

# Independent Auditor's Report

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To the Shareholders of  
Imperial Equities Inc.

We have audited the accompanying consolidated financial statements of Imperial Equities Inc., which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the financial statements**

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

## **Auditor's responsibility**

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

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



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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Imperial Equities Inc. as at September 30, 2018 and September 30, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada

November 29, 2018

*Grant Thornton LLP*

Chartered Professional Accountants

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

	Notes	September 30, 2018	September 30, 2017
<b>Assets</b>			
Investment properties	3, 23	206,710,736	185,896,325
<b>Total non-current assets</b>		<b>206,710,736</b>	<b>185,896,325</b>
Loan receivable	4	1,009,825	496,414
Receivables	6	242,792	81,534
Prepaid expenses and deposits	7	1,218,946	2,008,256
Restricted cash	8	400,000	-
Short term investments	5	373,500	-
Cash and cash equivalents		2,343,520	843,336
<b>Total current assets</b>		<b>5,588,583</b>	<b>3,429,540</b>
<b>Total Assets</b>		<b>212,299,319</b>	<b>189,325,865</b>
<b>Liabilities</b>			
Mortgages	8	64,146,206	68,629,558
Security deposits		611,654	325,538
Deferred taxes	12(b)	14,299,347	13,810,232
<b>Total non-current liabilities</b>		<b>79,057,207</b>	<b>82,765,328</b>
Current portion of mortgages	8	21,280,840	11,020,384
Other financing	22 (b)	4,020,000	1,300,000
Bank operating facilities	9	18,457,672	9,506,115
Payables and accruals	10	3,145,876	672,789
Income taxes payable		915,477	852,725
<b>Total current liabilities</b>		<b>47,819,865</b>	<b>23,352,013</b>
<b>Total Liabilities</b>		<b>126,877,072</b>	<b>106,117,341</b>
<b>Equity</b>			
Issued share capital	14(a)	6,030,758	6,050,152
Contributed surplus	14(b)	593,750	593,750
Retained earnings		78,797,739	76,564,622
<b>Total Equity</b>		<b>85,422,247</b>	<b>83,208,524</b>
<b>Total Equity and Liabilities</b>		<b>212,299,319</b>	<b>189,325,865</b>

Guarantees, contingencies and commitments (Note 18)  
Post-reporting date events (Note 23)

See accompanying notes to the consolidated financial statements.

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

	Notes	2018	2017
Rental revenue	17 (a)	10,435,054	10,325,117
Accelerated rent adjustment	4	1,992,928	-
Property operating expense recoveries		2,815,226	2,552,493
Property operating expenses	17 (b)	(3,454,607)	(2,971,617)
<b>Income from operations</b>		<b>11,788,601</b>	<b>9,905,993</b>
Finance costs	11	(2,950,726)	(2,605,259)
Administration expenses		(1,292,322)	(1,444,655)
Amortization of deferred leasing		(278,603)	(246,898)
Forfeited deposit	3	-	238,095
Loss on the sale of equipment	3	-	(51,034)
Unrealized gains on short term investments		73,500	-
Valuation net (losses) gains from investment properties	3	(3,475,926)	612,790
<b>Income before income tax</b>		<b>3,864,524</b>	<b>6,409,032</b>
Income tax expense	12(a)	(1,521,911)	(1,671,639)
<b>Net income and comprehensive income</b>		<b>2,342,613</b>	<b>4,737,393</b>
<b>Earnings per share basic and diluted</b>	15	<b>.24</b>	<b>.49</b>

*See accompanying notes to the consolidated financial statements.*

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

	<b>Number of shares</b>	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>October 1, 2017</b>	9,614,442	\$ 6,050,152	\$ 593,750	\$ 76,564,622	\$ 83,208,524
Shares repurchased and cancelled during the year	(30,800)	(19,394)	-	(109,496)	(128,890)
Net income	-	-	-	2,342,613	2,342,613
<b>Balance September 30, 2018</b>	<b>9,583,642</b>	<b>\$ 6,030,758</b>	<b>\$593,750</b>	<b>\$ 78,797,739</b>	<b>\$ 85,422,247</b>

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

*See accompanying notes to the consolidated financial statements.*

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

	Notes	2018	2017
<b>Operating activities</b>			
Net income from operations		2,342,613	4,737,393
Finance costs		2,950,726	2,605,259
Items not affecting cash:			
Non-cash accelerated rent adjustment	13	(1,749,709)	-
Forfeited deposit on agreement to sell investment property		-	(238,095)
Amortization of discount on loan receivable		(3,586)	(17,989)
Amortization of tenant inducements		336,364	36,364
Amortization of deferred leasing costs		278,603	246,898
Fair value changes on investment properties		3,475,926	(612,790)
Loss on the sale of equipment		-	51,034
Unrealized gains on short term investments		(73,500)	-
Straight-line rental revenue		(141,838)	(190,965)
Deferred income taxes		489,114	818,914
Initial direct leasing costs		(1,078,511)	(268,611)
Net change in operating working capital	13	354,178	140,986
<b>Cash provided by operating activities</b>		<b>7,180,380</b>	<b>7,308,398</b>
<b>Investing activities</b>			
Purchase of investment properties		(16,130,567)	(17,133,798)
Property under development		(7,145,418)	-
Improvements to investment properties		(408,968)	(308,470)
Proceeds on sale of equipment		-	23,000
Proceeds from loan receivable		500,000	500,000
Net change in investing working capital	13	3,211,410	(1,495,674)
<b>Cash used in investing activities</b>		<b>(19,973,543)</b>	<b>(18,414,942)</b>
<b>Financing activities</b>			
Proceeds from new mortgages		16,350,000	10,250,000
Repayment of mortgages on maturity		(4,813,093)	(853,823)
Repayment of mortgages through principal instalments		(5,509,782)	(5,097,479)
Restricted cash held in guaranteed investment certificates		(400,000)	-
Amortization of deferred finance fees		86,773	79,768
Fees associated with new or renewed mortgages		(87,084)	(106,317)
Advances from other financing		6,570,000	3,350,000
Repayment of other financing		(3,850,000)	(2,050,000)
Finance costs		(2,950,726)	(2,605,259)
Purchase of common shares for cancellation		(128,890)	(113,765)
Net advances on bank operating facilities		8,951,557	7,003,728
Net change in financing working capital	13	74,592	(22,006)
<b>Cash provided by financing activities</b>		<b>14,293,347</b>	<b>9,834,847</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>1,500,184</b>	<b>(1,271,697)</b>
Cash and cash equivalents, beginning of year		843,336	2,115,033
<b>Cash and cash equivalents, end of period</b>		<b>2,343,520</b>	<b>843,336</b>

See accompanying notes to the consolidated financial statements.

## **1. Nature of operations**

Imperial Equities Inc. (“the Company”) was incorporated in Edmonton, Alberta, Canada. The registered and operating office of the Company is 2151, 10060 Jasper Avenue, Edmonton, Alberta T5J 3R8. The Company’s operations consist of the acquisition, development and redevelopment of commercial and industrial properties primarily in Edmonton and throughout Alberta. All the operations of Imperial Equities Inc. are conducted in Canadian funds. The Company’s common shares trade on the TSX Venture Exchange (TSXV) under the symbol “IEI”. These consolidated financial statements include the Company and its wholly owned subsidiaries, Imperial Equities Properties Ltd. (“IEPL”), Imperial One Limited, Imperial Two Limited, Imperial Three Limited, Imperial Four Limited, Imperial Five Limited, Imperial Six Limited, Imperial Seven Limited and Imperial Eight Limited.

## **2. Significant accounting policies**

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

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

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

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

Comparative information in the consolidated financial statements includes reclassification of certain balances to provide consistency with current period classification. The current period classification more appropriately reflects the Company’s core operations and any changes are not material to the financial statements as a whole.

### **(b) Investment properties**

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

#### *Investment properties*

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

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

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

Investment properties are derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated statements of comprehensive income in the period of retirement or disposal. Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous reporting period financial statements.

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

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

#### *Investment properties under development*

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

#### *Borrowing costs related to properties under development*

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

#### **(c) Business combinations**

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

#### **(d) Impairment of assets**

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

generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statement of comprehensive income. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in the consolidated statements of comprehensive income. However, the reversal of an impairment loss will not increase the carrying amount that would have been determined had no impairment loss been recognized.

**(e) Investment property held for sale**

Investment property is categorized as held for sale where the property is available for sale in its present condition and the sale is highly probable. For this purpose, a sale is highly probable: (a) if management is committed to a plan to achieve the sale, (b) there is an active program to find a buyer, (c) the property is being actively marketed at a reasonable price, (d) the sale is anticipated to be completed within one year from the date of classification, and (e) it is unlikely there will be changes to the plan. Where a property is acquired with a view to resale, it is classified as held for sale if the disposal is expected to take place within one year of the acquisition and it is highly likely that the other conditions referred to above will be met within a brief period following the acquisition. Retrospective application is not required; therefore, comparative figures will not be adjusted to reflect property held for sale. On reclassification to or from investment property held for sale, investment property that is measured at fair value continues to be so measured.

**(f) Leases – Company as lessor**

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

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

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

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

**(g) Segment reporting**

Operating segments are defined as components of the Company for which separate financial information is available and is evaluated by the chief decision makers in allocating resources and assessing performance. All the Company's operations are solely in Canada and are under one business, commercial real estate.

**(h) Income tax**

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

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

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

**(i) Provisions**

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

**(j) Revenue recognition**

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

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

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

Accelerated rent adjustments occur when the Company agrees to allow a tenant to terminate their lease in advance of the contractual lease term. The proceeds of the negotiated rent adjustment is recognized in income when it is receivable, and there is no ongoing contractual obligation.

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

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

**(k) Fair value measurements**

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

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

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

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

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

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

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

**(l) Financial instruments**

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

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

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

<u>Financial assets and liabilities</u>	<u>Classification</u>	<u>Subsequent measurement</u>
Cash, cash equivalents and restricted cash	Loans and receivables	Amortized cost
Short term investments	Held-for-trading	Fair value through profit and loss
Receivables and loans receivable	Loans and receivables	Amortized cost
Bank operating facilities	Other financial liabilities	Amortized cost

Payables and accruals	Other financial liabilities	Amortized cost
Other financing	Other financial liabilities	Amortized cost
Mortgages	Other financial liabilities	Amortized cost
Security deposits	Other financial liabilities	Amortized cost

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

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

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less. Restricted cash represents cash held in guaranteed investment certificates as collateral, pursuant to certain lender agreements.

**(n) Stock based compensation**

The Company has established a stock option plan for its directors, management and key employees as described in Note 16. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. For stock options which expire unexercised, the corresponding amount in contributed surplus is transferred to retained earnings. There is no adjustment to past compensation expense. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

**(o) Normal course issuers bid**

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

**(p) Critical judgments in applying accounting policies**

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

**(i) Leases**

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

**(ii) Investment properties**

The Company's accounting policies relating to investment properties are described in Note 2(b). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property to be capitalized and, for properties under development, identifying the point at which practical completion of the property occurs and the directly attributable borrowing costs are included in

the carrying value of the development property. Capitalization of expenses ceases to occur when the property under development is available for use. This judgement is applied when the property is substantially complete and is sometimes concurrent with occupancy.

In the normal course of operations, the Company acquires investment properties. At the time of 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.

**(q) Critical accounting estimates and assumptions**

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

**(i) Investment properties**

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

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

Investment property under development is valued at cost until either the fair value becomes reliably determinable, or construction is completed (whichever is earlier).

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

**(ii) Income taxes**

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

**(iii) Stock-based compensation**

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

**(iv) 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.

**(r) Adoption of accounting standards**

**Current accounting policy changes**

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 effective for annual periods beginning January 1, 2017.

In these consolidated financial statements, the amortization of direct leasing costs has been reclassified and included in operating activities when it was previously reported as part of investing activities. Accrued interest liabilities and amortization of deferred finance costs 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.

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 for investment properties, 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)
<b>Cash inflow from operation activities, reclassified</b>	<b>\$ 7,308,398</b>
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
<b>Cash used in investing activities, reclassified</b>	<b>\$ (18,414,942)</b>
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
<b>Cash provided by financing activities, reclassified</b>	<b>\$ 9,834,847</b>

**Future accounting pronouncements**

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has determined that the impact on the consolidated financial statements of adopting this new standard is not expected to be material.

IFRS 9, “Financial Instruments” (“IFRS 9”), issued in July 2014, and replaces IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss (“FVTPL”) and to measure equity-based financial assets as either held-for-trading or as fair value through other comprehensive income (“FVTOCI”). No amounts are reclassified out of other comprehensive income (“OCI”) if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9. A new general hedge accounting standard, was issued in November 2013, permitting additional hedging strategies used for risk management to qualify for hedge accounting. The IASB has set annual periods beginning on or after January 1, 2018 as the effective date for the mandatory application of IFRS 9. The Company’s management does not expect any material impact from the adoption of IFRS 9 on these consolidated financial statements.

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

### 3. Investment properties

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at September 30, 2017</b>	\$ 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)	-
<b>Ending balance at September 30, 2018</b>	<b>\$ 186,853,753</b>	<b>\$ 9,340,565</b>	<b>\$ 10,516,418</b>	<b>\$ 206,710,736</b>

	Income Producing Properties	Properties Held For Sale	Held For Development	Total Investment Properties
<b>Opening balance at September 30, 2016</b>	\$ 156,290,087	\$ 8,104,500	\$ 3,344,400	\$ 167,738,987
<i>Additions:</i>				
Capitalized property taxes and other	-	-	167,956	167,956
Property improvements	140,514	-	-	140,514
Leasing commissions	268,611	-	-	268,611
Property acquisitions	17,133,798	-	-	17,133,798
Change in straight-line revenues	190,965	-	-	190,965
Revaluation (losses) gains, net	780,746	-	(167,956)	612,790
Loss on the sale of equipment	(74,033)	-	-	(74,033)
Amortization of deferred leasing	(246,898)	-	-	(246,898)
Amortization of tenant inducements	(36,365)	-	-	(36,365)
Transfers (from) to	-	(8,104,500)	8,104,500	-
<b>Ending balance at September 30, 2017</b>	<b>\$ 174,447,425</b>	<b>\$ -</b>	<b>\$ 11,448,900</b>	<b>\$ 185,896,325</b>

## Valuation methodology and processes

The fair value of investment properties at September 30, 2018 and September 30, 2017 is determined internally by management using assumptions and market information obtained from industry professionals and qualified external appraisers. Management uses inputs from external appraisers as additional sources of information when recording property specific attributes. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all the investment properties are classified as Level 3 assets. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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

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

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

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

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Range of capitalization rates applied to investment properties	5.00% - 7.17%	5.00% - 7.00%
Fair values of properties where cap rates were applied	\$ 181,766,587	\$ 166,047,426
Weighted average cap rates	6.26%	6.24%
Fair value impact of increasing average cap rate by 0.25%	\$ (6,968,691)	\$ (9,635,229)
Fair value impact of a 1% decrease in net operating income	\$ (1,817,669)	\$ (4,993,344)

This calculation was used on all the investment properties except for Oliver Crossing, land held for development, one property under development, and land under lease agreements.

The market value of Oliver Crossing is based on the total square footage of land multiplied by a dollar value per square foot. Land held for development is valued using management's research of similar vacant land that has sold recently or is available for sale. The market value of one property under development is considered to be the equivalent of the construction costs to date based on management's research of similar properties. Land under lease agreements is valued at the market value of the land valued using management's research of similar land that has sold recently or is available for sale.

	September 30, 2018	September 30, 2017
<b>Oliver Crossing</b>		
Fair value	\$ 8,400,000	\$ 8,400,000
Impact of a \$10 change in price per square foot	\$ 525,000	\$ 525,000
<b>Land held for development</b>		
Average price per acre of land	\$ 163,349	\$ 698,956
Number of acres	64.38	16.38
Total fair values	\$ 10,516,418	\$ 11,448,900
Impact of a 10% change in average price per acre	\$ 1,051,642	\$ 1,144,890
<b>Property under development</b>		
Coppertone III – 1.25 acres, Edmonton, AB	\$ 3,473,629	\$ -
Impact of a \$10 change in price per square foot	\$ 119,989	\$ -
<b>Land under lease agreements with tenants</b>		
Number of acres leased	4.90	-
Average price per acre	\$ 798,104	\$ -
Total fair values of leased land	\$ 3,910,710	\$ -
Impact of a 10% change in average price per acre	\$ 391,071	\$ -

One investment property entitles the lessee to purchase the land and building under an Option to Purchase agreement that expires January 15, 2021.

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

	September 30, 2018	September 30, 2017
Straight line rent receivable	\$ 1,547,901	\$ 1,406,063
Leasing costs	1,632,652	832,744
Tenant inducement	-	336,364
	<u>\$ 3,180,553</u>	<u>\$ 2,575,171</u>

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

The tenant inducement was for one tenant that went into receivership in the current year and is no longer occupying the building. The inducement was fully expensed in the current year.

#### **Forfeited deposit-prior year**

In the prior year, an arm's length purchaser was unable to complete an unconditional purchase and sale agreement. The deposit of \$250,000 was recorded as revenue, net of GST in the prior year.

#### **Loss on sale of equipment-prior year**

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

#### 4. Loan receivable

	September 30, 2018	September 30, 2017
Loan receivable, beginning of year	\$ 496,414	\$ 978,425
Additional loan receivable during the year	2,200,000	-
Provision for impairment	(1,000,000)	-
Principal payments received during the year	(686,589)	(482,011)
<b>Balance, end of year</b>	<b>\$ 1,009,825</b>	<b>\$ 496,414</b>

During the current year, an accelerated rent adjustment of \$2,992,928 was negotiated with a tenant that was granted an early termination of their lease. Contractual consideration is as follows:

Cash received on the termination date	\$ 243,219
150,000 common shares of the tenant's company valued at \$2.00 per share at the termination date	300,000
Adjustment to the balance of the mortgage payable to the tenant	249,709
Monthly instalments of \$105,850 for 22 months inclusive of interest at an annual rate of 6%	2,200,000
Total contractual accelerated rent adjustment	2,992,928
Adjustment to fair value on initial recognition	(1,000,000)
<b>Accelerated rent adjustment</b>	<b>\$ 1,992,928</b>

The Company received the first two monthly instalments during the year. The final instalment date is May 1, 2020. The contractual receivable at year end is \$2,009,825 (September 30, 2017 - \$Nil). Due to the unsecured nature of the additional loan received during the year, a provision for impairment of \$1,000,000 was recorded on initial recognition and remains at September 30, 2018, with a resulting balance of \$1,009,825 at September 30, 2018 (September 31, 2017 - \$Nil).

The loan receivable at September 30, 2017 was in relation to the sale of a subsidiary which took place in December 2015. The principal balance of the loan plus interest at an annual rate of 6.5% was received in full during the current year (September 30, 2017 - \$496,414).

#### 5. Short – term investments

Short – term investments are common shares acquired in the settlement of the accelerated rent adjustment (Note 4) The securities acquired have a hold date for trading until November 3, 2018.

	September 30, 2018	September 30, 2017
<b>Level 1 Measurement</b>		
Marketable securities, beginning of year	\$ -	\$ -
Value of shares acquired during the year	300,000	-
Change in fair value during the year	73,500	-
<b>Balance at the end of the year</b>	<b>\$ 373,500</b>	<b>\$ -</b>

#### 6. Receivables

	September 30, 2018	September 30, 2017
Tenant receivables	\$ 136,324	\$ 97,595
Accrued interest	10,772	-
Excise taxes receivable and rebates receivable	111,757	-
Provision for impairment	(16,061)	(16,061)
<b>Receivables, net</b>	<b>\$ 242,792</b>	<b>\$ 81,534</b>

The Company has many tenants that are multinational companies with solid credit ratings. The tenant receivables at September 30, 2018 and September 30, 2017 include invoices for occupancy costs that were reconciled at year end and subsequently collected.

At September 30, 2018 and September 30, 2017 there is one tenant with rental arrears and the Company has recorded a provision in both years for impairment of this receivable. The tenant continues to make payments. There was no additional provision for impaired receivables from other tenants at September 30, 2018 as the Company has assessed the remaining receivables to be collectible.

**7. Prepaid expenses and deposits**

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Prepaid operating expenses	\$ 497,507	\$ 430,207
Deposits on offers to purchase investment property	665,000	1,517,049
Security deposits with municipalities	56,439	20,000
Refundable deposit	-	41,000
<b>Total prepaid expenses and deposits</b>	<b>\$ 1,218,946</b>	<b>\$ 2,008,256</b>

Prepaid operating expenses at September 30, 2018 and September 30, 2017 are for property taxes and insurance.

At September 30, 2018 the Company has placed deposits on agreements to purchase investment property as follows:

- Deposits of \$250,000 were placed pursuant to 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 (Note 23).
- A deposit of \$165,000 was placed pursuant to 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 (Note 23).
- A deposit of \$50,000 was placed pursuant to 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 (Note 23).
- Deposits of \$200,000 were placed pursuant to agreements to purchase property that were not completed. The deposits were refunded to the Company subsequent to the year end.

At September 30, 2017 the Company had deposits of \$1,517,049 on agreements to purchase investment property. The acquisitions were completed in Q1 2018. The refundable deposit at September 30, 2017 was received in Q1 2018.

## 8. Mortgages

Maturity	Rate	September 30, 2018	September 30, 2017
September 1, 2017	3.486%	\$ -	\$ 2,564,288
October 1, 2017	3.357%	-	2,248,805
* January 1, 2019	2.620%	1,742,156	1,904,583
* January 1, 2019	2.630%	2,569,227	2,743,490
* January 1, 2019	2.630%	2,039,948	2,177,932
* July 1, 2019	3.450%	10,550,178	11,043,785
November 1, 2019	3.334%	9,414,128	9,847,403
January 1, 2021	2.980%	3,740,559	3,988,201
January 1, 2021	2.980%	5,787,844	6,171,024
April 1, 2021	2.880%	5,982,442	6,371,859
April 1, 2021	2.948%	3,231,172	3,422,086
October 1, 2021	2.470%	6,676,895	7,253,384
October 1, 2021	2.470%	7,936,856	8,445,018
February 1, 2022	3.040%	6,172,934	6,540,597
June 1, 2022	2.730%	2,404,821	2,594,914
December 1, 2022	3.670%	3,943,735	-
December 1, 2022	3.671%	3,583,038	-
January 1, 2023	3.570%	811,376	884,065
February 1, 2023	3.750%	2,159,649	-
October 1, 2023	3.950%	622,272	731,921
October 1, 2023	4.090%	6,300,000	-
July 1, 2024	5.000%	-	958,459
<i>Total mortgages</i>		\$ 85,669,230	\$ 79,891,816
<i>Less: current portion of principal payments</i>		(21,280,840)	(11,020,384)
<i>Less: balance of unamortized finance fees</i>		(242,184)	(241,874)
		<b>\$ 64,146,206</b>	<b>\$ 68,629,558</b>
Weighted average rate		<b>3.13%</b>	<b>3.00%</b>

\*Mortgages due in the next twelve months

A mortgage with a balance of \$249,709 at June 30, 2018 was discharged as part of the consideration received under the accelerated rent adjustment (Note 4).

All the above mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property, except for one mortgage with a maturity date of July 1, 2019. Additional security and collateral for the lender of this mortgage includes monthly instalments of \$100,000 held in interest bearing GIC's, for a total debt service reserve in the aggregate of \$1,300,000. Total instalments at September 30, 2018 are \$400,000 and are classified as restricted cash.

## 9. Bank operating facilities

	September 30, 2018	September 30, 2017
Bank operating facilities	\$ 18,457,672	\$ 9,506,115

At September 30, 2018, the Company has two credit facilities set out as follows:

- 1) An operating line of credit (LOC) with a limit of \$10,000,000 (September 30, 2017 - a limit of \$8,000,000 and provisions for a temporary increase of an additional \$1,500,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at September 30, 2018 of \$9,888,223 (September 30, 2017 - \$9,506,115). The credit facility bears interest at prime plus 1% per annum (September 30, 2017 – interest at prime plus 1% per annum) and is secured by specific revenue producing properties with combined fair values of \$39,870,611 (September 30, 2017 specific revenue producing properties with combined fair values of \$17,227,241). The Company pays a standby fee of .25% per annum (September 30, 2017 - .25% per annum), payable monthly on the un-drawn portion of the facility. Specific covenants of this credit facility are that there be a minimum of 90% occupancy of the secured buildings and adherence to a margin formula as outlined below.

Availability under the facility will be restricted to the lending value assigned to the properties which will be the lesser of: a) the level at which a Debt Service Coverage Ratio of 1.25 can be maintained, less the Prior Debt on the properties, (September 30, 2017: a Debt Service Coverage Ratio of 1.30 can be maintained, less the Prior Debt on the properties) or b) the level at which a Loan to Value Ratio of 70% can be maintained with respect to the secured properties, over which the Lender has a 1<sup>st</sup> mortgage and 60% with respect to the secured properties over which the Lender holds a 2<sup>nd</sup> mortgage, less the prior debt on the properties (September 30, 2017: a Loan to Value Ratio of 65% can be maintained with respect to the secured properties, over which the Lender has a 1<sup>st</sup> mortgage and 60% with respect to the secured properties over which the Lender holds a 2<sup>nd</sup> mortgage, less the prior debt on the properties). For these secured properties, the loan to value is set at 65%, unchanged from the prior year.

*Debt service* = annual principal and interest payments based on 25-year amortization and an interest rate that is the greater of 5.0% (September 30, 2017 - 5.5%) or the Government of Canada Benchmark Bond Yields plus 225 basis points.

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

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

The aggregate of the above calculation for each property is the "Preliminary Lending Value" and is determined by the lender to be \$9,354,020. The "Final Lending Value" is \$10,000,000 and will be accommodated by the Lender until March 31, 2019 at which time it will be adjusted back down to the preliminary Lending Value, as recalculated at that time. Any resulting margin shortfall is to be covered by the Company's own resources.

At September 30, 2018 the debt service coverage ratio is 1.12 and the loan to value ratio is 72% (September 30, 2017 the debt service coverage ratio was 1.31 and the loan to value ratio was 77%).

At the fiscal year end of September 30, 2017, the lender had allowed the Company to overdraw the LOC. The Company was in the process of paying out two conventional mortgages that were due on September 1, 2017 and October 1, 2017 and replacing them with two new mortgages through the same lender. The two new mortgages

would provide additional capital to complete a purchase agreement, set to close subsequent to the year end. As the lender was unable to fund the mortgages prior to the year end, the lender agreed to allow the Company to overdraw the credit facility and allow the loan to value ratio to exceed 65% at September 30, 2017, until the mortgages were fully advanced in Q1 2018. The Company did not breach any financial covenants during the current year, or prior year.

- 2) An additional operating LOC with a limit of \$10,000,000.

This credit facility bears interest at prime plus .95% per annum and is secured by specific revenue producing properties with combined fair values at September 30, 2018 of \$64,956,941.

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at September 30, 2018 is \$8,569,449 (September 30, 2017 - \$ Nil).

#### 10. Payables and accruals

	September 30, 2018	September 30, 2017
Trade payables	\$ 1,814,114	\$ 68,118
Accrued loan interest	228,729	195,136
Current portion of tenant security deposits	25,624	37,850
Accrued liabilities	734,175	193,529
Prepaid rents	343,234	178,156
<b>Total payables and accruals</b>	<b>\$ 3,145,876</b>	<b>\$ 672,789</b>

Trade payables at September 30, 2018 include construction payables for two projects currently under development. Accrued liabilities include construction holdbacks of \$641,505 (September 30, 2017 - \$ Nil). Prepaid rents from tenants largely relates to rent due on the first of the following month, and the balance represents rents paid in advance which is recognized in revenue over the applicable months. The carrying value of payables and accruals approximates fair value due to their short-term maturity.

#### 11. Finance costs

The components of finance costs are as follows:

	September 30, 2018	September 30, 2017
Interest on mortgages	\$ 2,435,159	\$ 2,317,832
Interest on bank operating facilities	496,210	203,796
Interest on other unsecured financing	62,971	23,499
Amortization of deferred finance fees	86,773	79,768
Interest income	(44,033)	(19,636)
Capitalized interest to properties under development	(86,354)	-
	<b>\$ 2,950,726</b>	<b>\$ 2,605,259</b>

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

Components of income tax expense

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Current tax expense	\$ 1,032,797	\$ 852,725
Deferred tax expense	489,114	818,914
	<b>\$ 1,521,911</b>	<b>\$ 1,671,639</b>

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

	<b>2018</b>	<b>2017</b>
Income before income taxes	\$ 3,864,524	\$ 6,409,032
Expected income tax expense at 27% (2017-27%)	\$ 1,043,421	\$ 1,730,439
<i>Increase (decrease) resulting from:</i>		
Non-taxable items	(19,691)	23,926
Tax rate differentials	498,181	(82,726)
	<b>\$ 1,521,911</b>	<b>\$ 1,671,639</b>

**b) Deferred taxes**

Deferred tax assets are attributable to the following:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Financing fees	\$ 6,259	\$ 10,319
Loan receivable	-	968
Deferred tax assets	6,259	11,287
Offset of tax	(6,259)	(11,287)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax liabilities are attributable to the following:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Straight-line rent receivable	\$ 417,933	\$ 379,637
Investment properties	13,436,855	13,087,371
Marketable securities	9,923	-
Finance fees	79	-
Tenant inducements	-	90,818
Capital gain reserve	-	38,852
Deferred leasing	440,816	224,841
Deferred tax liabilities	14,305,606	13,821,519
Offset of tax	(6,259)	(11,287)
<b>Net tax liabilities</b>	<b>\$ 14,299,347</b>	<b>\$ 13,810,232</b>

\$30,273,649 (September 30, 2017 - \$30,273,649) related to investments in certain subsidiaries was not recognized because it was not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized.

### 13. Supplemental consolidated cash flow information

	September 30, 2018	September 30, 2017
<b><i>Net change in operating working capital</i></b>		
(Increase) decrease in receivables	\$ (161,259)	\$ 29,051
Decrease in loans receivable	190,175	-
Increase in prepaid expenses and deposits	(103,740)	(105,445)
Increase (decrease) in payables and accruals	80,133	(48,225)
Increase in income taxes payable	62,752	196,382
Increase in security deposits	286,117	69,223
	<b>\$ 354,178</b>	<b>\$ 140,986</b>
<b><i>Net change in investing working capital</i></b>		
Decrease (increase) in deposits in trust for property acquisitions	\$ 852,049	\$ (1,367,049)
Decrease in acquisition fees payable	-	(128,625)
Increase in construction payables and accruals	2,359,361	-
	<b>\$ 3,211,410</b>	<b>\$ (1,495,674)</b>
<b><i>Net change in financing working capital</i></b>		
Decrease (increase) in refundable deposits with lenders	\$ 41,000	\$ (41,000)
Increase in accrued interest payable	33,592	18,994
	<b>\$ 74,592</b>	<b>\$ (22,006)</b>
Interest paid	\$ 2,980,033	\$ 2,526,560
Income taxes paid	\$ 970,044	\$ 683,930
<b>Non-cash transaction:</b>		
Accelerated rent adjustment		
Common shares received	\$ 300,000	\$ -
Discharge of mortgage payable	249,709	-
Loan receivable, net of a provision for impairment	1,200,000	-
	<b>\$ 1,749,709</b>	<b>\$ -</b>

### 14. Share capital

a) The Company has unlimited authorized common share capital.

	September 30, 2018	September 30, 2017
<b>Number of shares issued</b>		
Balance beginning of year	9,614,442	9,671,442
Shares cancelled during the year	(30,800)	(57,000)
<b>Ending number of shares</b>	<b>9,583,642</b>	<b>9,614,442</b>
<b>Capital stock</b>		
Balance beginning of year	\$ 6,050,152	\$ 5,946,742
Shares previously held in treasury	-	139,322
Shares cancelled during the year	(19,394)	(35,912)
<b>Ending capital stock</b>	<b>\$ 6,030,758</b>	<b>\$ 6,050,152</b>

The Company received approval from the TSX Venture Exchange to purchase up to 480,227 common shares representing 5% of the outstanding shares under a normal course issuer bid ("NCIB") that expired August 30, 2018. Prior to the expiry date, the Company received further approval to purchase up to 480,047 common shares under a NCIB which expires August 30, 2019.

During the current year, the Company repurchased 30,800 shares for a total cost of \$128,890. All the repurchased shares were cancelled and the excess of the purchase price over the cost of the shares in the amount of \$109,496 was charged to retained earnings.

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

b) **Contributed surplus**

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

	September 30, 2018	September 30, 2017
<b>Contributed surplus, beginning and end of year</b>	<b>\$ 593,750</b>	<b>\$ 593,750</b>

**15. Earnings per share**

The following are the weighted average number of shares outstanding:

	September 30, 2018	September 30, 2017
Net income and comprehensive income for the year	\$ 2,342,613	\$ 4,737,393
Weighted average shares outstanding – basic	9,598,215	9,604,975
Unexercised dilutive options	21,184	27,899
Weighted average shares outstanding – diluted	9,619,399	9,632,874
<b>Earnings per share – basic and diluted</b>	<b>\$ .24</b>	<b>\$ .49</b>

**16. Stock-based compensation plan**

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

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)
Opening balance at October 1, 2017	475,000	\$ 4.25	1.92
<b>Ending balance at September 30, 2018</b>	<b>475,000</b>	<b>\$ 4.25</b>	<b>.92</b>

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

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

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Company does not have a past practice of cash settlement for these share options. All the options outstanding as of September 30, 2018 and September 30, 2017 are exercisable.

**17. Rental revenue**

The Company leases commercial properties under operating leases with lease terms generally between 5 and 20 years. Some leases have options to extend for further five-year terms and one lease is month to month.

**a) Rental revenue**

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Rental revenue, contractual amount	\$ 10,629,580	\$ 10,170,516
Amortization of tenant inducements	(336,364)	(36,364)
Straight line of rental revenue from leases	141,838	190,965
<b>Rental revenue on statement of comprehensive income</b>	<b>\$ 10,435,054</b>	<b>\$ 10,325,117</b>

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

	<b>2018</b>	<b>2017</b>
No later than one year	\$ 11,219,026	\$ 10,691,138
2 – 5 years	35,524,690	36,519,292
Over 5 years	18,892,089	24,569,133
	<b>\$ 65,635,805</b>	<b>\$ 71,779,563</b>

The decrease in future contracted rent receivable at September 30, 2018 is due primarily to the early termination of a lease where an accelerated rent adjustment of \$2,992,928 was negotiated (Note 4).

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

**b) Property operating expenses**

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Property taxes	\$ 1,889,811	\$ 1,660,344
Insurance	82,461	102,465
Repairs and maintenance	781,912	553,321
Management fees	599,505	564,251
Utilities	100,918	91,236
	<b>\$ 3,454,607</b>	<b>\$ 2,971,617</b>

**18. Guarantees, contingencies and commitments**

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

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

c) The Company has contracts in place with related parties to provide property management and asset management. Both contracts have been in place since 1999 and have been renewed on an annual basis with no changes to the terms. Further information can be found in the Related Party Transactions in Note 21.

d) The Company has commitments under contracts for properties under development. The balance of construction contracts not incurred at September 30, 2018 is \$1,521,661 (September 31, 2017 - \$Nil)

## 20. Capital risk management

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

	September 30, 2018	September 30 2017
Mortgages	\$ 85,669,230	\$ 79,891,815
Bank operating facilities	18,457,672	9,506,115
Other financing	4,020,000	1,300,000
Total debt financing	108,146,902	90,697,930
Equity	85,422,247	83,208,524
<b>Total capital</b>	<b>\$ 193,569,149</b>	<b>\$ 173,906,454</b>

## 21. Financial instruments

	September 30, 2018	September 30, 2017
<b>Financial assets</b>		
Loans and receivables		
Cash and cash equivalents	\$ 2,343,520	\$ 843,336
Restricted cash	400,000	-
Short term investments	373,500	-
Receivables, net of provisions	242,792	81,534
Loan receivable, net of provision	1,009,825	496,414
	<b>\$ 4,369,637</b>	<b>\$ 1,421,284</b>
<b>Financial liabilities</b>		
Other financial liabilities		
Bank operating facilities	\$ 18,457,672	\$ 9,506,115
Payables and accruals	3,145,876	672,789
Other financing	4,020,000	1,300,000
Security deposits	611,654	325,538
Mortgages	85,669,230	79,891,815
	<b>\$ 111,904,432</b>	<b>\$ 91,696,257</b>

The carrying value of cash and cash equivalents, restricted cash, receivables, loan receivable, bank operating facilities, other financing, payables and accruals and security deposits approximate their fair value because of the near-term maturity of those instruments. The fair value of short - term investments is a level 1 measurement valued at the quoted market price. The fair value of mortgages payable is a level 2 measurement and is based on discounted

future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable as at September 30, 2018 is \$84,553,051 (September 30, 2017 - \$78,566,380). These estimates are subjective in nature as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible. The interest rate used for this calculation is 4.090% (September 30, 2017 – 3.448%).

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

#### **Credit risk**

The Company's maximum exposure to credit risk is the balance of its trade receivables of \$120,263 (September 30, 2017 - \$81,534), cash and cash equivalents of \$2,343,520 (September 30, 2017 - \$843,336), restricted cash of \$400,000 (September 30, 2017 - \$ Nil) and loan receivable of \$1,009,825, net of provision of \$1,000,000 (September 30, 2017 - \$496,414).

Credit risk on trade receivables for Imperial Equities Inc. arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss with a policy of credit assessment for all new lessees and by limiting its exposure to any one tenant. Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions. Restricted cash is held in GIC's with a financial institution. Credit risk associated with the loan receivable arises from the possibility that the counterparty may experience financial difficulty and be unable to make the contractual payments. The Company has made a provision for impairment of this loan of \$1,000,000 at September 30, 2018.

Trade accounts receivable that have been deemed uncollectible are expensed as bad debts and charged to net income in the period when the account is determined to be doubtful. During the prior year, the Company had a tenant that had difficulty paying their rent. This tenant was placed into receivership and the Company wrote off the rent receivable of \$257,209 at September 30, 2017 as a bad debt. The Receiver found a buyer for this tenant's business, and a new lease was entered into in Q2 2018. Estimates for the allowance for doubtful accounts are determined on a tenant-by-tenant evaluation of collectability at each reporting date. As at September 30, 2018 and September 30, 2017, an allowance for doubtful accounts was recorded in the amount of \$16,061 for one small tenant. The Company will continue to closely monitor this tenant for financial stability. All other accounts are deemed collectible.

#### **Interest rate risk**

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at September 30, 2018 is \$18,457,672 (September 30, 2017 - \$9,506,115). Under the assumption any balance of debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$184,577 (September 30, 2017 - \$95,062). The Company minimizes its exposure to interest rate risk to the extent that all mortgages have fixed rates with terms of five years.

#### **Liquidity risk**

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. The Company actively monitors its financing obligations and cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Management manages its liquidity risk with the use of the lines of credit available to the Company as well as short term financing from related parties and private parties. Management estimates that cash flows from real estate activities will provide sufficient cash requirements to cover normal operating and budgeted expenditures. Short-term investments held by the Company

may have some liquidity risk due to the underlying low trading volumes of the stock. Management will look to the disposition of these investments over the next 12 months as market forces permit.

The Company took advantage of leverage opportunities on two mortgages that were in the process of being renewed at September 30, 2017. Both mortgages were paid in full at their due date and new mortgages were received on the properties. The proceeds of the mortgages were used to repay an amount on a line of credit that had a balance at September 30, 2017 of \$9,506,115. During the current year, the Company secured an additional new credit facility with one of the Company's major lenders to be used for property acquisitions and general operations. The limit on this credit facility is \$10,000,000 and bears interest at prime plus .95% per annum. An existing line of credit with a major lender was increased during the year to a limit of \$10,000,000 to assist with acquisitions and general operations. Two conventional mortgages were received on two new acquisitions and two mortgages were renewed for further five - year terms.

The Company will be able to meet its future obligations through normal operations, current credit facilities and the use of related party interim financing.

#### Contractual obligations at September 30, 2018

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 23,730,510	\$ 35,111,505	\$ 33,739,056	\$ -	\$ 92,581,071
Payables and accruals	3,145,876	-	-	-	3,145,876
Construction contracts	1,521,661	-	-	-	1,521,661
Security deposits	25,624	87,354	179,430	344,870	637,278
	<u>28,423,671</u>	<u>35,198,859</u>	<u>33,918,486</u>	<u>344,870</u>	<u>97,885,886</u>
Other financing	4,020,000	-	-	-	4,020,000
Debt service reserve (Note 8)	900,000	-	-	-	900,000
Operating facilities	18,457,672	-	-	-	18,457,672
	<u>\$ 51,801,343</u>	<u>\$ 35,198,859</u>	<u>\$ 33,918,486</u>	<u>\$ 344,870</u>	<u>\$ 121,263,558</u>

#### Contractual obligations at September 30, 2017

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

#### 22. Related party transactions

The following are the related party transactions of the Company.

##### a) *Management Agreements*

Sable Realty & Management Ltd. provides property management services to Imperial Equities Inc. The company is controlled by the President and CEO of the Company, Sine Chadi. North American Realty Corp. is also controlled by Mr. Chadi and provides asset management services to the Company.



iii) Other financing, unsecured

<b>Related Parties</b>	<b>Balance Oct 1'17</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance Sep 30'18</b>
NAMC <sup>1</sup>	\$ -	\$ 50,000	\$ (50,000)	\$ -
Diane Buchanan, Shareholder <sup>2</sup>	-	1,200,000	(1,200,000)	-
Jamel Chadi, Shareholder <sup>2</sup>	1,300,000	1,300,000	(2,600,000)	-
Imperial Land Corp. <sup>3</sup>	-	4,020,000	-	4,020,000
<b>Total</b>	<b>\$ 1,300,000</b>	<b>\$ 6,570,000</b>	<b>\$ (3,850,000)</b>	<b>\$ 4,020,000</b>

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

1. North American Mortgage Corp. ("NAMC") is controlled by Mr. Sine Chadi, President of the Company. No interest was paid on the repayment of the loan at September 30, 2018 due to the short term nature of the loan (September 30, 2017 - \$575,000 was repaid with interest at an annual rate of 8% and \$100,000 was repaid with interest at an annual rate of 6%. Total interest paid was \$12,845).
2. Loans repaid to shareholders totalling \$3,800,000 were repaid with interest at an annual rate of 6%. Total interest paid at September 30, 2018 was \$43,685 (September 30, 2017 - \$775,000 was repaid with interest at an annual rate of 8% and \$600,000 was repaid with interest at an annual rate of 6%. Total interest paid was \$10,653).
3. Imperial Land Corp. is controlled by Mr. Sine Chadi, President of the Company. Total interest paid at an annual rate of 6% was \$19,287 (September 30, 2017 - \$ Nil).

All related party financing is unsecured with no specified dates of repayment and therefore are due on demand. The fair value of the related party loans at September 30, 2018 and September 30, 2017 approximates their carrying value as the amounts are due on demand.

### 23. Post-reporting date events

Subsequent to the year end, the Company terminated a tenant lease prior to the expiry date. The total accelerated rent adjustment of \$210,000 was received in Q1 2019.

In Q4 2018 the Company placed deposits totaling \$250,000 pursuant to 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.

In Q4 2018 a deposit of \$165,000 was placed pursuant to 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.

In Q4 2018 a deposit of \$50,000 was placed pursuant to 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.

In Q4 2018 the Company 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 complete the purchase and the deposit was refunded in Q1 2019.

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

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

**24. Authorization of consolidated financial statements**

The consolidated financial statements for the year ending September 30, 2018 (including comparatives) were authorized for issue by the Board of Directors on November 29, 2018.

*Signed "Sine Chadi", Director*

*Signed "Kevin Lynch", Director*