

Imperial Equities Inc.

3rd Quarter ending June 30, 2018

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

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We have often heard that both Canada's financial prosperity as well as Alberta's economy largely depend on the world price for oil. It is interesting to note that currently, Canada is the 5th largest oil producer in the world with production amounting to almost 40% of what is produced in Saudi Arabia. Canada and Alberta in particular, has proven oil reserves that can rival any country on the globe. Alberta's oil sands alone are the third largest oil reserves in the world, after Venezuela and Saudi Arabia. Notwithstanding our ability to rival any other oil producing country in the world, we find ourselves with a limited capability to deliver our product to markets outside of our continent. Our dilemma is that essentially, we have only one main customer being the United States who continue to hamstring our progress by only willing to pay Canadian producers a significant discount to what the rest of the world pays for oil.

The challenge we have in Alberta is that Alberta is landlocked, but the good fortune is, Canada is not! Alberta's ability to access world markets requires getting its oil or oil derivatives to tidewater, ideally the west coast of Canada. This can be achieved by rail or through pipelines, which incidentally already exist but at capacities that do not coincide with current or future production. Pipelines are known to be the safest and most economical method of transporting oil and other carbon related products across land. The final approvals required to significantly increase the current capacity of the existing Trans Mountain Pipeline have reached an impasse. The government of British Columbia has taken the matter to court arguing that the proposed increase in pipeline capacity as well as increased tanker traffic will put its environment at great risk. Both the Federal and Alberta governments with the support of Saskatchewan and several other provinces are working diligently to overcome the court challenges.

Kinder Morgan, the current owner of the Trans Mountain Pipeline, has for more than 10 years, assiduously worked with all stakeholders to obtain the necessary approvals to install new pipe alongside their existing line which would ultimately triple the current capacity. After much expense and uncertainty with their ability to overcome the objections of the government of British Columbia and other objectors, Kinder Morgan gave the Canadian government an ultimatum, either provide certainty by May 31, 2018 or they will abandon the \$7.4 billion expansion.

Recognizing Kinder Morgan's concern as well as the significance of the future economic impact this pipeline expansion would mean for Canada, the government of Canada on May 29, 2018 made a bold and courageous announcement to buy the existing pipeline from Kinder Morgan for \$4.5 billion. The Canadian government will now spearhead the expansion and by most accounts construction has already begun. It is a piece of infrastructure that is indubitably in the best interests of all Canadians. This recent development is great news for oil producers in Canada and especially in Alberta. **With world oil prices rebounding after several years of lackluster performance, it would appear that Alberta has indeed weathered the storm and its economy clearly rising and once again destined to be one of the leading engines of growth in Canada.**

Throughout Alberta's oil and gas producing regions and especially Fort McMurray, the past several years have 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. In this Q3 we finalized negotiations with the existing tenant who agreed to pay Imperial the equivalent of approximately \$3,000,000.00 as consideration 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 take over the 11 year term that had remained on the existing lease. In this Q3 we completed a new lease agreement and effective July 1, 2018 the new tenant began occupying the building. Our Fort McMurray properties remain 100% occupied and thriving!

Throughout our 20 year history, Imperial has not ventured 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. At the end of this Q3, construction was about 75% complete and occupancy of the building is expected to take 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 currently under construction and expected to be ready for occupancy by the end of Q4, 2018. Once completed, Coppertone III will be 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 being constructed on a 1.25 acre site adjacent to our Coppertone I and Coppertone II properties creating a contiguous and truly impressive development.

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 appropriate 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 this Q3, 2018 we finalized the acquisition of a 1.71 acre parcel of raw land situated in the heart of our south east Edmonton properties. This latest acquisition now ties together four other properties owned by Imperial to create five contiguous properties totalling 11 acres. Two of the properties have buildings totalling 59,259 ft² and each tenant began leasing the raw lands adjacent to their respective buildings.

Imperial's real estate portfolio remains the cornerstone of the Company. Since its inception, Imperial has been resolute in ensuring the quality of its assets are superior and the scale of its tenant base being primarily international, national or large regional. Our steadfast resolution to stay committed to these principals has certainly allowed us to forge forward on a solid foundation which has, to date, held the Company in good stead. We are proud of the fact that our entire portfolio remains 100% occupied and that in some cases our tenants are asking for expanded space which we will gladly oblige. Continuing to expand this dynamic portfolio of industrial properties with quality tenants is a priority for Management. Our quest in expanding the portfolio has us exploring throughout Canada. Management has been very active in searching for revenue producing properties that fit our criteria. Properties in markets throughout Alberta as well as cities

in other parts of Canada are constantly being vetted and when an opportunity presents itself, Management will be swift to act upon it. Negotiations are currently underway on several large industrial properties and Management expects a resolution prior to our fiscal year end. We are confident that our growth will continue and we look forward to increasing our portfolio quite significantly throughout 2018 and 2019.

Interest rates in Canada have fluctuated dramatically over the past three decades and Imperial has taken every advantage presented to it. In 2015 as a response to plummeting oil prices, 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% to 0.5%. 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% and less than 2 months later in September of 2017 raised it a further 25 BP to 1%. In January 2018 the BOC again raised rates by a further 25 BP and again subsequent to this Q3, 2018 report, the BOC on July 11, 2018 raised the rate by a further 25 BP to 1.5% and by most accounts Canadians can expect the BOC to raise rates even further. 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 on September 5, 2018 and it is widely expected that the BOC will affirm rates to remain constant at 1.50% but will likely increase its key lending rate by the end of this calendar year.

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 3.05%. 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 in itself quite an accomplishment and a proud achievement for a relatively young company to realize such a standing!

We remain optimistic about the continued growth of Imperial Equities 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', with a stylized flourish at the end.

Sine Chadi
Chief Executive Officer and Chairman of the Board

Imperial Equities Inc. MD&A as at August 8, 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 interim financial statements for the 3rd quarter ended June 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 interim 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 20 of our 2018 3rd Quarter consolidated interim 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 continuing operations before interest, taxes, depreciation and amortization, valuation gains, 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 extraordinary items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property, 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 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 and looking forward to fiscal 2018 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 quarter 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 has experienced consistently lower weighted average interest rates throughout each quarter, until Q1 2018 where the weighted average rate very marginally increased. With Canada's economy much improved, interest rates will continue upward in the foreseeable future. The Company 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 3rd Quarter ending June 30,

	2018	2017
Number of leased properties	28	22
Number of properties under development	2	-
Number of properties held for future development	3	3
Total leased square feet	768,388	719,079
Occupancy year to date	100%	99.9%
Average lease term to maturity in years	4.04	3.94
Total square footage of leases up for renewal in twelve months	69,554	22,368
% operating cost recoveries to operating costs	82%	87%
Weighted average interest rates on mortgages	3.05%	3.02%
Other financing	\$2,500,000	\$700,000

Changes in total leased square feet year over year = net increase of 49,309

- Acquisition of Skyway building 24,855 ft² December 2017
- Under construction 24,454 ft² at Q3 2018

Land acquisitions year to date at Q3 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 tenants with leases up for renewal in the next twelve months totalling 69,554 ft². Three of the four tenants have indicated a desire to renew, and the remaining tenant with 32,762 ft² will not renew when their lease is up in February of 2019. Negotiations are underway with a prospective large international tenant to take over this space.

AVERAGE ANNUAL LEASE RATES per square foot

	2018	2017
Edmonton and surrounding area, Alberta	\$ 11.33	\$ 11.03
Red Deer, Alberta*	\$ 24.89	\$ 24.52
Fort Saskatchewan, Alberta*	\$ 42.80	\$ 44.40
Fort McMurray, Alberta	\$ 46.23	\$ 46.89

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

LEASE PROFILES at June 30, 2018– total square feet of leased space

<u>Single tenant buildings</u>	<u>Expiry Year</u>	<u>Multi-tenant buildings</u>	<u>Expiry Year</u>
		4,798	Month to month
10,758	2018	4,907	2018
30,939	2019	55,858	2019
25,580	2020	80,970	2020
40,766	2021	972	2021
240,207	2022	9,037	2022
64,393	2023	4,929	2023
43,396	2024	161,471 sf	
26,400	2026		
75,000	2028		
25,024	2029		
582,463 sf			

Weighted Average Remaining Lease Terms

Single tenant buildings 6.12 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. Sometimes this means allowing the tenant to pay over time. 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. Historical optimal recovery percentages will be in the range of 80%-86%. At June 30, 2018 recoveries are 82% compared to 87% in the prior year which is within the Company's optimal range. 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 include 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 rising for new, and renewed financing from the Company's lenders. The Company received three new mortgages and renewed one mortgage during the current nine months. Interest rates did not significantly affect the weighted average rates which are now 3.05% compared to 3.02% 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 is scheduled for completion in Q4, 2018. Construction also commenced on a 16.5 acre site in Hanna, Alberta where

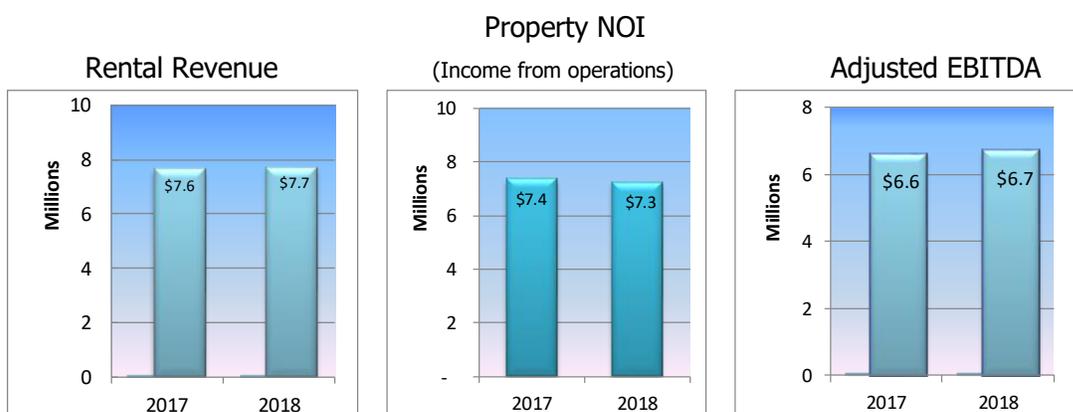
the Company is constructing a build to suit building comprising 24,454 sf² for an international company involved in the agribusiness. Occupancy of this build to suit project is expected in Q1, 2019.

Performance highlights to date at June 30, 2018

- In Q1 the Company **acquired 1.7 acres adjacent to the Derrick building** in SE Edmonton for a total purchase price of \$1,451,681. A new 5-year lease agreement with Derrick 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 and construction commenced in Q2. The tenant, Cervus Equipment, is an international company that will sell and service John Deere equipment to the agricultural sector. Completion is expected by 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 is expected to be completed in Q4 2018.
- In Q1 the Company received an **additional operating line of credit** with one of the Company's major lenders. The total limit is \$5,000,000 and is available to assist with property acquisitions and general expenditures. This credit facility bears interest at prime + .95%.
- In Q3 the Company completed negotiations for an early lease termination of a tenant in Fort McMurray, Alberta. The **lease surrender premium of \$2,995,088** will be recorded as revenue in Q4 2018.
- In Q3 the Company completed negotiations with a large national tenant to lease the building in Fort McMurray. The **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.
- During Q1 and this Q2 the Company paid off two mortgages and two new mortgages were received 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 a new mortgage was placed on the Skyway building. A marginal increase in the interest rates affected the **weighted average rate of interest on all mortgages which is now 3.05%** at June 30, 2018 (September 30, 2017 – 3.00%).
- The Company's total **equity** is \$8.55 per share at June 30, 2018 (September 30, 2017 - \$8.66).

PERFORMANCE RESULTS for the 3rd Quarter ending June 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 extraordinary items, administrative expenses, amortization, valuation gains or losses, gains or losses on sales of investment property, stock-based compensation, and 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 June 30,	2017	2018
Net income (loss) and total comprehensive income (loss)	\$ 2,877,175	\$(1,052,640)
<i>Add (subtract):</i>		
Valuation (gains) losses on investment property	(331,823)	4,281,718
Straight-line rental revenue	(154,788)	(51,757)
Finance costs	1,910,743	2,191,568
Amortization of loan discount	(14,401)	(3,586)
Amortization of deferred leasing	181,527	202,450
Amortization of tenant inducements	27,273	336,364
Income taxes	2,071,036	800,412
ADJUSTED EBITDA	\$ 6,566,742	\$ 6,704,529

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.

Net valuation gains (losses) per quarter :

2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
\$ (4,702,567)	\$ 235,704	\$ 185,145	\$ 280,967	\$ (197,446)	\$ 363,625	\$ 165,644	\$ 739,947

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 may decrease 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 will drive the value upwards.

At Q3 2018 the Company agreed to an early lease termination for a tenant in Fort McMurray Alberta. A surrender premium in the amount of \$2,995,088 will be 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 has taken 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 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 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.

During Q4 2016 the Company leased the only vacant space in the portfolio which had been vacant for 5 months. The new tenant lease and revenue stream increased the value of the property in addition to other property increases where revenue increased.

Income from operations in the current quarter is lower by \$492,222 compared to the prior quarter ending June 30, 2017, and lower by \$104,507 year to date compared to last year Q3 2017. 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 in Q3 2018. 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 in the current quarter affecting revenue by \$162,652.

Administrative expenses are lower this year compared to last year by \$18,323. 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 fifteen years. Leasing fees increased this year over last year with four lease renewals and six new leases. As a result, amortization is higher this year.

Fair Market Value of Investment Property For the 3rd Quarter ending June 30



Market values at each reporting date are 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 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 cost.

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

Finance costs include interest on financing, net of interest income and amortization of deferred finance fees. Interest on financing is up \$270,745 at Q3 2018 compared to Q3 2017 due to additional mortgages obtained, 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.

June 30,	2018	2017
ADJUSTED EBITDA	\$ 6,704,529	\$ 6,566,742
Interest on financing	\$ 2,137,710	\$ 1,866,965
Interest coverage ratio	3.14	3.51
Minimum threshold set by Management	1.50	1.50

The adjusted EBITDA is used to show cash generated from 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 \$4,694,317 at Q3 2018 (Q3 2017 – \$4,245,783). 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.

Specific changes include the amortization of deferred financing costs of \$65,079 (Q3 2017 - \$59,826) which have been reclassified and included in financing activities. Changes in deposits held in trust for acquisitions are \$1,517,049 (Q3 2017 - \$49,824), are reclassified to investing activities. Payables for construction are \$612,973 (Q3 2017 – Nil) and reclassified as investing activities. Accrued interest liabilities of \$12,720 (Q3 2017 - \$21,981) have been reclassified to finance activities, and a refundable deposit of \$41,000 (Q3 2017 – Nil) is now classified as financing activities.

The cash flow from operations this year was affected by an increase in direct leasing fees of \$877,549 compared to \$198,037 last year, as well as the loss of revenue from six months of free rent for a new tenant.

Cash used in investing activities was \$8,203,842 at Q3 2018 (Q3 2017 – \$16,693,680). There have been five property acquisitions this year totalling \$7,131,140 and two buildings under construction at Q3 2018 at a cost of \$3,356,753, compared to acquisitions at Q3 2017 of \$17,102,312. At Q4 2017 the Company had placed deposits totalling \$1,517,049 on agreements to purchase investment property. When these deposits were applied to the acquisitions in Q1 2018, the working capital figure increased by the same amount.

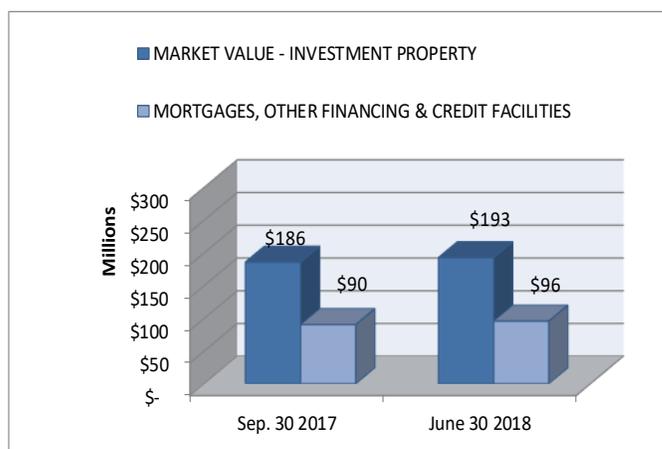
Cash provided by financing activities was \$3,138,521 at Q3 2018 compared to \$10,385,875 at Q3 2017. During the current period the Company received an increase in available credit facilities from \$8,000,000 to \$13,000,000. The Company utilized an additional \$3,150,782 of the credit facilities to assist with closing five property acquisitions this year. During Q1 and Q2 2018 the Company received mortgage proceeds of \$10,050,000 (Q3 2017 - \$10,250,000). The additional funds paid out two mortgages totalling \$4,813,092, and other financing of \$1,300,000 that was outstanding at September 30, 2017. In Q3 2018 the Company received \$2,500,000 from related parties to assist with payables for property under construction, and annual property tax payments.

Fees associated with new and renewed mortgages totalled \$36,609 at Q3 2018 (Q3 2017 - \$79,603). These costs are amortized over the terms of the respective mortgages and are shown net of the mortgages on the consolidated interim statements of financial position.

During the current period, the Company purchased 18,900 common shares under the normal course issuer bid for a total cost of \$79,780 (Q3 2017 - a total of 3,500 shares were purchased for a total cost of \$15,635).

At Q3 2018 there was a **net decrease in cash** of \$371,004 compared to a decrease in cash at Q3 2017 of \$2,062,022.

Significant balance sheet changes



***EQUITY** in investment properties has increased \$1,518,931 since September 30, 2017 – the result of monthly principal payments on the mortgages, repayment of other financing, and any year to date net valuation increases to the properties. At June 30, 2018 a valuation loss of \$4,464,828 for a Fort McMurray property, impacted the equity increase.*

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 September 30, 2017 to June 30, 2018\$ 6,875,080

	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	120,934	141,354
Capitalized interest	-	40,370	-	40,370
Property improvements	157,479	-	-	157,479
Construction costs	-	3,295,963	-	3,295,963
Leasing commissions net of amortization	418,335	256,764	-	675,099
Property acquisitions	6,707,783	105,839	317,518	7,131,140
Change in straight-line revenues	51,757	-	-	51,757
Revaluation (losses) gains, net	(3,904,020)	(256,764)	(120,934)	(4,281,718)
Amortization of tenant inducements	(336,364)	-	-	(336,364)
Transfers (from) to	-	1,250,000	(1,250,000)	-
Ending balance at June 30, 2018	\$ 177,542,395	\$ 4,712,592	\$ 10,516,418	\$ 192,771,405

Loan receivable at June 30, 2018 and September 30, 2017 relates to the sale of the Company's subsidiary Imperial Distributors, in 2015. At September 30, 2017 the loan is 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.

Trade receivables of \$69,069 at June 30, 2018 and \$81,534 at September 30, 2017 are net of an allowance for doubtful accounts of \$16,061. The allowance was made for one tenant with rental arrears. At September 30 each year, the occupancy cost reconciliations are done on a property by property basis which will typically increase the trade receivables at year end. All the occupancy costs were collected from September 30, 2017. At June 30, 2018 receivables include excise taxes and rebates receivable totaling \$58,935.

Prepaid expenses and deposits have a balance at Q3 2018 of \$1,098,946 (September 30, 2017-\$2,008,256) relating to property taxes, property insurance premiums, corporate tax instalments, and security deposits with municipalities. At September 30, 2017 there were deposits of \$1,517,049 placed pursuant to three offers to purchase investment property that closed in Q1 2018. The balance of prepaid expenses at September 30, 2017 is for property taxes, insurance, a deposit with a municipality, and a refundable mortgage commitment fee.

Mortgages at Q3 2018 have a balance of \$80,868,710 (September 30, 2017 - \$79,891,816). During Q1 2018 two mortgages were repaid in full at their term dates, and new mortgages were placed with the same lender on the properties. During Q2 2018 one mortgage was renewed for a further five years, and a new mortgage was received for the Skyway building.

At Q3 2018 there are four mortgages up for renewal in the next twelve months with combined principal balances of \$7,121,223 which are shown as current liabilities. There is also a vendor take back mortgage in the amount of \$249,709 that is part of a settlement agreement for an early lease termination, Note 22. The Company intends to renew the mortgages as they come due. Netted against mortgages on the consolidated interim statements of financial position is the balance of unamortized fees associated with new or renewed mortgages, totalling \$213,403 at Q3 2018 (September 30, 2017 – \$241,874).

Security deposits increased this period with the addition of new tenant leases. The current portion of deposits is included in payables and accruals.

Other financing unsecured at September 30, 2017, in the amount of \$1,300,000 was repaid during Q1 2018 with interest at an annual rate of 6%. Total interest paid was \$10,903. During Q3 2018 the Company received other financing unsecured from related parties totaling \$2,500,000 that bears interest at an annual rate of 6%. Accrued interest at June 30, 2018 is \$4,406.

Bank operating facilities at Q3 2018 have a balance of \$12,656,897 with two of the Company's major lenders (September 30, 2017 - \$9,506,115 with one of the Company's major lenders). These credit facilities assisted with the acquisitions of investment properties and the two properties currently under development.

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 and a balance at Q3 2018 of \$4,803,766. 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 three properties with a fair value at Q3 2018 of \$38,521,469. 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) A second LOC received an increase in the limit during Q2 and Q3 2017 from \$3,000,000 to \$8,000,000 and at September 30, 2017, the Company received an additional temporary increase of \$1,500,000 repayable in Q1 2018. The LOC bears interest at prime plus 1% per annum and is secured by specific revenue producing properties with combined fair values of \$17,564,844 at Q3 2018. This LOC incurs standby fees 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. The balance on this LOC at Q3 2018 is \$7,853,131 (September 30, 2017 - \$9,506,115).

In the prior year, the Company had a LOC with a limit of \$1,800,000 and an interest rate of prime plus 1%. The LOC was secured by a specific revenue producing property with a fair value of

\$8,400,000 at Q2 2017. During Q2 2017 the Company no longer required this LOC and it was not renewed.

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

CREDIT FACILITIES

	June 30, 2018	September 30, 2017
Bank credit facilities	\$ 13,000,000	\$ 9,500,000
Amounts drawn on facilities	(12,656,897)	(9,506,115)
Available credit facilities	\$ 343,103	\$ (6,115)

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

Payables and accruals increased \$824,077 from September 30, 2017 to a balance of \$1,496,866 at Q3 2018. Accruals include interest on mortgages, prepaid rents from tenants, the current portion of tenant security deposits, and construction payables.

Summary of consolidated quarterly results

	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
<i>REVENUE</i>	2,930,792	3,486,193	3,328,342	3,396,004	3,319,384	3,211,027	2,951,195	2,648,633
<i>TOTAL COMPREHENSIVE (LOSS) INCOME</i>	(3,163,279)	1,449,203	661,436	1,860,217	564,313	1,587,629	725,234	1,646,469
<i>EPS-Basic</i>	(0.33)	0.15	0.07	0.19	0.06	0.16	0.08	0.17
<i>EPS-Diluted</i>	(0.33)	0.15	0.07	0.19	0.06	0.16	0.07	0.17

QUARTERLY CHANGES IN THE REVENUE

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, was fully amortized in Q3 2018. This resulted in a negative adjustment 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.

In Q1, 2017 revenue had increased by \$302,562 compared to Q4 2016, largely due to the acquisition of the Seaboard building at the end of Q4 2016. The only vacant space prior to Q1 2017 was in Q3 and Q4 2016 where there was one vacant space of 10,408 square feet available for lease. This space was leased during Q4 2016 with revenue beginning in the first quarter of Q1 2017. The newly acquired Coppertone VII & VIII began generating revenue in Q2 2017, and the Derrick building in Q3 2017. The Company's investment property portfolio remains 100% occupied. Fluctuations in revenue quarter to quarter will be the result of one or more of the following:

- an increase in budgeted operating expense recoveries,
- amortization of tenant inducements,
- increases due to the reconciliation of operating costs to budget at each Q4, and
- 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 caused by the revaluations of the investment properties.

Net valuation gains (losses) per quarter:

2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
\$ (4,702,567)	\$ 235,704	\$ 185,145	\$ 280,967	\$ (197,446)	\$ 363,625	\$ 165,644	\$ 739,947

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 a surrender premium of \$2,995,088 that will be 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 has taken 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 fair value. A negative revaluation is required to keep the values at market rates.

Earnings at each Q4 will have net valuation gains offset by the end of the year expenses for auditing fees.

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 including 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 Q3 2018 are 9,600,942 (September 30, 2017 – 9,614,442). The Company renewed its normal course issuer bid which expires on August 30, 2018. During the current period, the Company purchased 18,900 shares for a total cost of \$79,780. Of the shares repurchased, 13,500 were cancelled and the excess purchase price over the cost of the issued shares was \$49,085. This amount was charged to retained earnings. The remaining shares are held in treasury until they are cancelled.

During the year ending September 30, 2017, the Company purchased 26,200 shares for \$113,765. All the shares were cancelled at September 30, 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 September 30, 2017.

At June 30, 2018 and September 30, 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 \$633,160 (Q3 2017 - \$541,698) 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 (Q3 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 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 involved in maintaining the property.

Leasing, acquisition and disposition fees in the aggregate of \$844,777 (Q3 2017 - \$314,405) were paid to North American Realty Corp. ("NARC") a Company controlled by Sine Chadi. At Q3 2018, \$56,101 was paid for the acquisitions of three vacant parcels of land and the Skyway building. Leasing fees totalling \$788,676 were paid for commissions on ten 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 \$78,618 (Q3 2017 - \$98,574). 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 \$150,000 (Q3 2017 - \$160,000) 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 \$37,500 at Q3 2018 (Q3 2017 - \$40,000). 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 at Q3 2018 was \$225,000 (Q3 2017 - \$225,000).

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

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

Unsecured interim financing from 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 Q3 2018 other financing unsecured in the amount of \$2,500,000 was received from two shareholders of the Company. The loans bear interest at an annual rate of 6%. Total interest accrued at June 30, 2018 is \$5,820.

Liquidity, capital resources and solvency

The Company's liquidity position

	June 30, 2018	September 30, 2017
Cash and cash equivalents	\$ 472,332	\$ 843,336
Receivables	69,069	81,534
Loan receivable	67,559	496,414
	<u>\$ 608,960</u>	<u>\$ 1,421,284</u>
Payables and accruals	\$ 1,496,866	\$ 672,789
Bank operating facilities	12,656,897	9,506,115
Other financing	2,500,000	1,300,000
Income taxes, net	452,443	852,725
	<u>\$ 17,106,206</u>	<u>\$ 12,331,629</u>

LIQUIDITY RATIO

.04

.12

The liquidity ratio decreased from September 30, 2017 as the Company used available cash, other financing, and credit facilities to fund the acquisitions of four vacant parcels of land, and the Skyway building. Payables have increased by over \$800,000 since September 30, 2017 as construction is underway on two development projects.

3rd Quarter cash flows

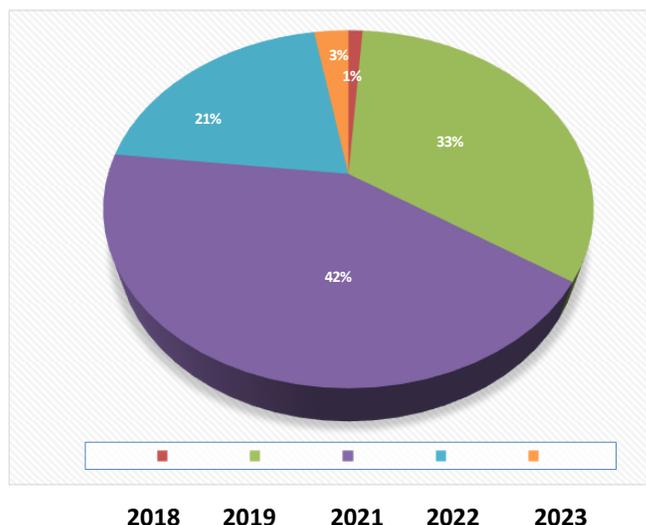
	Q3 2018	Q3 2017
Cash provided by operations	\$ 4,694,317	\$ 4,245,783
Cash used in investing	(8,203,842)	(16,693,680)
Cash provided by financing	3,138,521	10,385,875
Net decrease in cash	\$ (371,004)	\$ (2,062,022)

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.

Cash provided by financing includes proceeds of new mortgages, the repayment of principal and interest on mortgages through regular monthly payments, as well as the receipt and repayment of other financing, if any. At Q3 2018 there were net advances on the credit facilities of \$3,150,782 (Q3 2017 - \$5,491,416). 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 June 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 Q3 2018 the weighted average rate is 3.05% (Q3 2017 – 3.00%). During Q1 2018 two mortgages that were received in the quarter had slightly higher rates increasing the weighted average rate. There are four mortgages up for renewal in the next twelve months with combined principal balances of \$7,121,223 at Q3 2018. The Company intends to renew the mortgages as they come due.

Total monthly principal and interest payments are \$640,172. At Q3 2018, total monthly payments made were \$5,761,548. Cash flow from continuing operations at Q3 2018 was \$4,694,317. The Company has relied on other financing and the credit facilities to assist with the increase in growth this year through acquisitions, and properties currently under development. Once tenants take occupancy of the finished buildings, the Company will place conventional mortgage financing and use the proceeds to repay other financing, and the lines of credit.

Leverage ratios

	June 30, 2018	September 30, 2017
Investment properties	\$ 192,771,405	\$ 185,896,325
Mortgages	(80,868,710)	(79,891,816)
Other financing	(2,500,000)	(1,300,000)
Bank operating facilities	(12,656,897)	(9,506,115)
Total debt	\$ (96,025,607)	\$ (90,697,931)
Total equity in the properties	\$ 96,745,798	\$ 95,198,394
Debt to financed assets ratio	.49	.49
Interest coverage ratio	3.14	3.31

Based on the fair values of the investment properties at Q3 2018 and the related debt including mortgages, and the bank operating facilities, the Company has equity of \$96,745,798 in its investment properties. Upon renewal of the four mortgages in the next twelve months, 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 \$343,103 at Q3 2018.

The sale of a subsidiary at December 31, 2015 generated a receivable which has a balance at Q3 2018 of \$67,559. This amount was received subsequent to Q3 2018.

During Q1 2018 the Company commenced construction on its 1.25 acres of land in NW Edmonton. A new 12,000 sf² building is scheduled to be completed and leased by Q4 2018. During Q2 2018 the Company commenced construction of a 24,454 sf² building on 16.5 acres in Hanna, Alberta. A new 20 - year lease agreement with a multinational tenant will commence when we've achieved substantial completion, which is scheduled to be in Q1 2019.

Total construction costs of both construction projects are estimated to be \$7,722,900, of which \$3,356,753 has been completed at Q3 2018. The Company will continue to look at related party interim loans to finance a portion the project costs, until conventional mortgages can be placed on these projects.

The Company has no other commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 22 of the consolidated interim 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 not considered a financial threat if the tenant, in a worst-case scenario, had to vacate. At June 30, 2018 and September 30, 2017 Management included an allowance for bad debt for this tenant, but the Company has been collecting on these arrears.

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 a surrender premium for early termination of this tenant's lease. The total amount of the premium of \$2,995,088 will be recorded in revenue in Q4 2018. 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 \$241,912 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 commencing in Q4 2018.

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 four leases were renewed.

Imperial continues to be very successful with all its financing requirements to date and has taken advantage of lower 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 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 sat vacant, the carrying costs and mortgage payments could be paid for with existing cash flows from operations. At Q3 2018 Imperial remains 100% 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 are externally appraised for their current market value. 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. 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 Q3 2018 is \$192,771,405. The mortgages and bank operating facilities encumbered on the properties leaves equity in the properties of \$99,245,798 at Q3 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 will 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, 2017 were successfully renewed at lower 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

Subsequent to Q3 2018, the Company has placed a deposit of \$100,000 pursuant to a conditional agreement to purchase land and a building in Leduc, Alberta. The total acquisition cost is \$9,000,000 and contemplates a 10-year lease agreement with a multi-national tenant. The acquisition is expected to close in Q4 2018.

Subsequent to Q3 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. The acquisition is expected to close in Q4 2018.

Subsequent to Q3 2018, the Company is working with one of its major lenders and has received conditional approval to increase an existing credit facility from \$5,000,000 to \$10,000,000. The additional funds will be used to assist with the above acquisitions, and current construction projects.

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. 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.

Critical accounting estimates and changes in accounting policies

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.

Specifically, 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 finance 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 on mortgages and other financing, 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 has determined that the impact on the consolidated financial statements of adopting this new standard is not expected to be material.

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

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

- an entity transfers property to, or from, investment property when, and only when, there is evidence that a change in use of the property has occurred; and
- the entity must have taken observable actions to support such a change — management's intentions alone do not provide evidence of a change in use.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has 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.

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 13 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.

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.