases	All leases were terminated at December 31, 2015.
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