

Imperial Equities Inc.

Year ending September 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

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REPORT TO SHAREHOLDERS

2018 CEO MESSAGE

THE EVOLUTION OF A COMPANY

This year marks the 20th anniversary of unremitting progress of a corporation that in 1997 was a nonentity. What began as a new start up industrial real estate company with sights set on its home base of Edmonton, Alberta, has now morphed into a significant publicly traded enterprise with assets in multiple jurisdictions throughout Alberta. From the very beginning and every year thereafter, despite periodic economic turbulence, our company continually expanded its industrial real estate portfolio. We can now proudly proclaim that our assets are valued at over \$206,000,000 and over the next five years we expect exponential growth that will unfold throughout Canada. Imperial Equities has truly exemplified this year's mantra "**the evolution of a company**", a company that any shareholder would find rewarding.

Imperial has always been resolute in ensuring the quality of its assets are superior and the scale of its tenant base being primarily multinational, national or large regional. Our steadfast resolution to stay committed to these principles has certainly allowed us to forge forward on a solid foundation that has become the basis to take us to the next level. Our pursuit to grow a large portfolio of industrial real estate properties has us exploring throughout Canada. Management has been very active in searching for revenue producing properties that fit our criteria. Properties in cities as well as smaller markets throughout Alberta and other parts of Canada such as Vancouver, Kelowna, Regina, Winnipeg, Toronto and the Maritimes have been vetted and remain under close consideration.

New construction and new acquisitions along with proposed acquisitions has defined this past year as the most active in our history. This year we added the construction of two new buildings and the acquisition of two existing buildings as well as the acquisition of four vacant raw land properties to our portfolio. Our pursuit to grow is further demonstrated by the events that took place immediately subsequent to September 30, 2018 whereby Imperial agreed to acquire three different properties all located in Edmonton. The first is a large industrial building in the coveted Edmonton Research Park in central south Edmonton. Secondly is the acquisition of three acres of raw land in northwest Edmonton and thirdly we completed negotiations on an industrial building located along the highly popular Yellowhead Trail. The acquisition of all three of these properties will be finalized in Q1 2019.

Throughout our 20-year history we resisted the idea to venture beyond the boundaries of a major or mid-sized city. This year we made the move beyond those boundaries and our inaugural venture began with a new build to suit John Deere dealership in Hanna, Alberta. In Q1, 2018, Imperial completed negotiations with a multinational corporation to construct a 24,454 ft² facility on 16.5 acres of what will soon become commercial land. A new 20-year lease agreement was finalized, and Imperial immediately closed on a 67.75-acre property within the corporate limits of Hanna. Concurrent with our lease negotiations was the process of choosing a contractor and obtaining the necessary permits to allow construction to begin without delay. Construction was completed subsequent to this fiscal year end being September 30, 2018 and occupancy of the building took place in early Q1, 2019. An application for subdivision approval as well as rezoning of the lands is in place and we will soon create the separate 16.5-acre parcel which will become the John Deere dealership. The balance of the lands will be land banked for future development.

Imperial's own Coppertone Industrial Common (Coppertone) is a light industrial area within the Mitchell industrial district, a most desirable area within Edmonton. Imperial created Coppertone

which has long been a source of pride and expanding its footprint is a priority. The common theme among the recently constructed buildings is the copper cladding and curtain wall finishes that make these industrial buildings superior to anything else in the area. Our newest development in Coppertone is now complete and ready for occupancy. Coppertone III is another jewel within Coppertone which now comprises a total of 5 buildings and a vacant parcel of land that will easily accommodate 2 more new buildings. Coppertone I and Coppertone II have been completed and are fully occupied with international tenants. The new Coppertone III building is a 12,000 ft² structure that is situated on a 1.25-acre site adjacent to our Coppertone I and Coppertone II properties creating a contiguous and truly impressive development.

Another jewel in our portfolio is the newly acquired Dynamax building located in the newly developed and highly desirable industrial corridor connecting Nisku with the city of Leduc, Alberta. The property consists of 3.81 acres of serviced industrial land and is situated at the north east corner of the intersection which affords access to and from 2 major thoroughfares. The large rectangular site has excellent exposure and is easily accessed by surrounding arterials including the QE II highway. Construction of this 41,630 ft² single occupant industrial building was completed in 2014. Distinctly, a first-class building constructed using a steel superstructure and a combination of concrete block, stucco, and metal cladding. The large office component which is situated on one level, features exceptionally high-quality finishes with a workmanship to match. The exterior of the office component incorporates quality features such as an abundance of large windows, decorative rock and a stucco façade. The shop/warehouse areas comprise all the latest in engineering technology, including an in-floor water recycling system. There are 8 five-ton cranes on 4 individual craneways, all powered by a 1600-amp service. The components of the mechanical systems that include heating, air conditioning and make up air are all state of the art. The building is fully sprinklered and has a large paved parking lot with an abundance of energized parking stalls. In Q4 2018, Imperial completed the transaction as a "sale lease back" whereby the owner/occupant of the building sells it to Imperial and then agrees to lease it back. A new ten-year lease agreement was finalized with this multinational company involved in manufacturing leading performance drilling products engineered for the oil and gas industry.

Southeast Edmonton has long been a desired location for industrial development that has gained the attention of industrial consumers as well as investors. It is a large industrial area that has been developed to accommodate almost every discipline within this sector of real estate including several oil refineries. Arterial roadways have been designed to allow for an easy flow of truck traffic through the city and onto major Alberta highways. This fiscal year also included the acquisition of the Skyway Canada building which is located at the core of southeast Edmonton's established Weir Industrial district. The property consists of 2.19 acres of serviced industrial land with a 24,855 ft² industrial building. The large rectangular site is situated at the corner of 36 Street and 73 Avenue and provides effortless access onto 34 Street which connects to surrounding arterials including Sherwood Park Freeway, Whitemud Drive and Edmonton's newest ring road, the Anthony Henday. The Skyway building is archetypical of the industrial fabrication facilities that exist on the landscape of any industrial area. The long rectangular shaped building has 30-foot ceilings and is constructed of pre-engineered steel with a band of translucent wall panels along the underside of the roof overhang. These translucent panels allow for natural lighting throughout the interior of the building. The fully sprinklered building also includes features such as in-slab floor heating along with several wall to wall radiant tubes. There are three bridge cranes ranging in size from ten to fifty tons and a craneway that spans the entire length of the building. Imperial acquired the vacant property and completed certain modifications to suit the prospective tenant, Skyway Canada, a large national company that has become one of the country's leading providers of scaffold, shoring, fireproofing, insulation and rope access solutions.

The rationale behind the acquisition of raw land and holding for future development has largely been for the build to suit opportunities that may arise from time to time. To hold in inventory, an

appropriately sized piece of land in the right location at the right time will almost always place our Company in a position of advantage. Acquiring raw land that is adjacent to an existing asset is even that much more desirable given the ability to provide for future expansion for any existing tenant. In the past fiscal year, we were introduced to an opportunity to acquire three separate but contiguous vacant industrial parcels of raw land in southeast Edmonton's Weir industrial area. All three of the raw parcels of land were adjacent to two separate buildings already owned by Imperial which made the acquisition of these three properties rather obvious. Imperial completed the transactions and immediately approached the adjacent tenants who agreed to lease the lands at terms commensurate with their existing leases.

Throughout Alberta's oil and gas producing regions and especially Fort McMurray, the past several years has been quite challenging. Imperial has several newer industrial properties in Fort McMurray that are leased to large multinationals. One tenant that initially was positioned to accommodate future growth was not immune to the economic challenges and made the decision to downsize. Imperial worked diligently with the tenant to find a replacement tenant that might want to upsize. The opportunity presented itself wherein a large national company with several locations in Fort McMurray agreed to consolidate their operations in our building. We finalized negotiations with the existing tenant who agreed to pay Imperial the equivalent of approximately \$3,000,000 as an accelerated rent adjustment for the termination of their lease. Concurrent with those negotiations were negotiations with the new tenant, the large national company with over 100 branches across Canada, who agreed to fulfil the 11-year term that had remained on the existing lease. A new lease agreement was approved by the parties and effective July 1, 2018 the new tenant began occupying the building. Our Fort McMurray properties remain 100 percent occupied and thriving!

Interest rates in Canada have fluctuated dramatically over the past two decades and Imperial has taken every advantage presented to it. In 2015 as a response to plummeting oil prices and an inflation rate below the 2 percent threshold, the Bank of Canada (BOC) twice lowered its key lending rate by 25 basis points (BP) in each interval which effectively lowered the interest rates from 1.0 percent to 0.5 percent. Financial institutions followed suit by reducing their prime lending rates and in turn provided mortgage financing at the lowest levels our company has ever experienced. Despite some minor fluctuations, for every quarter in each year that we've been reporting our weighted average interest rate, Imperial's average rates had been declining. In 2017, notwithstanding oil prices had begun a modest recovery, the BOC argued that the stimulative power of the two rate cuts had achieved its intended goal and it was time to raise rates.

In July of 2017, for the first time in seven years, the BOC raised its key lending rate by 25 BP to 0.75 percent and less than 2 months later in September of 2017 raised it a further 25 BP to full 1 percent. The BOC was now on a path to use rising interest rates in an attempt to keep inflation at its perceived optimal target of 2 percent. In January 2018 the BOC again raised rates by a further 25 BP and again in July of 2018 by a further 25 BP and subsequent to this fiscal year end, in October 2018, the BOC again raised the interest rates by a further 25 BP to a standing of 1.75 percent and by most accounts Canadians are expecting the BOC to raise rates even further in the future. With every increase announced by the BOC, financial institutions were quick to react and raise their rates accordingly.

The BOC announces its interest rate policies eight times per year. The next announcement will take place in December 2018 and it is widely expected that the BOC will affirm rates to remain constant at 1.75 percent. The BOC has been using its key interest rate in an attempt to keep inflation at around 2 percent. Economic growth in Canada has improved throughout much of 2017 and 2018 which in turn has triggered increased inflation. Lower rates that were in place to encourage individuals and companies to borrow more has increased the demand for goods and services which consequently creates higher prices thus increasing the inflation rates. For several decades, the BOC has been following its inflation fighting policies and has recently agreed with Canadians that its one

size fits all policy has exposed many problems and a rewriting of the policy may be due. Recently, the BOC announced that it will launch the most sweeping review into alternatives to its current 2 percent inflation policy as it prepares for the expiration of the existing policy in 2021.

Borrowing is an integral component to our industry and for years Imperial has taken every advantage available to it and the ability for a company to finance its real estate assets at the lowest rates possible is as prudent as negotiating the highest priced lease rate. Despite the recent increases in interest rates, Imperial has experienced a marginal increase but continues to maintain a relatively low weighted average interest rate of 3.13 percent. Management is extremely vigilant and maintains a close watch on fluctuations in interest rates.

The ability to gauge the success of a company by comparing it to its rivals is very exciting and also quite motivating. The Globe and Mail publishes the Report on Business magazine that delivers insightful content through stories behind market moves, industry developments and emerging business opportunities. Once a year it also publishes a ranking of Canada's top 1000 public companies according to their after-tax profits in their most recent fiscal year. In the case of Imperial Equities, the most recent fiscal year would be September 30, 2017 and we are delighted to report that Imperial Equities is once again included among the top public companies in the country. Being included among Canada's most successful corporations is quite an accomplishment and a proud achievement for a relatively young company to realize such a standing!

From its inception Imperial Equities has been a caring corporate citizen. Backed by a strong belief in supporting the community through health care, sports, arts and general people initiatives, Imperial has become a leader in charitable giving. Throughout this year, we donated more than \$125,000 to 17 different charities in Alberta. With so many organizations doing so much great work, determining to who, where and when to place our support has become increasingly difficult. Placing an emphasis on "people wellness" has certainly been a path we've followed and will continue to do so. This year we included a substantial donation to support our four-legged companions by donating to the Edmonton Humane Society.

Imperial's real estate portfolio remains the cornerstone of the Company. Our industrial real estate portfolio now consists of hundreds of thousands of leasable square feet and maintaining a standard worthy of being included in the portfolio requires continuous care and upkeep of each property. Our asset managers as well as our property management team are continually vigilant of potential maintenance problems and recommend the appropriate corrective actions when identified. This process serves to ensure that our properties remain in good condition with contented tenants. Ensuring that our properties are fully leased and generating revenue is paramount.

We are proud of the fact that our entire portfolio remains 99.9 percent occupied and that in some cases our tenants are asking for expanded space which we will gladly oblige. Continuing to expand our real estate portfolio with quality tenants is a priority for Management. Our growth will not abate and is expected to increase throughout 2019. We encourage you to regularly view our website at www.imperialequities.com to capture the tangible substance of our existing portfolio.

As we look ahead to the next several years, we are encouraged by the possibilities that may exist for Imperial Equities. The Conference Board of Canada has a positive outlook for Canada and Alberta's economy and with the prospect of increased pipeline capacity we feel all of Canada will reap the benefit. By most accounts Alberta's economic outlook is quite exciting and we are eagerly looking forward to 2019 with vigor and optimism.

The enthusiasm and determination within management and staff at Imperial Equities will continue to drive revenues up quarter after quarter and propel our Company to greater heights. We remain focused on the task at hand and as always, we would like to thank our shareholders for their

ongoing support and do invite you to contact any of the directors with comments, concerns or investment opportunities. Additional information on our Company can be viewed on line at our website www.imperialequities.com or www.sedar.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Sine", written in a cursive style.

Sine Chadi
Chief Executive Officer and Chairman of the Board

Imperial Equities Inc. MD&A as at November 29, 2018

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. ("Imperial" or the "Company" or "Imperial Equities") and its subsidiaries. This MD&A should be read in conjunction with the consolidated financial statements for the year ended September 30, 2018 and the related notes. Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol "IEI". Additional information on the Company may be obtained by visiting www.sedar.com.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

FORWARD-LOOKING INFORMATION

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

ADDITIONAL NON-IFRS MEASURES

Throughout the MD&A, management will use measures that may include Adjusted EBITDA (net income from operations before interest, taxes, depreciation and amortization, valuation gains (losses), straight-line rental revenue and other non-recurring items) and NOI (net operating income from properties which includes property revenue less direct property operating expenses and excludes non-cash and all non recurring items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property, stock based compensation, finance costs and income taxes). Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one period to another period. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Management believes its use of Adjusted EBITDA and NOI provides the shareholders and prospective investors with an additional performance measure to show the cash flow from operations that is available to finance debt and further growth of the Company. A detail of the calculation and a further description can be found in this MD&A.

Business overview

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

Since operations began in 1998, Imperial Equities has achieved solid growth each year for the past 20 years. The Board of Directors along with corporate Management are all committed to the continued growth of the Company with much vigor and enthusiasm.

Strategic direction

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

The fundamental strategic goals that drive our Company are:

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

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

Key performance drivers

Imperial Equities continues to engage a dedicated team of professionals to manage and oversee the business activities. The CEO and CFO have been with the Company since becoming publicly traded 20 years ago. There is a strong Board of Directors with significant real estate experience to guide decisions surrounding strategic direction and achieving the goals and objectives of the Company. This dedication and professional experience of Imperial's management team has helped the Company achieve positive earnings every year the Company has been in business.

Management monitors the success of Imperial by measuring how well we are meeting our strategic directives. External performance drivers that affect our business include the overall economic health of industries operating in the province of Alberta. Alberta is still largely reliant on the oil industry and we are careful to select tenants that we feel are best able to weather an economic downturn. This assessment will include the size of the tenant, the length of time they have been in business, their operations and exposure to the oil and gas industry; all these factors will be a part in our evaluation of the strength of their lease covenant. Another external driver to our success is interest rates related to financing of our properties. The investment properties are financed with conventional mortgages that leave the Company with an exposure to possible increases in interest rates, affecting our operating income and cash flow. The Company had experienced consistently lower weighted average interest rates throughout each quarter, until Q1 2018 where the weighted average rate began to marginally increase. With Canada's economy improving and consequently giving rise to higher inflation, interest rates will likely continue upward in the foreseeable future. The Company, in the short term, does not consider rising interest rates to have a significant impact on the operating cash flows, as commercial lease terms associated with new acquisitions and lease renewals will reflect changing market conditions.

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

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

Summary of Performance Indicators For the year ending September 30,

	2018	2017
Number of leased properties	29	24
Number of properties under development	2	-
Number of properties held for future development	3	3
Total leased square feet	810,018	719,079
Total land under lease with tenants	4.9 acres	-
Occupancy year to date	99.9%	99.9%
Average lease term to maturity in years	4.53	5.01
Total square footage of leases up for renewal in twelve months	81,735	13,929
% operating cost recoveries to operating costs	81%	86%
Weighted average interest rates on mortgages	3.13%	3.00%
Other financing	\$4,020,000	\$1,300,000

Total leased square feet during the year ending September 30, 2018 = net increase of 90,939

- Acquisition of Skyway building 24,855 ft² December 2017
- Acquisition of Dynamax building 41,630 ft² September 2018
- Under construction 24,454 ft² at September 30, 2018

Land acquisitions during the year ending September 30, 2018

- 1.7 acres in SE Edmonton, Alberta now under lease with an existing tenant
- 1.71 acres in SE Edmonton, Alberta now under lease with an existing tenant
- 1.49 acres in SE Edmonton, Alberta now under lease with an existing tenant
- 65.75 acres in Hanna, Alberta including 16.5 acres under contract for a build to suit

There are four tenant leases up for renewal during the next twelve months totalling 81,735 ft². Three of the four tenants have indicated a desire to renew, and the remaining tenant with 32,762 ft² vacated their space prior to the maturity of their lease. This tenant paid the rent payable to the term of the lease, subsequent to the year end. Negotiations are underway with a prospective large international tenant to lease this space.

AVERAGE ANNUAL LEASE RATES per square foot

	2018	2017
Edmonton, Alberta	\$ 13.65	\$ 10.53
Red Deer, Alberta*	\$ 24.89	\$ 24.52
Fort Saskatchewan, Alberta*	\$ 35.40	\$ 44.62
Fort McMurray, Alberta	\$ 42.99	\$ 48.23
Leduc, Alberta	\$ 15.70	\$ -
Hanna, Alberta (under development)	\$ 21.55	\$ -

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

LEASE PROFILES at September 30, 2018- total square feet of leased space

Single tenant buildings		Multi-tenant buildings	
Square Feet	Expiry Year	Square Feet	Expiry Year
30,939	2019	4,798	Month to Month
25,580	2020	4,907	2018
40,766	2021	55,858	2019
240,207	2022	80,970	2020
75,151	2023	972	2021
43,396	2024	9,037	2022
26,400	2026	4,929	2023
29,450	2027	161,471	
116,630	2028		
25,024	2029		
24,454	2038		
677,997			

Weighted Average Remaining Lease Terms

Single tenant buildings 6.78 years Multi-Tenant buildings 2.71 years

The risks to the Company when a tenant does not renew a lease is to absorb the ongoing operating costs of a vacant space. These costs include property taxes, insurance, utilities and any maintenance items. If a single tenant building becomes vacant, additional vacancy costs could include mortgage payments, if applicable. Management works closely with tenants to ensure retention rates remain high, through responsive property management to ensure their leased space

and the building is well maintained. Management also ensures operating cost recoveries are maximized for our shareholders.

Operating cost recoveries are budgeted annually and reconciled every 12 months on a tenant by tenant basis. All the Company's leases are triple net leases which allows the landlord to recover operating costs. Management will decide on large maintenance items as to how it will treat the recovery of those costs from the tenant, so as not to incur hardship on their operations. In some cases management will amortize the costs over a period of time within the tenant's lease term. Some leases have lower management fees than other leases dependent upon the responsibility of performing maintenance remaining with the tenant or the landlord. Because of these variations, there will always be a percentage of operating costs not recovered by the landlord in the current fiscal year. Historical optimal recovery percentages will be in the range of 80%-86%. At September 30, 2018 recoveries are 81% compared to 86% in the prior year which is within the Company's optimal range. This year there were large expenditures for exterior painting, parking lot maintenance, LED light fixture upgrades, all of which will be recovered through amortization. Affecting recoveries this year is one building where the tenant was placed into receivership and subsequently a new lease was signed with a different company. Lease incentives for the new lessee included six months of free rent where the landlord absorbed the operating costs.

Weighted average interest rates on our mortgages have increased marginally in 2018 compared to 2017 with rates now on the increase for new, and renewed financing from the Company's lenders. This will undoubtedly begin to affect our weighted average. The Company received four new mortgages and renewed one mortgage during the current year. Interest rates did not significantly affect the current weighted average rates which are now 3.13% compared to 3.00% one year ago.

In Q1 2018 the Company commenced construction of our new Coppertone III; a 12,000 ft² building on 1.25 acres in the Coppertone Industrial Common in North West Edmonton. Construction was completed in Q1, 2019 and the Company is actively marketing the building for lease. During the year, construction also commenced on a 16.5 acre site in Hanna, Alberta. The Company has constructed a build to suit building comprising 24,454 sf² as well as a 4,044 sf² ancillary building for an international company involved in the agribusiness. The tenant has taken occupancy in Q1 2019.

Performance highlights at September 30, 2018

- In Q1 the Company **acquired 1.7 acres** in SE Edmonton for a total purchase price of \$1,451,681. A new 5-year lease agreement with the adjacent tenant commenced November 1, 2017.
- In Q1 the Company completed the **acquisition of the Skyway Canada building** for a total purchase price of \$2,796,892. Situated in SE Edmonton, the building is 24,855 sf² on 2.19 acres. A **5-year lease agreement** with Skyway, a large national company, commenced January 1, 2018.
- In Q1 the Company **completed the acquisition of 1.49 acres** adjacent to the Skyway building. This land is now under lease to Skyway and the lease commenced January 1, 2018. The total acquisition cost was \$1,094,152.

- The Company **acquired a 65.75 acre** parcel of land within the corporate limits of Hanna, Alberta, for a total purchase price of \$325,000. The land will be rezoned and subdivided in preparation of future development opportunities.
- In Q1 the Company completed negotiations for a **build to suit, 24,454 sf² building** in Hanna, Alberta on 16.5 acres of the 65.75 land parcel, and construction commenced in Q2. An additional 4,044 sf² ancillary building was also completed on site for the tenant's cold storage. The tenant, Cervus Equipment, is an international company that will sell and service John Deere equipment to the agricultural sector. The tenant has taken occupancy in Q1 2019.
- In Q3 the Company completed the **acquisition of 1.71 acres** in SE Edmonton. The total acquisition cost was \$1,348,750. A new lease agreement with a current tenant commenced July 1, 2018.
- Construction of the **12,000 ft² Coppertone III** building in the Coppertone Industrial Common, in NE Edmonton was completed in Q1 2019 and the Company is actively looking for a tenant.
- In Q1 the Company received an **additional operating line of credit** with one of the Company's major lenders. The total limit is \$10,000,000 and is available to assist with property acquisitions and general expenditures.
- In Q3 the Company completed negotiations for an early lease termination of a tenant in Fort McMurray, Alberta. A net **accelerated rent adjustment of \$1,992,928** was recorded as revenue in Q4 2018.
- In Q3 the Company completed negotiations with a large national tenant to lease the building in Fort McMurray. A **new 11-year lease** commenced July 1, 2018.
- In Q3 fair valuations of the investment property portfolio showed **a net loss of \$4,281,718**. This is largely due to the Fort McMurray property which was revalued based on a new lease agreement at market rent.
- In Q4 the Company completed the **acquisition of the Dynamax building** in Leduc, Alberta. The 41,630 sf² building is situated on 3.81 acres. A ten - year lease with Dynamax Drilling Tools Inc. commenced September 19, 2018. The total acquisition cost was \$9,100,965.
- In Q4 the Company entered into an agreement to **purchase at 29,450 sf² building situated on 3.78 acres** in the southeast Edmonton Research and Development park. The total purchase price is \$6,150,000. The tenant is an international company with operations in 70 countries. The acquisition closed in Q1 2019.

- In Q4 the Company entered into an agreement to **purchase 3 acres of vacant land** in west Edmonton for a total purchase price of \$1,650,000. The acquisition closed subsequent to the year end.
- In Q4 the Company entered into an agreement to **purchase a 7,313 sf² building** situated on .35 acres in northeast Edmonton. The total purchase price is \$975,000 and the acquisition closed subsequent to the year end.
- During Q1 and this Q2 the Company paid off two mortgages and two new mortgages were obtained on the same properties, providing some additional capital. A third mortgage with a term date of January 1, 2018 was renewed for a further five years, and two new mortgages were placed on the Skyway building and the Dynamax building. A mortgage with a term date of October 1, 2018 was renewed in Q4 for a further five year term. A marginal increase in the interest rates during the year affected the **weighted average rate of interest on all mortgages which is now 3.13%** at September 30, 2018 (September 30, 2017 – 3.00%).
- The Company's total **equity** is \$8.91 per share at September 30, 2018 (September 30, 2017 - \$8.66).

PERFORMANCE RESULTS for year ending September 30, 2018



- Property net operating income ("NOI") for the real estate segment is defined as net operating income from properties which includes property revenue less direct property operating expenses and excludes non-cash and non-recurring items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property, stock-based compensation, finance costs and income taxes. Management believes that this is a useful measure of cash available from operations to assess performance of the real estate portfolio and measure the income generated by properties to support finance repayments. Commercial property net operating income, together with capitalization rates applied on a property by property basis, is widely used to value investment property in the real estate industry.
- Management is of the opinion that ADJUSTED EBITDA as calculated below is another useful measure for investors to use when evaluating the ability of the Company to generate cash to service interest on debt, and facilitate growth in the Company. Income taxes are removed from

the earnings because they often include deferred taxes which are non-cash. Removing the interest expense also allows an investor to see the operating cash flows from properties without the influence of how the Company has financed its properties. When comparing other real estate companies, the differences in how companies finance their assets, together with their individual tax situations, are taken out of the equation.

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

ADJUSTED EBITDA at September 30,	2017	2018
Net income and total comprehensive income	\$ 4,737,393	\$ 2,342,613
<i>Add (subtract):</i>		
Valuation (gains) losses on investment property	(612,790)	3,475,926
Straight-line rental revenue	(190,965)	(141,838)
Finance costs	2,605,259	2,950,726
Amortization of loan discount	(17,989)	(3,586)
Amortization of deferred leasing	246,898	278,603
Amortization of tenant inducements	36,364	336,364
Income taxes	1,671,639	1,521,911
Other non recurring	(187,061)	(1,992,928)
ADJUSTED EBITDA	\$ 8,288,748	\$ 8,767,791

Other non-recurring item at Q4 2018 is for the accelerated rent adjustment, net of a provision of \$1,000,000. At Q4 2017, the non-recurring items are a forfeited deposit income netted with a loss on sale of equipment.

RESULTS of OPERATIONS and CASH FLOWS

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

Net valuation gains (losses) per quarter:

2018 Q4	2018	2018	2018	2017 Q4	2017	2017	2017
	Q3	Q2	Q1		Q3	Q2	Q1
\$ 805,792	\$(4,702,567)	\$ 235,704	\$ 185,145	\$ 280,967	\$(197,446)	\$ 363,625	\$ 165,644

When valuing the investment properties to fair value, all other inputs being equal, an increase in property revenue for the ensuing twelve months will have a positive impact on the fair values and a decrease in revenue will have a negative impact. When interest rates are low, investors are eager to expand their portfolios creating a healthy, competitive environment in which to acquire property, which will keep the cap rates very competitive. During 2016 and to date, Management decided to

marginally increase the cap rates on some of the properties where the Company believes property values and lease rates have decreased slightly; the result of more product coming on stream from developers eager to lease up vacant buildings. Some properties' cap rates were increased to maintain existing values, despite increasing contracted revenue streams which would otherwise drive the value upwards.

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

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

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

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

Income from operations in the current quarter was positively affected by the recording of the accelerated rent adjustment of \$1,992,928. Rental revenue is up in 2018 over 2017 due to the increased activity in acquisitions and new leases. Despite having new leases with additional revenue coming on stream this year, there were two major items affecting income from operations in the current year.

Firstly, the amortization of tenant inducements is netted against rental revenue. In Q1 2018 a tenant was placed in receivership and their lease was terminated when the receiver found a buyer

for their operations. The unamortized balance of their tenant inducement of \$336,364 was fully amortized during the current year. Secondly, in Q3 2018 the Company negotiated an early lease termination with a tenant in Fort McMurray, Alberta. The unamortized balance of straight-line rent associated with this lease, was fully amortized during the year reducing revenue by \$162,652.

Administrative expenses are lower this year compared to last year by \$152,333. In the prior year there was a write down of a bad debt in the amount of \$257,208 which skewed the regular expenditures. Salaries increased during 2018 with the addition of new employees and going forward this will increase the total administrative expenses.

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

Amortization of deferred leasing costs relates to leasing fees charged with the signing of new tenants, or upon lease renewals. The costs are amortized over the life of the respective leases varying from five to twenty years. Leasing fees increased this year over last year with five lease renewals and six new leases. As a result, amortization is higher this year.

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

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

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

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

Construction of new buildings are valued at cost until the earlier of the date that fair value can be reliably determined, or the projects are complete. Land held for development is valued using

management's research of similar vacant land that has sold recently or, is available for sale. Land under lease with tenants is valued at the fair value of similar vacant land.

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

Fair Market Value of Investment Property For the years ending September 30,



Finance costs include interest on financing, net of interest income and amortization of deferred finance fees. Interest on financing is up at Q4 2018 compared to Q4 2017 due to additional mortgages received, rising interest rates on new and renewed mortgages, an increase in other financing, and increased use of the bank credit facilities. The Company utilized the lines of credit and related party financing in the last twelve months to assist with new acquisitions.

September 30,	2018	2017
ADJUSTED EBITDA	\$ 8,767,791	\$ 8,288,748
Interest on financing	\$ 3,080,694	\$ 2,545,127
Interest coverage ratio	2.85	3.26
Minimum threshold set by Management	1.50	1.50

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

Changes in cash flows

Cash provided by operating activities was \$7,180,380 at Q4 2018 (Q4 2017 – \$7,308,398). The Company continues to generate positive cash from operations to cover day to day expenditures

and bank cash for future opportunities. Affecting the cash flows in the current period is the adoption of amendments to the accounting standard, IAS 7, "Statement of Cash Flows", which involves reclassifying working capital that relates to assets and liabilities in the investing, and or financing activities, which were previously all recorded as operating activities. Comparative figures have been reclassified to conform to the presentation of the current period.

Prior year changes to statements of cash flows

	<u>2017</u>
Cash inflow from operating activities of continuing operations, previously stated	\$ 6,078,965
Interest income, reclassified to financing activities	(19,636)
Direct leasing costs, reclassified from investing activities	(268,611)
Deposits in trust, reclassified to investing activities	1,367,049
Payables for acquisition fees, reclassified to investing activities	128,625
Refundable deposit, reclassified to financing activities	41,000
Accrued interest on financing, reclassified to financing activities	(18,994)
Cash inflow from operation activities, reclassified	\$ 7,308,398

Cash outflow used in investment activities of continuing operations, previously stated	\$ (17,187,879)
Deposits in trust for investment properties, reclassified from operating activities	(1,367,049)
Payables for acquisition fees, reclassified from operating activities	(128,625)
Direct leasing costs, reclassified to operating activities	268,611
Cash used in investing activities, reclassified	\$ (18,414,942)

Cash provided by financing activities of continuing operations, previously stated	\$ 9,837,217
Refundable deposit, reclassified from operating activities	(41,000)
Accrued interest on financing, reclassified from operating activities	18,994
Interest income, reclassified to finance costs in operating activities	19,636
Cash provided by financing activities, reclassified	\$ 9,834,847

The **cash flow provided from operations** this year was negatively affected by an increase in direct leasing fees which were \$1,078,511 at Q4 2018 (Q4 2017 - \$268,611) as well as the cash revenue forgone from six months of free rent for a new tenant.

Cash used in investing activities was \$19,973,543 at Q4 2018 (Q4 2017 – \$18,414,942). There have been six property acquisitions this year totalling \$16,130,567 and two buildings were under construction during 2018 at a cost of \$7,145,418 at Q4 2018. This compares to three acquisitions during 2017 at a cost of \$17,133,798. At Q4 2018 the Company has placed deposits totalling \$665,000 (Q4 2017 - \$1,517,049) on agreements to purchase investment property.

Cash provided by financing activities was \$14,293,347 at Q4 2018 compared to \$9,834,847 at Q4 2017. During the current year the Company received an increase in available credit facilities from \$8,000,000 to \$20,000,000. The Company utilized an additional \$8,951,557 of the credit facilities to assist with closing six property acquisitions and fund the construction projects. During the current year the Company received mortgage proceeds of \$16,350,000 (2017 - \$10,250,000). The proceeds paid out two mortgages totalling \$4,813,093, and other financing of \$1,300,000 that was outstanding at Q4 2017. The Company also received \$6,570,000 from related parties to assist with payables for property under construction, annual property tax payments and acquisitions. The

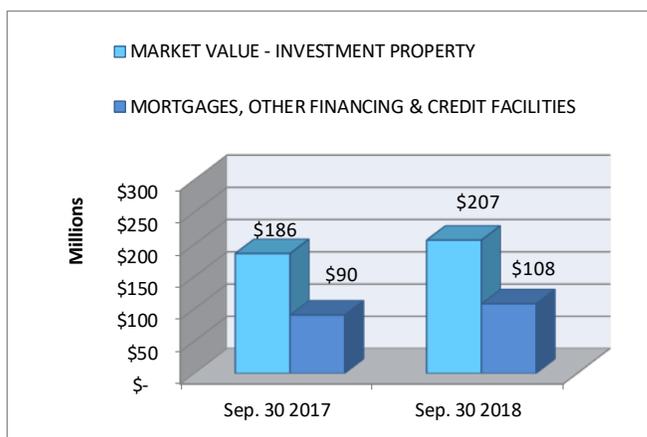
balance owing to related parties at Q4 2018 is \$4,020,000 (Q4 2017 - \$1,300,000). In addition to regular principal payments on the mortgages, one lender required the Company to deposit \$1,300,000 (monthly instalments of \$100,000) in GIC's until a specific mortgage matures in 2019. Total GIC's held under this agreement at Q4 2018 are \$400,000 (Q4 2017 - Nil).

Fees associated with new and renewed mortgages totalled \$87,084 at Q4 2018 (Q4 2017 - \$106,317). These costs are amortized over the terms of the respective mortgages and are shown net of the mortgages on the consolidated statements of financial position. Amortization of finance fees is included in finance costs on the statements of comprehensive income.

During the current year, the Company purchased 30,800 common shares under the normal course issuer bid for a total cost of \$128,890 (Q4 2017 - a total of 26,200 shares were purchased for a total cost of \$113,765).

At Q4 2018 there was a **net increase in cash** of \$1,500,184 compared to a decrease in cash at Q4 2017 of \$1,271,697.

Significant balance sheet changes



EQUITY in investment properties has increased \$3,365,748 since September 30, 2017 through principal repayments of loans and cash used for acquisitions and construction, as well as changes in fair values.

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

The total increase in investment properties from September 30, 2017 to September 30, 2018 is \$20,814,411.

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
Opening balance at September 30, 2017	\$ 174,447,425	\$ -	\$ 11,448,900	\$ 185,896,325
<i>Additions:</i>				
Capitalized property taxes and other	-	20,420	122,109	142,529
Capitalized interest	-	86,354	-	86,354
Property improvements	408,968	-	-	408,968
Construction costs	-	6,916,537	-	6,916,537
Leasing commissions	821,747	256,764	-	1,078,511
Property acquisitions	15,707,210	105,839	317,518	16,130,567
Change in straight-line revenues	141,838	-	-	141,838
Revaluation (losses) gains, net	(4,058,468)	704,651	(122,109)	(3,475,926)
Amortization of deferred leasing	(278,603)	-	-	(278,603)
Amortization of tenant inducements	(336,364)	-	-	(336,364)
Transfers (from) to	-	1,250,000	(1,250,000)	-
Ending balance at September 30, 2018	\$ 186,853,753	\$ 9,340,565	\$ 10,516,418	\$ 206,710,736

Loan receivable of \$1,009,825 at Q4 2018 is net of a \$1,000,000 provision for impairment. The loan relates to the early lease termination of a tenant in Fort McMurray, Alberta where a contractual accelerated rent adjustment in the amount of \$2,992,928 was negotiated during the current year, including a loan receivable with a balance of \$2,200,000, repayable in 22 monthly instalments that include interest at an annual rate of 6%. An impairment provision of \$1,000,000 was applied to this loan at September 30, 2018. Two instalments were received at Q4 2018. Management will re-evaluate the provision at each reporting period and should conditions change positively, any reversal will be recorded at that time.

At Q4 2017 the loan receivable of \$496,414 related to the sale of the Company's subsidiary Imperial Distributors, in 2015 and is shown net of a discount. The loan was non-interest bearing and therefore discounted and amortized over the two-year term. At the term date of December 31, 2017, the Company agreed to payment terms for the balance owing and included interest at an annual rate of 6.5%. The loan was paid in full on July 1, 2018.

Receivables of \$242,792 at Q4 2018 and \$81,534 at Q4, 2017 are net of an allowance for doubtful accounts of \$16,061. Trade receivables at Q4 each year include the occupancy cost reconciliations that are completed on a property by property basis at September 30th and typically cause some increases to the receivables at year end. All the occupancy costs were collected from Q4 2017. Receivables at Q4 2018 also include excise taxes and rebates receivable totaling \$111,757.

Prepaid expenses and deposits have a balance at Q4 2018 of \$1,218,946 (Q4 2017 - \$2,008,256) relating to property taxes, property insurance premiums, and security deposits with municipalities. At Q4 2018 there were deposits of \$665,000 (Q4 2017 - \$1,517,049) placed pursuant to offers to purchase investment property.

Restricted cash of \$400,000 at Q4 2018 (Q4 2017 - Nil) is held as collateral for one of the Company's major lenders as additional security and collateral for a specific mortgage that matures in the next twelve months. Total monthly instalments of \$100,000 to an aggregate of \$1,300,000 to be held in interest bearing GIC's, and are redeemable/cashable with the Lender's approval. This debt service reserve relates to the mortgage on the building in Fort McMurray, Alberta where the tenant was granted an early termination of the lease.

Short-term investments are common shares held for trading that were acquired in the current year at a value of \$300,000. At Q4 2018 the shares were recorded at the quoted market value creating an unrealized gain of \$73,500. Management will look to the disposition of these investments over the next twelve months as market forces permit.

Mortgages at Q4 2018 have a balance of \$85,669,230 (Q4 2017 - \$79,891,816). During Q1 2018 two mortgages were repaid in full at their term dates, and two new mortgages were placed with the same lender on the properties. During the current year two mortgages were renewed for a further five years, and new mortgages were received for the Skyway building and the Dynamax building.

At Q4 2018 there are four mortgages up for renewal in the next twelve months with combined principal balances of \$16,901,509 which are shown as current liabilities. The Company intends to renew the mortgages as they come due. Netted against mortgages on the consolidated statements of financial position is the balance of unamortized fees associated with new or renewed mortgages, totalling \$242,183 at Q4 2018 (Q4 2017 - \$241,874).

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

Other financing unsecured at Q4 2018 is \$4,020,000 (Q4 2017 - \$1,300,000) and bears interest at an annual rate of 6% (Q4 2017 - 6%). Other financing is due to related parties and has no specific dates of repayment.

Bank operating facilities at Q4 2018 have a balance of \$18,457,672 with two of the Company's major lenders (Q4 2017 - \$9,506,115 with one of the Company's major lenders). These credit facilities were used to assist with the acquisitions of investment properties, and the construction of two buildings.

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

1) During Q1, 2018 the Company secured a LOC with a limit of \$5,000,000. The LOC is secured by a general security agreement and a collateral mortgage in the amount of \$5,000,000 placing a fixed charge against specific properties. During the year, this lender increased the LOC a further \$5,000,000 to a total limit of \$10,000,000 at Q4 2018. Additional specific properties were provided as security. The facility bears interest at prime + .95% and can be used for property acquisitions and general operations. There are no financial covenants with this credit facility.

2) During the current year, a second LOC received an increase to the limit from \$8,000,000 to \$10,000,000. The LOC bears interest at prime plus 1% per annum and is secured by specific revenue producing properties. This LOC incurs standby fees of 0.25% per annum on any unused portion of the facility. The revolving demand facility is available to assist with property acquisitions, payment of development costs, and general corporate purposes.

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

CREDIT FACILITIES

At September 30,	2018	2017
Bank credit facilities	\$ 20,000,000	\$ 9,500,000
Amounts drawn on facilities	(18,457,672)	(9,506,115)
Available credit facilities	\$ 1,542,328	\$ (6,115)

The overdrawn amount of \$6,115 at September 30, 2017 relates to interest expense.

Payables and accruals are \$3,145,876 at Q4 2018 (Q4 2017 - \$672,789) and include construction costs of \$2,359,361 at Q4 2018. Accruals include interest on mortgages, prepaid rents from tenants, and the current portion of tenant security deposits.

Summary of consolidated quarterly results

	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
<i>REVENUE</i>	5,497,881	2,930,792	3,486,193	3,328,342	3,396,004	3,319,384	3,211,027	2,951,195
<i>TOTAL COMPREHENSIVE (LOSS) INCOME</i>	3,395,251	(3,163,279)	1,449,203	661,436	1,860,217	564,313	1,587,629	725,234
<i>EPS-Basic</i>	0.35	(0.33)	0.15	0.07	0.19	0.06	0.16	0.08
<i>EPS-Diluted</i>	0.35	(0.33)	0.15	0.07	0.19	0.06	0.16	0.07

QUARTERLY CHANGES IN THE REVENUE

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

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

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

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

Revenue increased in Q3 2017 and Q2 2017 with revenue generated from three new acquisitions; Coppertone VII, Coppertone VIII and the Derrick building. The acquired properties Coppertone VII & VIII began generating revenue in Q2 2017, and the Derrick building in Q3 2017. The Company's investment property portfolio remains 99.9% occupied.

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

- revenue generated from new leases
- amortization of tenant inducements
- increases due to the reconciliation of operating costs to budget at each Q4
- changes in straight line revenue due to lease renewals and new leases.

The Company reports straight line revenue which is the average revenue generated per property over the term of the respective lease. Therefore typically, quarterly changes in revenue are not material until new tenants begin paying rent.

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

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

Net valuation gains (losses) per quarter:

2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
\$ 805,792	\$(4,702,567)	\$ 235,704	\$ 185,145	\$ 280,967	\$(197,446)	\$ 363,625	\$ 165,644

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

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

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

While a considerable number of properties had increases in the contracted revenue stream which increases the value when applying a capitalization ("cap") rate, the Company has chosen to keep the values the same on some of the properties by adjusting the cap rates upward during 2017 and 2018. There is no evidence in the market to suggest the related property values are increasing or decreasing at the present, therefore most of the values are adjusted slightly upward in the quarter to offset the amortization of deferred charges, which include straight line rent, leasing fees, and tenant inducements.

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

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

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

Outstanding share data

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at Q4 2018 are 9,583,642 (Q4 2017 – 9,614,442). The Company received approval to renew its normal course issuer bid which now expires on August 30, 2019. During the current year, the Company purchased 30,800 shares for a total cost of \$128,890. All the shares were cancelled and the excess purchase price over the cost of the issued shares was \$109,496. This amount was charged to retained earnings.

During the prior year, the Company purchased 26,200 shares for \$113,765. All the shares were cancelled at Q4 2017 along with 30,800 shares that were held in treasury at the beginning of the

year. The excess purchase price paid over the cost of the issued shares was \$217,175. This amount was charged to retained earnings.

At Q4 2018 and Q4 2017 there are 475,000 share options issued and outstanding under the Company's stock option plan. The options entitle the holder to one common share in exchange for each option held at an option price of \$4.25. The options expire August 26, 2019.

Dividends

The Company issued a press release January 14, 2015 announcing the suspension of the dividend payments until further notice, due to the uncertainty surrounding the Alberta economy and oil prices. Dividend distribution is determined by the board of directors after evaluating the earnings of the Company and the overall outlook for the economy. Dividends are declared and paid, based on the common shares owned at the record date. Shareholders are cautioned that past issuance of dividends by the Company does not guarantee that future dividends will be issued.

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

Related party transactions

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

Property management and maintenance fees in the amount of \$931,553 (Q4 2017 - \$796,651) were paid to Sable Realty & Management Ltd., ("Sable") a company controlled by Sine Chadi, a director and officer of the Company. Fees paid to Sable are pursuant to a contract with Imperial Equities Inc. to bill for the management and maintenance of its properties for a fee of 4% of rents collected. Maintenance performed by Sable's property management team is charged at competitive rates of \$50-\$65 per hour (Q4 2017 - \$50-\$65 per hour) for labour, plus equipment and parts charges. Sable provides its own trucks, tools and equipment to perform property maintenance. Imperial Equities recovers the majority of the maintenance fees from the tenants under their occupancy costs. Four leases have no management fee recoverable and the remaining leases have a provision for the recovery of 2%-5% of minimum rent, or rent, which would include minimum rent and operating expense recoveries. The percentage of management fees negotiated and collectible under the leases varies based on the amount of work involving Management in maintaining the property, as opposed to how much the tenant is involved.

Leasing, acquisition and disposition fees in the aggregate of \$1,098,318 (Q4 2017 - \$384,980) were paid to North American Realty Corp. ("NARC") a Company controlled by Sine Chadi. In Q4 2018, \$159,588 was paid for the acquisitions the Skyway building, the Dynamax building and three vacant parcels of land. Leasing fees totalling \$938,730 were paid for commissions on eleven lease transactions. Fees and commissions are in line with current industry standards and are comparable to similar transactions undertaken by the Company with unrelated parties.

Office rent, parking and warehouse lease space were paid to Sable in the aggregate amount of \$103,668 (Q4 2017 – \$131,450). Imperial Equities shares office space with Sable and pays \$8,000 per month. Warehouse lease fees to store materials owned by Imperial, was discontinued in Q1 2018.

Fees paid in the amount of \$200,000 (Q4 2017 - \$210,000) were paid to Sable for the services provided by the Company's Chief Financial Officer who is not paid directly by Imperial Equities.

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

Contracts with Sable and NARC have been in place since 1999 with no changes to the terms. They can be viewed on-line at www.Sedar.com. These contracts and the associated fees and rates were approved by the board of directors.

Paid to directors

Directors' fees paid for attending directors' meetings were \$45,000 at Q4 2018 (Q4 2017 - \$47,500). Fees per meeting are currently \$2,500. The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

Compensation to key management personnel

The Company's key management personnel include the President Sine Chadi who is also a director and significant shareholder of the Company. Total salary paid to Mr. Chadi during the year was \$300,000 (2017 - \$300,000).

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

Interim party financing from North American Mortgage Corp. totalling \$50,000 was received and repaid during Q1 2018, without interest.

In the prior year, interim financing in the amount of \$675,000 was received from North American Mortgage Corp. The total amount was repaid with interest at an annual rate of 8% on \$575,000 and an annual rate of 6% on the remaining \$100,000. Total interest paid was \$12,845.

Unsecured interim financing from directors and shareholders

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

During the current year, other financing unsecured in the amount of \$6,520,000 was received from two shareholders of the Company. The loans were repaid with interest at an annual rate of 6%. Total interest paid was \$43,685.

In the prior year, interim financing in the amount of \$2,675,000 was received. \$775,000 was repaid with interest at an annual rate of 8% and \$600,000 was repaid at an annual rate of 6%. Total interest on the loans was \$10,653.

Unsecured interim financing from a company under common control

During the current year, interim financing of \$4,020,000 was received from a company that is under common control by Sine Chadi. The loan is unsecured and bears interest at an annual rate of 6%. Total interest paid was \$19,287.

Liquidity, capital resources and solvency

The Company's liquidity position

	September 30, 2018	September 30, 2017
Cash and cash equivalents	\$ 2,343,520	\$ 843,336
Receivables, net of a provision	242,792	81,534
Short term investments	373,500	-
<u>Loan receivable, net of a provision</u>	<u>1,009,825</u>	<u>496,414</u>
	<u>\$ 3,969,637</u>	<u>\$ 1,421,284</u>
Payables and accruals	\$ 3,145,876	\$ 672,789
Current portion of mortgages	21,280,840	11,020,384
Bank operating facilities	18,457,672	9,506,115
Other financing	4,020,000	1,300,000
<u>Income taxes, net</u>	<u>915,477</u>	<u>852,725</u>
	<u>\$ 47,819,865</u>	<u>\$ 23,352,013</u>

LIQUIDITY RATIO

.08

.06

The liquidity ratio increased marginally from September 30, 2017. The current portion of mortgages includes regular principal payments plus the full principal balance of any mortgages due in the next twelve months. The Company used available cash, other financing, and credit facilities to fund the acquisitions of four vacant parcels of land, the Skyway building, the Dynamax building and the construction of two buildings. Payables have increased by over \$2,400,000 since September 30, 2017 as construction is now at or near completion at Q4 2018 and contractors are submitting larger billings. Two new mortgages were received on the Skyway building and the Dynamax building and subsequent to the year end, the Company received financing on the build to suit project in Hanna. As soon as a lease can be negotiated for the second building under construction in NE Edmonton, the Company will place conventional mortgage financing on this property as well. The Company plans to use proceeds to repay other financing and pay down the bank operating facilities.

Cash flows

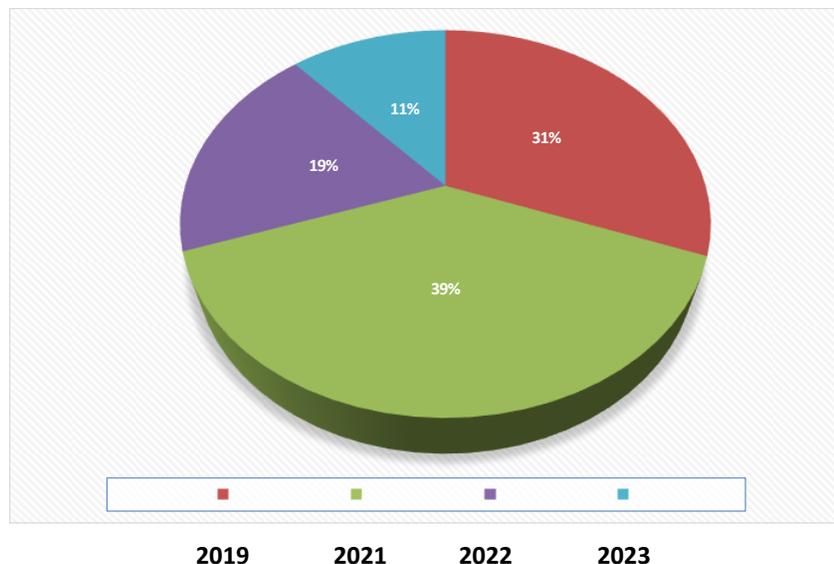
	Q4 2018	Q4 2017
Cash provided by operations	\$ 7,180,380	\$ 7,308,398
Cash used in investing	(19,973,543)	(18,414,942)
Cash provided by financing	14,293,347	9,834,847
Net increase (decrease) in cash	\$ 1,500,184	\$ (1,271,697)

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

Cash used in investing includes the cash used to fund acquisitions, property improvements, and property construction costs. Investing activities also include the proceeds from the loan receivable.

The major components of **cash provided by financing** includes proceeds of new mortgages, the repayment of principal and interest on mortgages through regular monthly payments, repayment of mortgages at maturity, as well as the receipt and repayment of other financing. At Q4 2018 there were net advances on the credit facilities of \$8,951,557 (Q4 2017 - \$7,003,728). The advances were used to assist with closing property acquisitions and repay other financing of \$1,300,000 during Q1 2018.

Maturity dates of mortgages at September 30, 2018



Mortgages on the investment properties have term dates varying to 2023. The weighted average interest rate on the mortgages continued to decline each year until Q1 2018, when rates began to rise. At Q4 2018 the weighted average rate is 3.13% (Q4 2017 – 3.00%). During the year mortgages that were received had higher rates increasing the weighted average rate. There are four mortgages up for renewal in the next twelve months with combined principal balances of \$16,901,509 at Q4 2018. The Company intends to renew the mortgages as they come due.

Total monthly principal and interest payments are \$665,877. Annual payments of \$7,990,524 will be covered with cash flow from operations as the Company is able to receive additional revenue from the new tenants. The Company has relied on other financing as well as the credit facilities to assist with the increase in growth this year through acquisitions, and properties currently under development. One tenant has taken occupancy of the constructed buildings in Hanna and the Company has placed conventional mortgage financing, subsequent to the year end. When the other building is leased, the Company will place a conventional mortgage and use the proceeds to repay other financing, and the lines of credit.

Leverage ratios

September 30,	2018	2017
Investment properties	\$ 206,710,736	\$ 185,896,325
Mortgages	(85,669,230)	(79,891,816)
Other financing	(4,020,000)	(1,300,000)
Bank operating facilities	(18,457,672)	(9,506,115)
Total debt	\$ (108,146,902)	\$ (90,697,931)
Total equity in the properties	\$ 98,563,834	\$ 95,198,394
Debt to financed assets ratio	.52	.49
Interest coverage ratio	2.85	3.31

Based on the fair values of the investment properties at Q4 2018 and the related debt including mortgages, other financing and the bank operating facilities, the Company has equity of \$98,563,834 in its investment properties. Subsequent to the year end, the Company renewed three of the four mortgages that mature in the next twelve months. Subsequent to the year end one mortgage was received on the property in Hanna, and the Company will place a new conventional mortgage on the second newly constructed building when it is leased. When tenants take occupancy of the new buildings constructed, revenue generated from new leases will increase operating cash flows. As other mortgages come due, the Company may have the option of increasing the debt on a particular property, and subject to the lender's approval, provide increased capital. Other capital resources include related party interim financing, and the unused portion of the credit facilities which is \$1,542,328 at Q4 2018.

Other sources of funds include the loan receivable of \$2,009,825 (before a provision) at Q4 2018 which should contractually provide monthly cash receipts of \$105,850. In addition, the short-term investments of \$373,500 at Q4 2018 will likely be converted to cash within the next year.

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

Critical estimates of the current economic environment and outlook

The economic environment that Imperial operates in could be adversely affected by tenants that may be challenged by unfavourable economic conditions within our economy. During 2017, we encountered three such cases where tenants advised that they were experiencing some temporary cash flow issues and asked for some relief by deferring part or all of their rent for a period of time.

One very small tenant has resumed making payments on their arrears. The rent from this tenant amounts to one half of one percent of monthly rents and is not considered a financial threat if the tenant, in a worst-case scenario, had to vacate. At Q4 2018 and Q4 2017 Management included an allowance for bad debt for this tenant.

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

Lastly, an Edmonton based tenant asked Management to provide them with some time to resolve their company's cashflow issues. In Q1 2018, this tenant was placed into receivership. Management recorded the full receivable of \$257,209 from this tenant as a bad debt at September 30, 2017. The Receiver paid the Company its contracted rent for the period they occupied the premises and finalized a sale of the business. The Company negotiated a new lease agreement with the new owner which came into effect in Q2 2018, with rent payments commencing in Q4 2018.

During the current year a tenant vacated their space prior to the lease end date and continued to pay their rent obligations. Subsequent to the year end this tenant paid their lease obligations in full and the Company is currently in negotiations to lease the space to another company. There are no other indications from any other tenants that they will not be able to pay their rent. During the current year, six new leases were signed, and five leases were renewed.

Imperial continues to be very successful with all its financing requirements to date and has taken advantage of low interest rates to ensure stability for the Company, while providing the building blocks for continued growth. Risk factors still exist and are always considered when making strategic plans.

Risks

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

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

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

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

The risk of vacancy of any leased space is the Company's ability to continue to meet the mortgage obligations on the property as well as carrying costs including property taxes, utilities and insurance. If in an extreme case a property became vacant, the carrying costs and mortgage payments could be paid for with existing cash flows from operations. At Q4 2018 Imperial remains 99.9% occupied.

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

Market values of the investment properties can decrease if the demand for industrial properties lease space decreases and rental rates are reduced, or capitalization rates increase. Imperial's exposure to the market value of its real estate assets affects mortgages up for renewal. Properties with mortgages that are maturing in the next 12 months may be externally appraised for their current market value, if the lender requires, however subsequent to the year ending, three of the four mortgages have already been extended for further five - year terms. Factors that influence market value are the income generated from the property, demand, vacancy rates, term of the current lease, strength of the current tenant, age of the building and location. Imperial is not aware of any obstacles at this date that would negatively affect its ability to refinance its buildings as the mortgages come due.

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

The Company has determined that capitalization rates used to evaluate a property have recently moved slightly upward however the demand for industrial space is still favorable. The total fair value of the investment properties at Q4 2018 is \$206,710,736. The mortgages and bank operating facilities encumbered on the properties leaves equity in the properties of \$98,806,018 at Q4 2018 which Management believes will be sufficient to absorb any decline in values and support our ability to refinance.

Lease rates may adjust downward if demand for industrial lease space decreases. As demand for this type of lease space goes up so does the lease rate. In any economic downturn, we could expect that the demand for space decreases and therefore the lease rate would decrease accordingly. Imperial is mindful of these risks. Management believes that any further leases that

are up for renewal in 2018 and 2019 will likely be renewed at the same or higher rates than the Company is currently achieving.

Interest rates on mortgages that are up for renewal will likely rise as the Bank of Canada continues to keep inflation in check by increasing its benchmark interest rates. The mortgages that were up for renewal prior to September 30, 2018 were renewed at higher rates than the prior terms. New mortgages being placed now will be at slightly higher rates than we have been experiencing in the past few years. The Company tries to mitigate the risk of rising interest rates by fixing rates for longer terms and by minimizing its exposure to floating rate financing. All mortgages have fixed rates.

Environmental risk

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

Cybersecurity risk

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

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

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

Planned expenditures

At Q4 2018, the Company has placed a deposit of \$100,000 pursuant to a conditional agreement to purchase land in Conklin, Alberta for a total purchase price of \$1,064,000. Subsequent to the year end, the Company did not remove its conditions and the deposit was refunded to the Company.

At Q4 2018 the Company has placed deposits of \$250,000 on an agreement to purchase 3.78 acres of land with a 29,450 square foot building in southeast Edmonton. The total purchase price is \$6,150,000. The acquisition was completed in Q1 2019 with a conventional mortgage received in the amount of \$4,300,000.

At Q4 2018 a deposit of \$165,000 was placed on an agreement to purchase 3 acres of vacant land in northwest Edmonton. The total purchase price is \$1,650,000. The acquisition was completed in Q1 2019.

At Q4 2018 a deposit of \$50,000 was placed on an agreement to purchase .35 acres of land with a 7,313 square foot building in northeast Edmonton. The total purchase price is \$975,000 and the acquisition was completed in Q1 2019.

At Q4 2018 a deposit of \$100,000 was placed on an agreement to purchase land in Crossfield Alberta. Subsequent to the year end, the Company did not remove conditions and the deposit was refunded to the Company in Q1 2019.

Subsequent to the year end in Q1 2019, a tenant took occupancy of the build to suit building in Hanna, Alberta. A conventional mortgage secured against the property in the amount of \$5,100,000 was received in Q1 2019.

At Q4 2018 the Company has construction costs to complete the two buildings under development. Total contracted costs not incurred at September 30, 2018 are \$1,521,661.

At the date of this MD&A the Company has no other financial commitments for the purchase or sale of assets or for tenant incentives that has not already been disclosed.

There are opportunities to purchase other properties currently on the market. The Company continues to look at all opportunities and evaluate the best possible alternatives. Cash needed to fund an acquisition of property will be provided through cash flows from operations, available funds through current bank credit facilities, and securing long term financing. Related party financing is also available to the Company which is generally available on a short term basis. Management tries to avoid related party financing as the interest rate is higher than current bank credit facilities, however, management will use this resource if necessary, until lower financing is put in place.

Changes in accounting policies

Adoption of accounting standards

Amendments to IAS 7, "Statement of Cash Flows" ("IAS 7"). The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments do not define financing activities; instead they clarify that financing activities are based on the existing definition used in IAS 7. The amendments are to be applied prospectively effective for annual periods beginning January 1, 2017.

In these consolidated financial statements, the amortization of deferred financing costs has been reclassified and included in financing activities when they were previously reported as part of operating activities. Accrued interest liabilities have been reclassified to financing activities from operating activities and any deposits held in trust for acquisitions, are now classified as investing activities rather than operating activities.

Finance costs on the statement of comprehensive income are comprised of interest, amortization of deferred financing costs, and net of interest income.

Comparative figures have been reclassified to conform to the presentation of the current period.

Future accounting pronouncements

(a) Future accounting policies

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

IFRS 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 determined that the impact on the consolidated financial statements of adopting this new standard is not expected to be material.

IFRS 9, "Financial Instruments" will replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard includes guidance on recognition and de-recognition of financial assets and financial liabilities, extensive changes to IAS 39's guidance on the classification and measurement of financial assets, impairment and hedge accounting. IFRS 9 is effective for annual

periods beginning on or after January 1, 2018, with early adoption permitted. The Company is considering the implications of the standard and the impact on the Company.

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 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's most material revenue stream is rental revenue and it is outside the scope of the new standard. The relevant impact as a result of the adoption of IFRS 15 will include additional note disclosure for property operating expense recoveries which is considered a non-lease component, and as such would be within the scope of IFRS 15. The Company has determined that the pattern of revenue recognition will remain unchanged, and the adoption of the new standard is not expected to have a material impact to the consolidated statements of income and comprehensive income.

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

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 determined that the impact on the consolidated financial statements of adopting this new standard is not expected to be material.

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition

and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact on its consolidated financial statements.

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

(b) Critical judgments in applying accounting policies

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

(i) Leases

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

(ii) Investment property

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

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

(iii) Income tax

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

(c) Critical accounting estimates and assumptions

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

Investment properties

The choice of the valuation method for fair valuing and the critical estimates and assumptions underlying the valuation of investment properties and investment properties under construction are set out in Note 3 in the consolidated financial statements.

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

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

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

Income taxes

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

Valuation of loan receivable

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

Measures not in accordance with international financial reporting standards

Throughout the MD&A, management will use measures that may include Adjusted EBITDA (net income from continuing operations before interest, taxes, depreciation, amortization, valuation gains and straight-line rental revenue) and NOI (net operating income from properties which includes property revenue less direct property operating expenses and excludes non-cash and extraordinary items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property or equipment, stock based compensation, interest and income taxes). Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one period to another period. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Management believes its use of Adjusted EBITDA and NOI provides the shareholders and prospective investors with additional performance measures to show the cash flow from operations that will be used to finance debt and further growth of the Company. A detail of the calculation can be found on page 14 in this MD&A.

Disclosure controls and procedures

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

Imperial Equities' major weakness in internal controls and procedures has always been the lack of segregation of duties in the accounting department. The potential impact of a material weakness in internal controls on the financial statements would be the possibility of a material misstatement going undetected. Management is responsible for the existence and effectiveness of systems, controls and procedures to ensure that information used internally by management and disclosed externally is reliable and timely. In Q3 2017, Management began measures to mitigate such material weakness with the addition of new staff to segregate duties.

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

The Audit Committee provides oversight of financial statements and MD&A released to the public on a quarterly basis. The Company cannot guarantee that controls and procedures in place will prevent all errors or misstatements.

Off-balance sheet arrangements

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