

# Independent Auditor's Report

To the Shareholders of  
Imperial Equities Inc.

## Opinion

We have audited the consolidated financial statements of Imperial Equities Inc. ("the Company"), which comprise the consolidated statements of financial position as at September 30, 2019, and September 30, 2018 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2019 and September 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Heather Murk.

Edmonton, Canada

December 3, 2019



Chartered Professional Accountants

**IMPERIAL EQUITIES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AT SEPTEMBER 30,**

	Notes	2019	2018
<b>Assets</b>			
Investment properties	3	218,468,890	206,710,736
<b>Total non-current assets</b>		<b>218,468,890</b>	<b>206,710,736</b>
Loan receivable	4	728,063	1,009,825
Receivables	6	279,846	242,792
Prepaid expenses and deposits	7	661,714	1,218,946
Restricted cash	8	-	400,000
Short term investments	5	276,000	373,500
Cash and cash equivalents		1,035,322	2,343,520
<b>Total current assets</b>		<b>2,980,945</b>	<b>5,588,583</b>
<b>Total Assets</b>		<b>221,449,835</b>	<b>212,299,319</b>
<b>Liabilities</b>			
Mortgages	8	72,647,419	64,146,206
Security deposits		558,030	611,654
Deferred taxes	12(b)	12,901,426	14,299,347
<b>Total non-current liabilities</b>		<b>86,106,875</b>	<b>79,057,207</b>
Current portion of mortgages	8	15,850,616	21,280,840
Other financing	22 (b)	-	4,020,000
Bank operating facilities	9	26,353,212	18,457,672
Payables and accruals	10	800,176	3,145,876
Income taxes payable		857,306	915,477
<b>Total current liabilities</b>		<b>43,861,310</b>	<b>47,819,865</b>
<b>Total Liabilities</b>		<b>129,968,185</b>	<b>126,877,072</b>
<b>Equity</b>			
Issued share capital	15(a)	5,962,095	6,030,758
Contributed surplus	15(b)	-	593,750
Retained earnings		85,519,555	78,797,739
<b>Total Equity</b>		<b>91,481,650</b>	<b>85,422,247</b>
<b>Total Equity and Liabilities</b>		<b>221,449,835</b>	<b>212,299,319</b>

Guarantees, contingencies, and commitments (Note 19)  
Post-reporting date events (Note 23)

*See accompanying notes to the consolidated financial statements.*

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

	Notes	2019	2018
Rental revenue	14,18(a)	16,597,908	15,243,208
Property operating expenses	14,18(b)	(4,093,678)	(3,454,607)
<b>Income from operations</b>		<b>12,504,230</b>	11,788,601
Finance costs	11	(4,055,610)	(2,950,726)
Administration expenses		(1,564,127)	(1,292,322)
Amortization of deferred leasing		(298,272)	(278,603)
Loss on sale of investment property	3	(76,791)	-
Unrealized (loss) gain on short term investments		(97,500)	73,500
Valuation net losses from investment property	3	(532,060)	(3,475,926)
<b>Income before income tax</b>		<b>5,879,870</b>	3,864,524
Income tax recovery (expense)	12(a)	540,616	(1,521,911)
<b>Net income and comprehensive income</b>		<b>6,420,486</b>	2,342,613
<b>Earnings per share basic and diluted</b>	16	<b>0.67</b>	0.24

*See accompanying notes to the consolidated financial statements.*

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

	<b>Number of shares</b>	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>October 1, 2018</b>	9,583,642	\$ 6,030,758	\$ 593,750	\$ 78,797,739	\$ 85,422,247
Shares repurchased during the year	-	(13,727)	-	-	(13,727)
Shares cancelled during the year	(87,200)	(54,936)	-	(292,420)	(347,356)
Expired stock options	-	-	(593,750)	593,750	-
Net income	-	-	-	6,420,486	6,420,486
<b>Balance September 30, 2019</b>	<b>9,496,442</b>	<b>\$ 5,962,095</b>	<b>\$ -</b>	<b>\$ 85,519,555</b>	<b>\$ 91,481,650</b>

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

*See accompanying notes to the consolidated financial statements.*

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

	Notes	2019	2018
<b>Operating activities</b>			
Net income from operations		6,420,486	2,342,613
Finance costs		4,055,610	2,950,726
Items not affecting cash:			
Non-cash accelerated rent adjustment	13 a)	(900,000)	(1,749,709)
Amortization of discount on loan receivable		-	(3,586)
Amortization of tenant inducements		4,586	336,364
Amortization of deferred leasing commissions		298,272	278,603
Fair value losses on investment properties		532,060	3,475,926
Unrealized loss (gain) on short term investments		97,500	(73,500)
Loss on the sale of investment property		76,791	-
Straight-line rental revenue		94,359	(141,838)
Deferred income taxes		(1,397,922)	489,114
Leasing commissions		(220,020)	(1,078,511)
Net change in operating working capital	13 a)	865,955	354,178
<b>Cash provided by operating activities</b>		<b>9,927,677</b>	<b>7,180,380</b>
<b>Investing activities</b>			
Purchase of investment properties		(11,514,213)	(16,130,567)
Completed property under development		(1,888,941)	(7,145,418)
Improvements and additions to investment properties		(608,014)	(408,968)
Payment of tenant inducements		(137,565)	-
Proceeds from loan receivable		-	500,000
Net proceeds on sale of investment property		1,604,535	-
Net change in investing working capital	13 a)	(1,678,451)	3,211,410
<b>Cash used in investing activities</b>		<b>(14,222,649)</b>	<b>(19,973,543)</b>
<b>Financing activities</b>			
Proceeds from new mortgages		19,600,000	16,350,000
Repayment of mortgages on maturity		(10,168,734)	(4,813,093)
Repayment of mortgages through principal instalments		(5,617,362)	(5,509,782)
Repayment of mortgage on sale of investment property		(743,021)	-
Restricted cash held in guaranteed investment certificates		400,000	(400,000)
Amortization of deferred finance fees		97,435	86,773
Fees associated with new or renewed mortgages		(97,332)	(87,084)
Advances from other financing		2,000,000	6,570,000
Repayment of other financing		(6,020,000)	(3,850,000)
Finance costs		(4,055,610)	(2,950,726)
Purchase of common shares for cancellation		(361,082)	(128,890)
Net advances on bank operating facilities		7,895,540	8,951,557
Net change in financing working capital	13 a & b)	56,940	74,592
<b>Cash provided by financing activities</b>		<b>2,986,774</b>	<b>14,293,347</b>
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(1,308,198)</b>	<b>1,500,184</b>
Cash and cash equivalents, beginning of year		2,343,520	843,336
<b>Cash and cash equivalents, end of year</b>		<b>1,035,322</b>	<b>2,343,520</b>

See accompanying notes to the consolidated financial statements.

## **1. Description of the Company**

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

## **2. Significant accounting policies**

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

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

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

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

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

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

#### *Investment properties*

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

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

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

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

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

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

#### *Investment properties under development*

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

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

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

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

In accordance with IFRS 3 – Business Combinations (“IFRS 3”), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and the liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. Building and other asset acquisitions, which meet the above definition of a business, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. Building and other asset acquisitions which do not meet the above definition of a business are recorded as an asset addition. Prior to the adoption of the amendments to IFRS 3 (Note 2(r)), the definition of a business was an integrated set of activities and assets that is capable of being conducted and managed to provide a return in the form of dividends, lower costs or other economic benefit. There are no acquisitions which meet the definition of a business in the current or comparative year.

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

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

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

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

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

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

**(f) Leases – Company as lessor**

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

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

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

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

**(g) Segment reporting**

Operating segments are defined as components of the Company for which separate financial information is available and is evaluated by the chief operating decision-maker in allocating resources and assessing performance. The CODM is the President and Chief Executive Officer who has determined there are two reportable segments beginning in the current fiscal year, an agricultural division and an industrial/retail division. All the Company's operations are solely in Canada and are under one business, commercial real estate. The CODM and the board of directors will evaluate the performance of the segments based on income from operations and have set a predetermined level of resources to be allocated to the growth of the agricultural division.

**(h) Income tax**

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

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

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

**(i) Provisions**

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

**(j) Revenue recognition**

Contracted rental revenue is recognized and measured in accordance with IAS 17 *Leases*. Revenue commences when a tenant has a right to occupy the leased asset. Base rents or minimum rents in lease contracts are recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. The Company has retained substantially all the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Rental revenue includes recoveries of property taxes, insurance, and operating expenses. Operating expense recoveries from tenants are providing a service to the tenant and therefore are non-lease components. IFRS 15 *Revenue from Contracts with Customers* requires revenue recognized from non-lease components to be disclosed separately from other sources of revenue. Operating expense recoveries are recognized over time for services rendered in the period they are earned. The recoveries are included gross of the related costs in revenue, as management considers that the Company acts as principal in this respect. Some of the Company's leases allow the tenant to pay property taxes directly to the municipality. When the tenant chooses this option, the Company does not recognize any revenue recovery or expense related to those property taxes. Rental revenue also includes accelerated rent adjustments that occur when the Company agrees to allow a tenant to terminate their lease in advance of the contractual lease term. The proceeds of the negotiated rent adjustment are recognized in income when it is receivable, and there is no ongoing contractual obligation.

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

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

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

**(k) Fair value measurements**

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

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

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

The Company must be able to access the principal or the most advantageous market at the measurement date.

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

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

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

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

**(l) Financial instruments**

Financial assets are recognized when the Company becomes party to the contractual provisions of the financial instruments. Financial assets are derecognized when the contractual rights to the cash flow from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. For financial assets, the Company applies the general approach to recognize impairment losses which requires losses to be recognized from possible defaults in the next twelve months. Short term investments are initially recognized at fair value and subsequently measured at fair value through profit and loss.

Financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instruments and they are derecognized when they are extinguished, discharged, canceled, or expire.

Classification and measurement

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL.

The following summarizes the Company's classification and measurement of financial assets and liabilities:

## Classification and Measurement

### **Financial Assets**

Cash, cash equivalents and restricted cash	Amortized cost
Short term investments	FVTPL
Receivables and loans receivable	Amortized cost

### **Financial Liabilities**

Bank operating facilities	Amortized cost
Payables and accruals	Amortized cost
Other financing	Amortized cost
Mortgages	Amortized cost
Security deposits	Amortized cost

The Company does not have any derivatives embedded in financial or non-financial contracts.

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

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

#### **(n) Stock-based compensation**

The Company has established a stock option plan for its directors, management and key employees as described in Note 17. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the options issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. For stock options that expire unexercised, the corresponding amount in contributed surplus is transferred to retained earnings. There is no adjustment to past compensation expense. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

#### **(o) Normal course issuers bid**

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

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

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

##### **(i) Leases**

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

**(ii) Investment properties**

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

In the normal course of operations, the Company acquires investment properties. At the time of the 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) Classification of tenant incentives**

Payments are sometimes made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, Operating leases – incentives.

**(iv) Income tax**

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

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

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

**(i) Investment properties**

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

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

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

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and capitalization rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment property under development. These estimates are based on local market conditions existing at the reporting date. In arriving at estimates of market values, management used their market knowledge and professional judgment and did not rely solely on historical transaction comparables. In these

circumstances, there is more uncertainty than which exists in a more active market in estimating the fair values of investment property. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 3.

**(ii) Income taxes**

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

**(iii) Stock-based compensation**

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

**(iv) Valuation of the loan receivable**

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

**(r) Adoption of accounting standards**

The Company has adopted the following standards in its consolidated financial statements.

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 Company has adopted the standard and there was no impact on the consolidated financial statements.

IFRS 9, Financial Instruments replaces IAS 39 and introduces a new classification and measurement model with three classification categories, 'amortized cost', 'fair value through profit and loss' and 'fair value through other comprehensive income', for financial assets, as well as an expected loss impairment model that requires more timely recognition of expected credit losses and a new hedge accounting model. The Company has adopted IFRS 9 retrospectively and there were no adjustments upon transition. Financial assets which include cash and cash equivalents, restricted cash, accounts receivable and loan receivable were previously classified as Loans and Receivables are now classified and measured at amortized cost. This change in classification did not result in any changes in the measurement of financial assets. The Company was required to revise its impairment methodology under IFRS 9 for its financial assets, to account for expected credit losses. To measure the expected credit loss, financial assets have been grouped based on shared credit risk characteristics and the days past due. There was no significant impact on the measurement, recognition or disclosures of financial assets and liabilities.

IFRS 15, "Revenue from Contracts with Customers" was issued in May 2014 and provides a single comprehensive model to account for revenue arising from contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers

in an amount that reflects consideration to which the entity expects to be entitled in exchange for those good and services. The Company's most material revenue stream is rental revenue and it is outside the scope of the new standard however the property operating expense recoveries do fall within IFRS 15. The adoption of the new standard did not have a material impact on the consolidated statements of income and comprehensive income. The Company's pattern of revenue recognition is unchanged and there were no adjustments to the opening retained earnings on the adoption of this standard.

IAS 40 was issued in December 2016 with an amendment effective January 1, 2018, that requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets or ceases to meet, the definition of investment property and there is evidence of the change in use. The Company adopted these amendments and clarifications in its consolidated financial statements on a retroactive basis and it did not result in any impact.

The Company adopted the Amendments to IFRS 3, Business Combinations ("IFRS 3 Amendments") effective October 1, 2018, in advance of its mandatory effective date. The amendments clarify the definition of a business in determining whether an acquisition is a business combination or an asset acquisition. It has removed the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs and the reference to an ability to reduce costs, and requires, at a minimum, the acquired set of activities and assets to include an input and a substantive process to meet the definition of a business. IFRS 3 Amendments also provides for an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. If substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set of activities and assets is determined to not be a business and no further assessment is needed. This election is made separately for each transaction. The Company has adopted the standard prospectively and all acquisitions in the current year are considered asset acquisitions. Applying the IFRS 3 Amendments did not have an impact on the consolidated financial statements.

After the adoption of the IFRS 3 Amendments, the Company will account for business combinations in which control is acquired under the acquisition method. When an acquisition is made, the Company considers the inputs, processes, and outputs of the acquiree in assessing whether it meets the definition of a business. If the acquired set of activities and assets lack a substantive process in place but will be integrated into the Company's existing operations, the acquisition ceases to meet the definition of a business and is accounted for as an asset acquisition. Assets acquired through asset acquisitions are initially measured at cost, which includes transaction costs incurred.

#### **Future accounting standards**

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 assessed this standard and consistent with IAS 17, leases with tenants will be accounted for as operating leases, in the same manner, they are currently being reported. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

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

### 3. Investment properties

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at September 30, 2018</b>	\$ 186,853,753	\$ 9,340,565	\$ 10,516,418	\$ 206,710,736
<i>Additions:</i>				
Property improvements and additions	475,141	-	-	475,141
Capitalized property taxes and other	-	-	132,873	132,873
Construction costs	-	1,888,941	-	1,888,941
Leasing commissions	220,020	-	-	220,020
Property acquisitions	9,834,476	-	1,679,737	11,514,213
Tenant inducements, net of amortization	132,982	-	-	132,982
Change in straight-line rental revenue	(94,359)	-	-	(94,359)
Sale of investment property	(1,681,325)	-	-	(1,681,325)
Transfer to (from)	11,229,506	(11,229,506)	-	-
Revaluation gains (losses), net	(969,525)	-	437,465	(532,060)
Amortization of deferred leasing commissions	(298,272)	-	-	(298,272)
<b>Ending balance at September 30, 2019</b>	<b>\$ 205,702,397</b>	<b>\$ -</b>	<b>\$ 12,766,493</b>	<b>\$ 218,468,890</b>

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

#### Valuation methodology and processes

The fair value of investment properties at each reporting period is determined internally by management using assumptions and market information obtained from industry professionals and qualified external appraisers. Management uses inputs from external appraisers as additional sources of information when recording property-specific attributes. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all the investment properties are classified as Level 3 assets. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for

investment properties during the above periods.

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

Land with holding income including Oliver Crossing, and land held for development are valued based on sale data within the market area. The Company's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation. Management, along with the Audit Committee, discusses the valuation process and key inputs on a quarterly basis.

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

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Range of capitalization rates applied to investment properties	4.50% - 8.50%	5.00% - 7.17%
Fair values of properties where cap rates were applied	\$ 193,391,689	\$ 181,766,587
Weighted average cap rates	6.27%	6.26%
Fair value impact of increasing average cap rate by 0.25%	\$ (7,417,369)	\$ (6,968,691)
Fair value impact of a 1% decrease in net operating income	\$ (1,933,930)	\$ (1,817,669)
<b>Oliver Crossing</b>		
Fair value	\$ 8,400,000	\$ 8,400,000
Impact of a \$10 change in price per square foot	\$ 525,000	\$ 525,000
<b>Land held for development</b>		
Average price per acre of land	\$ 163,349	\$ 163,349
Number of acres	64.38	64.38
Total fair values	\$ 10,516,497	\$ 10,516,418
Impact of a 10% change in average price per acre	\$ 1,051,650	\$ 1,051,642
<b>Property available for lease</b>		
Coppertone III – 12,024 sf, Edmonton, AB	\$ -	\$ 3,473,629
Impact of a \$10 change in price per square foot	\$ -	\$ 119,989
<b>Land under lease agreements with tenants</b>		
Number of acres leased	7.90	4.90
Average price per acre	\$ 779,837	\$ 798,104
Total fair values of leased land	\$ 6,160,710	\$ 3,910,710
Impact of a 10% change in average price per acre	\$ 616,071	\$ 391,071

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

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

	September 30, 2019	September 30, 2018
Straight line rent receivable	\$ 1,453,543	\$ 1,547,901
Tenant inducements	132,979	-
Leasing commissions	1,554,400	1,632,652
	<u>\$ 3,140,922</u>	<u>\$ 3,180,553</u>

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

#### 4. Loan receivable

	September 30, 2019	September 30, 2018
Loan receivable, beginning of year	\$ 1,009,825	\$ 496,414
Additional loan receivable	-	2,200,000
Reversal of (provision for) impairment	900,000	(1,000,000)
Principal payments received	(1,181,762)	(686,589)
<b>Balance, end of the year</b>	<b>\$ 728,063</b>	<b>\$ 1,009,825</b>

The contractual receivable at September 30, 2019 is \$828,063 (September 30, 2018 - \$2,009,825). During the current period, the Company reinstated a portion of the receivable that was previously considered impaired. The reversal amount of \$900,000 was recorded as revenue in the current year. Monthly installments are to be received until May 1, 2020.

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

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

The loan receivable of \$496,414 on September 30, 2017, was received in full during the prior year.

#### 5. Short – term investments

Short-term investments are common shares acquired in the settlement of the accelerated rent adjustment in the prior year (Note 4).

	September 30, 2019	September 30, 2018
Level 1 Measurement		
Marketable securities, beginning of year	\$ 373,500	\$ -
Value of shares acquired	-	300,000
Change in fair value	(97,500)	73,500
<b>Balance at the end of the year</b>	<b>\$ 276,000</b>	<b>\$ 373,500</b>

**6. Receivables**

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Tenant receivables	\$ 277,965	\$ 136,324
Accrued interest	4,140	10,772
Other	7,741	-
Excise taxes receivable and rebates receivable	-	111,757
Provision for impairment	(10,000)	(16,061)
<b>Receivables, net</b>	<b>\$ 279,846</b>	<b>\$ 242,792</b>

The tenant receivables include invoices for occupancy costs that are reconciled at year-end and subsequently collected.

**7. Prepaid expenses and deposits**

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Prepaid operating expenses	\$ 610,775	\$ 497,507
Deposits on offers to purchase investment property	-	665,000
Security deposits with municipalities	50,939	56,439
<b>Total prepaid expenses and deposits</b>	<b>\$ 661,714</b>	<b>\$ 1,218,946</b>

Prepaid operating expenses are for property taxes and insurance.

On September 30, 2018, the Company had refundable deposits of \$665,000 on agreements to purchase investment property. Of the total deposits, \$445,000 was applied to three acquisitions and the remaining \$200,000 was refunded, all in Q1 2019.

## 8. Mortgages

Maturity	Rate	September 30, 2019	September 30, 2018
* November 1, 2019	3.334%	8,966,286	9,414,128
* January 1, 2020	3.410%	1,578,129	1,742,156
January 1, 2021	2.980%	3,485,483	3,740,559
January 1, 2021	2.980%	5,393,160	5,787,844
April 1, 2021	2.880%	5,581,728	5,982,442
April 1, 2021	2.948%	3,034,587	3,231,172
October 1, 2021	2.470%	6,086,078	6,676,895
October 1, 2021	2.470%	7,416,065	7,936,856
February 1, 2022	3.040%	5,794,009	6,172,934
June 1, 2022	2.730%	2,209,502	2,404,821
December 1, 2022	3.670%	3,728,639	3,943,735
December 1, 2022	3.671%	3,387,629	3,583,038
January 1, 2023	3.570%	-	811,376
February 1, 2023	3.750%	2,044,271	2,159,649
October 1, 2023	3.950%	509,368	622,274
October 1, 2023	4.090%	6,014,888	6,300,000
November 1, 2023	4.330%	4,126,623	-
December 1, 2023	4.648%	4,919,773	-
January 1, 2024	4.300%	2,401,720	2,569,227
January 1, 2024	4.300%	1,906,127	2,039,948
August 1, 2024	3.300%	10,156,050	10,550,178
<i>Total mortgages</i>		\$ 88,740,115	\$ 85,669,230
<i>Less: current portion of principal payments</i>		(15,850,616)	(21,280,840)
<i>Less: balance of unamortized finance fees</i>		(242,080)	(242,184)
		<b>\$ 72,647,419</b>	<b>\$ 64,146,206</b>
Weighted average rate		<b>3.35%</b>	<b>3.13%</b>

\*Mortgages due in the next twelve months

All the above mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property, except for one mortgage that matured July 1, 2019. Additional security and collateral for the lender of this mortgage included monthly installments of \$100,000 held in interest-bearing GIC's, for a total debt service reserve in the aggregate of \$1,300,000. Upon renewal of the mortgage on July 1, 2019, the additional security was released. On September 30, 2018 installments pursuant to the security agreement were \$400,000 and were classified as restricted cash.

## 9. Bank operating facilities

	September 30, 2019	September 30, 2018
Bank operating facilities	\$ 26,353,212	\$ 18,457,672

The Company has two credit facilities set out as follows:

- 1) An operating line of credit (LOC) with a limit of \$13,500,000 (September 30, 2018 - a limit of \$10,000,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at September 30, 2019, of \$13,372,362 (September 30, 2018 - \$9,888,223). The credit facility bears interest at prime plus 1% per annum (September 30, 2018 – prime plus 1% per annum) and is secured by specific revenue-producing properties with combined fair values of \$46,341,730 (September 30, 2018, specific revenue-producing properties with combined fair values of \$39,870,611). The Company pays a standby fee of .25% per annum (September 30, 2018 - .25% per annum) payable monthly on the undrawn portion of the facility. Specific covenants of this credit facility are that there be a minimum of 90% occupancy of the secured buildings and adherence to a margin formula as outlined below.

- Availability under the facility will be restricted to the lending value assigned to the properties which will be the lesser of: a) the level at which a Debt Service Coverage Ratio of 1.25 can be maintained, less the Prior Debt on the properties, (unchanged from September 30, 2018): or b) the level at which a Loan to Value Ratio of 70% can be maintained with respect to the secured properties, over which the Lender has a 1<sup>st</sup> mortgage and 60% with respect to the secured properties over which the Lender holds a 2<sup>nd</sup> mortgage, less the prior debt on the properties (unchanged from September 30, 2018). For these secured properties, the loan to value is set at 70%, unchanged from the prior year.

Debt Service Coverage Ratio (“DSCR”) is the net operating income, divided by the debt service.

- *Debt service* = annual principal and interest payments based on 25-year amortization and an interest rate that is the greater of 5.0% (September 30, 2018 - 5.0%) or the Government of Canada Benchmark Bond Yields plus 225 basis points.
- *Net Operating Income* is stabilized operating income from the secured properties adjusted for normal operating expenses, common area maintenance expenses, property taxes and other expenses that are not recovered from the tenants.

Loan to Value Ratio (“LTV”) is the total debt on the secured properties divided by the current market value of the secured properties.

Loan Covenant Requirements:	Min. 90% Occupancy	DSCR 1.25	LTV 70%
September 30, 2019	Yes	2.89	69%
September 30, 2018	Yes	1.12	72%

The Company was not in breach of its covenants at September 30, 2019.

On September 30, 2018, the Company did not meet the DSCR requirement of 1.25 or the LTV of 70%, however, the lender approved the LOC limit of \$10,000,000 until March 31, 2019, at which date it was renewed for a further year. Subsequent to March 31, 2019 the LOC was increased from \$10,000,00 to \$13,500,000.

- 2) An additional operating LOC with a limit of \$13,000,000 (September 30, 2018 – a limit of \$10,000,000).

This credit facility bears interest at prime plus .95% per annum (unchanged from September 30, 2018) and is secured by specific revenue-producing properties with combined fair values at September 30, 2019 of \$73,601,828 (September 30, 2018 - \$64,956,941).

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at September 30, 2019 is \$12,980,850 (September 30, 2018 - \$8,569,449).

**10. Payables and accruals**

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Trade payables	\$ 98,659	\$ 1,814,114
Accrued loan interest	245,670	228,729
Current portion of tenant security deposits	47,068	25,624
Accrued liabilities	162,309	734,175
Prepaid rents	246,470	343,234
<b>Total payables and accruals</b>	<b>\$ 800,176</b>	<b>\$ 3,145,876</b>

Trade payables and accrued liabilities at September 30, 2018, include construction payables and holdbacks for projects that were completed during the current year.

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

**11. Finance costs**

The components of finance costs are as follows:

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Interest on mortgages	\$ 3,018,716	\$ 2,435,159
Interest on bank operating facilities	1,022,476	496,210
Interest on other unsecured financing	6,817	62,971
Amortization of deferred finance fees	97,435	86,773
Capitalized interest to properties under development	-	(86,354)
Interest income	(89,834)	(44,033)
	<b>\$ 4,055,610</b>	<b>\$ 2,950,726</b>

**12. Income taxes**

**a) Provision for income taxes**

Components of income tax (recovery) expense

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Current tax expense	\$ 857,306	\$ 1,032,797
Deferred tax (recovery) expense	(1,397,922)	489,114
	<b>\$ (540,616)</b>	<b>\$ 1,521,911</b>

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

	<b>2019</b>	<b>2018</b>
Income before income taxes	\$ 5,879,870	\$ 3,864,524
Expected income tax expense at 26.75% (2018 - 27%)	\$ 1,572,865	\$ 1,043,421
<i>Increase (decrease) resulting from:</i>		
Non-taxable items	5,809	(19,691)
Change in unrecognized temporary differences	2,760	-
Tax rate differentials and tax rate changes	(2,122,050)	498,181
	<b>\$ (540,616)</b>	<b>\$ 1,521,911</b>

**b) Deferred taxes**

Deferred tax assets are attributable to the following:

	September 30, 2019	September 30, 2018
Financing fees	\$ 313	\$ 6,259
Donations	27,378	-
Deferred tax assets	27,691	6,259
Offset of tax	(27,691)	(6,259)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax liabilities are attributable to the following:

	2019	2018
Straight-line rent receivable	\$ 334,315	\$ 417,933
Investment properties	12,236,412	13,436,855
Short-term investments	-	9,923
Finance fees	878	79
Deferred leasing	357,512	440,816
Deferred tax liabilities	12,929,117	14,305,606
Offset of tax	(27,691)	(6,259)
<b>Net tax liabilities</b>	<b>\$ 12,901,426</b>	<b>\$ 14,299,347</b>

\$30,273,649 (September 30, 2018 - \$30,273,649) related to investments in certain subsidiaries was not recognized because it was not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized. In addition, \$24,000 (September 30, 2018 - \$Nil) related to short-term investments in marketable securities were similarly not recognized because it was not probable that taxable profit will be available against which the associated deductible temporary difference (capital losses) can be utilized.

**13. Supplemental consolidated cash flow information****a) Changes in working capital**

	September 30, 2019	September 30, 2018
<b><i>Net change in operating working capital</i></b>		
Decrease in receivables	\$ (37,054)	\$ (161,259)
Decrease in loans receivable	1,181,762	190,175
Increase in prepaid expenses and deposits	(107,768)	(103,740)
(Decrease) increase in payables and accruals	(59,190)	80,133
(Decrease) increase in income taxes payable	(58,171)	62,752
(Decrease) increase in security deposits	(53,624)	286,117
	<b>\$ 865,955</b>	<b>\$ 354,178</b>

***Net change in investing working capital***

Decrease in deposits in trust for property acquisitions	\$ 665,000	\$ 852,049
(Decrease) increase in construction payables and accruals	(2,343,451)	2,359,361
	<b>\$ (1,678,451)</b>	<b>\$ 3,211,410</b>

***Net change in financing working capital***

Decrease in refundable deposits with lenders	\$ -	\$ 41,000
Increase in accrued interest payable	56,940	33,592
	<b>\$ 56,940</b>	<b>\$ 74,592</b>

Interest paid	\$ 4,084,236	\$ 2,980,033
Income taxes paid	\$ 915,370	\$ 970,044

	September 30, 2019	September 30, 2018
<b>Non-cash transactions</b>		
Accelerated rent adjustment		
Common shares received	\$ -	\$ 300,000
Discharge of mortgage payable	-	249,709
Loan receivable, net of a provision for impairment	-	1,200,000
Reversal of provision for impairment	(900,000)	-
	\$ (900,000)	\$ 1,749,709

b) Reconciliation of the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

	Opening Balance October 1, 2018	Transactions During Period	Closing Balance September 30, 2019
Mortgages, excluding transactions fees	85,669,232		
Proceeds of new mortgages		19,600,000	
Repayment of mortgages upon maturity		(10,168,734)	
Repayment of mortgage on sale of investment property		(743,021)	
Repayment of mortgages through principal instalments		(5,617,362)	88,740,115
Restricted cash held in guaranteed investment certificates	(400,000)	400,000	-
Unamortized finance fees Note 8	(242,184)		
Amortization of finance fees		97,435	
Fees associated with new or renewed mortgages		(97,332)	(242,080)
Other financing	4,020,000		
Advances from other financing		2,000,000	
Repayment of other financing		(6,020,000)	-
Finance costs from statements of comprehensive income		(4,055,610)	
Purchase of common shares for cancellation		(361,082)	
Bank operating facilities	18,457,672		
Net advances on bank operating facilities		7,895,540	26,353,212
Accrued interest on financing Note 10	228,729	56,940	285,669
<b>Cash provided by financing activities</b>		<b>2,986,774</b>	

Prior Year	Opening Balance October 1, 2017	Transactions During Period	Closing Balance September 30, 2018
Mortgages, excluding transactions fees	79,891,814		
Proceeds of new mortgages		16,350,000	
Discharge of mortgage payable (non cash)		(249,709)	
Repayment of mortgages upon maturity		(4,813,093)	
Repayment of mortgages through principal instalments		(5,509,782)	85,669,230
Restricted cash held in guaranteed investment certificates	-	(400,000)	(400,000)
Unamortized finance fees Note 8	(241,873)		
Amortization of finance fees		86,773	
Fees associated with new or renewed mortgages		(87,084)	(242,184)
Other financing	1,300,000		
Advances from other financing		6,570,000	
Repayment of other financing		(3,850,000)	4,020,000
Finance costs from statements of comprehensive income		(2,950,726)	
Purchase of common shares for cancellation		(128,890)	
Bank operating facilities	9,506,115		
Net advances on bank operating facilities		8,951,557	18,457,672
Refundable deposit with lenders Note 7	(41,000)		
Deposit returned		41,000	-
Accrued interest on financing Note 10	195,136	33,593	228,729
Addback non cash transaction		249,709	
<b>Cash provided by financing activities</b>		<b>14,293,347</b>	

#### 14 Segmented Information

IFRS 8, Operating Segments requires reportable segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources to segments. The CODM has determined there are two reportable segments in the current fiscal year, based on the different economic environments they operate in. The following summary presents segmented financial information by industry divisions.

September 30,	Agricultural Division		Industrial & Retail Division		Corporate		CONSOLIDATED	
	2019	2018	2019	2018	2019	2018	2019	2018
Rental revenue, contractual amount	\$ 505,613	\$ -	\$ 11,755,780	\$ 10,629,580	\$ -	\$ -	\$ 12,261,393	\$ 10,629,580
Property tax and insurance recoveries	62,098	-	2,382,330	1,972,272	-	-	2,444,428	1,972,272
Operating expense recoveries	11,414	-	897,411	842,954	-	-	908,825	842,954
Accelerated rent adjustment	-	-	1,082,207	1,992,928	-	-	1,082,207	1,992,928
Amortization of tenant inducements	-	-	(4,586)	(336,364)	-	-	(4,586)	(336,364)
Straight-line rental revenue	62,981	-	(157,340)	141,838	-	-	(94,359)	141,838
<b>Rental revenue</b>	<b>642,106</b>	<b>-</b>	<b>15,955,802</b>	<b>15,243,208</b>	<b>-</b>	<b>-</b>	<b>16,597,908</b>	<b>15,243,208</b>
<b>Property operating expenses</b>								
Property taxes and insurance	(62,098)	-	(2,382,330)	(1,972,272)	-	-	(2,444,428)	(1,972,272)
Operating expenses								
Repairs and maintenance	(2,139)	-	(836,816)	(781,912)	-	-	(838,954)	(781,912)
Management fees	(22,564)	-	(672,992)	(599,505)	-	-	(695,556)	(599,505)
Utilities	-	-	(114,740)	(100,918)	-	-	(114,740)	(100,918)
<i>subtotals</i>	<b>(86,801)</b>	<b>-</b>	<b>(4,006,877)</b>	<b>(3,454,607)</b>	<b>-</b>	<b>-</b>	<b>(4,093,678)</b>	<b>(3,454,607)</b>
<b>Income from operations</b>	<b>555,305</b>	<b>-</b>	<b>11,948,925</b>	<b>11,788,601</b>	<b>-</b>	<b>-</b>	<b>12,504,230</b>	<b>11,788,601</b>
Finance costs								
Interest on mortgages	(174,627)	-	(2,844,089)	(2,435,159)	-	-	(3,018,716)	(2,435,159)
Interest on bank operating facilities	-	-	-	-	(1,022,476)	(496,210)	(1,022,476)	(496,210)
Interest on other unsecured financing	-	-	-	-	(6,817)	(62,971)	(6,817)	(62,971)
Amortization of deferred finance fees	(6,031)	-	(91,404)	(86,773)	-	-	(97,435)	(86,773)
Capitalized interest	-	-	-	86,354	-	-	-	86,354
Interest income	-	-	-	-	89,834	44,033	89,834	44,033
<i>subtotals</i>	<b>(180,658)</b>	<b>-</b>	<b>(2,935,493)</b>	<b>(2,435,578)</b>	<b>(939,459)</b>	<b>(515,148)</b>	<b>(4,055,610)</b>	<b>(2,950,726)</b>
Administration expenses	-	-	-	-	(1,564,127)	(1,292,322)	(1,564,127)	(1,292,322)
Amortization of deferred leasing	(10,698)	-	(287,574)	(278,603)	-	-	(298,272)	(278,603)
Unrealized gains (losses) on short term investments	-	-	-	-	(97,500)	73,500	(97,500)	73,500
Loss on the sale of investment property	-	-	(76,791)	-	-	-	(76,791)	-
Valuation net gains (losses) from investment property	197,503	-	(729,563)	(3,475,926)	-	-	(532,060)	(3,475,926)
<b>Income (loss) before income tax</b>	<b>561,452</b>	<b>-</b>	<b>7,919,504</b>	<b>5,598,494</b>	<b>(2,601,086)</b>	<b>(1,733,970)</b>	<b>5,879,870</b>	<b>3,864,524</b>
Income tax recovery (expense)	150,188	-	(2,118,467)	(1,497,597)	2,508,895	(24,314)	540,616	(1,521,911)
<b>Net income (loss) and total comprehensive income (loss) for the year</b>	<b>\$ 711,640</b>	<b>\$ -</b>	<b>\$ 5,801,037</b>	<b>\$ 4,100,897</b>	<b>\$ (92,191)</b>	<b>\$ (1,758,284)</b>	<b>\$ 6,420,486</b>	<b>\$ 2,342,613</b>
<b>Investment properties</b>	<b>\$ 10,399,824</b>	<b>\$ -</b>	<b>\$ 208,069,066</b>	<b>\$ 206,710,736</b>			<b>\$ 218,468,890</b>	<b>\$ 206,710,736</b>
<b>Mortgages</b>	<b>\$ 4,919,773</b>	<b>\$ -</b>	<b>\$ 83,820,342</b>	<b>\$ 85,669,230</b>			<b>\$ 88,740,115</b>	<b>\$ 85,669,230</b>
<b>Additions to investment properties</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 608,014</b>	<b>\$ 408,968</b>			<b>\$ 608,014</b>	<b>\$ 408,968</b>

**15. Share capital**

a) The Company has unlimited authorized common share capital.

	September 30, 2019	September 30, 2018
<b>Number of shares issued</b>		
Balance beginning of year	9,583,642	9,614,442
Shares cancelled	(87,200)	(30,800)
<b>Ending number of shares</b>	<b>9,496,442</b>	<b>9,583,642</b>
<b>Capital stock</b>		
Balance beginning of year	\$ 6,030,758	\$ 6,050,152
Shares held in treasury	(13,727)	-
Shares cancelled during the period	(54,936)	(19,394)
<b>Ending capital stock</b>	<b>\$ 5,962,095</b>	<b>\$ 6,030,758</b>

The Company received approval from the TSX Venture Exchange to purchase up to 479,182 common shares representing 5% of the outstanding shares under a normal course issuer bid ("NCIB") that expires September 2, 2020. During the current year, the Company repurchased 90,500 shares for a total cost of \$361,082. Of the shares repurchased, 87,200 were cancelled and the excess of the purchase price over the costs of the shares in the amount of \$292,420 was charged to retained earnings. The remaining 3,300 shares are held in treasury until cancelled.

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

**b) Contributed surplus**

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

	September 30, 2019	September 30, 2018
Contributed surplus, beginning of the year	\$ 593,750	\$ 593,750
Expired options	(593,750)	-
<b>Contributed surplus, end of the year</b>	<b>\$ -</b>	<b>\$ 593,750</b>

**16. Earnings per share**

The following are the weighted average number of shares outstanding:

	September 30, 2019	September 30, 2018
Net income and comprehensive income	\$ 6,420,486	\$ 2,342,613
Weighted average shares outstanding – basic	9,554,980	9,598,215
Unexercised dilutive options	-	21,184
Weighted average shares outstanding – diluted	9,554,980	9,619,399
<b>Earnings per share – basic and diluted</b>	<b>\$ .67</b>	<b>\$ .24</b>

## 17. Stock-based compensation plan

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

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life (Yrs.)</b>
Opening balance at October 1, 2018	475,000	\$ 4.25	.92
Expired options	(475,000)	\$ 4.25	-
<b>Ending balance at September 30, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Company does not have a past practice of cash settlement for these share options. There are currently no options outstanding.

## 18. Rental revenue

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

### a) Rental revenue

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Rental revenue, contractual amount	\$ 12,261,393	\$ 10,629,580
Property tax and insurance recoveries	2,444,428	1,972,272
Operating expense recoveries	908,825	842,954
Accelerated rent adjustment	1,082,207	1,992,928
Amortization of tenant inducements	(4,586)	(336,364)
Straight-line rental revenue	(94,359)	141,838
<b>Rental revenue on statements of comprehensive income</b>	<b>\$ 16,597,908</b>	<b>\$ 15,243,208</b>

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

	<b>2019</b>	<b>2018</b>
No later than one year	\$ 12,599,688	\$ 11,219,026
2 – 5 years	36,258,373	35,524,690
Over 5 years	24,404,330	18,892,089
	<b>\$ 73,262,391</b>	<b>\$ 65,635,805</b>

The month to month tenant revenue is not included in the future contracted minimum rent receivable. The future contracted minimum rent receivable could be negatively impacted by a tenant having financial difficulties and unable to meet their rent obligations. The future rent receivable assumes all tenants will honor the financial obligations of their leases, to the terms of their leases, with no defaults or variations in the contracted amounts.

**b) Property operating expenses**

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Property taxes and insurance	\$ 2,444,428	\$ 1,972,272
Operating expenses		
Repairs and maintenance	838,954	781,912
Management fees	695,556	599,505
Utilities	114,740	100,918
	<b>\$ 4,093,678</b>	<b>\$ 3,454,607</b>

**19. Guarantees, contingencies, and commitments**

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

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

c) The Company has contracts in place with related parties to provide property management and asset management. Both contracts have been in place since 1999 and have been renewed on an annual basis with no changes to the terms. Further information can be found in the Related Party Transactions in Note 22.

**20. Capital risk management**

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

	<b>September 30, 2019</b>	<b>September 30 2018</b>
Mortgages	\$ 88,740,115	\$ 85,669,230
Bank operating facilities	26,353,212	18,457,672
Other financing	-	4,020,000
Total debt financing	115,093,327	108,146,902
Equity	91,481,650	85,422,247
<b>Total capital</b>	<b>\$ 206,574,977</b>	<b>\$ 193,569,149</b>

## 21. Financial instruments

	September 30, 2019	September 30, 2018
<b>Financial assets</b>		
Loans and receivables		
Cash and cash equivalents	\$ 1,035,322	\$ 2,343,520
Restricted cash	-	400,000
Short term investments	276,000	373,500
Receivables, net of provisions	279,846	242,792
Loan receivable, net of provision	728,063	1,009,825
	<b>\$ 2,319,231</b>	<b>\$ 4,369,637</b>
<b>Financial liabilities</b>		
Other financial liabilities		
Bank operating facilities	\$ 26,353,212	\$ 18,457,672
Payables and accruals	800,176	3,145,876
Other financing	-	4,020,000
Security deposits	558,030	611,654
Mortgages	88,740,115	85,669,230
	<b>\$ 116,451,533</b>	<b>\$ 111,904,432</b>

The carrying value of cash and cash equivalents, restricted cash, receivables, loan receivable, bank operating facilities, other financing, payables and accruals, and security deposits approximate their fair value because of the near-term maturity of those instruments. The fair value of short - term investments is a level 1 measurement valued at the quoted market price. The fair value of mortgages payable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable as at September 30, 2019 is \$88,682,977 (September 30, 2018 - \$84,553,051). These estimates are subjective in nature as current interest rates are selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible. The interest rate used for this calculation is 3.555% (September 30, 2018 – 4.090%).

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

### Credit risk

The Company's maximum exposure to credit risk is the balance of its trade receivables of \$267,965 at September 30, 2019 (September 30, 2018 - \$120,263), cash and cash equivalents of \$1,035,322 (September 30, 2018 - \$2,343,520), and loan receivable of \$728,063, net of a provision of \$100,000 (September 30, 2018 - \$1,009,825 net of a provision of \$1,000,000).

Credit risk on trade receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss with a policy of credit assessment for all new lessees and by limiting its exposure to any one tenant. Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions. Restricted cash was held in GIC's with a financial institution and was released as security when a specific mortgage was renewed during the year. Credit risk associated with the loan receivable arises from the possibility that the counterparty may experience financial difficulty and be unable to make the contractual payments.

For accounts receivable and the loan receivable the Company applies the general approach to recognize expected credit losses in the next twelve months. Management uses historical credit losses adjusted for current and forward-looking information which may affect the ability of the customers to settle receivables. Historically the Company has

very little credit losses as most tenants have been able to meet their financial obligations. The resulting allowance has been set at \$10,000 on September 30, 2019 (September 30, 2018 – \$16,061).

The loan receivable was incurred in 2018 when a tenant was granted early termination of their lease in Fort McMurray Alberta. The resultant accelerated rent adjustment included a receivable from the tenant which was to be payable over 22 months. At that date, Management was not certain of their ability to continue payments for 22 months to repay their debt and at September 30, 2018 a provision in the amount of \$1,000,000 was recorded. During the current year, the Company received all contractual payments and Management reversed the loan provision proportionate to their payments. The current provision for impairment of the loan receivable is \$100,000 at September 30, 2019 (September 30, 2018 - \$1,000,000).

Accounts receivable and loan receivable are written off when there is no reasonable expectation of recovery.

#### **Interest rate risk**

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at September 30, 2019 is \$26,353,212 (September 30, 2018 - \$18,457,672). Under the assumption any balance of debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$263,532 (September 30, 2018 - \$184,577). The Company minimizes its exposure to interest rate risk to the extent that all mortgages except one have fixed rates with terms of five years. One mortgage was renewed during the year at a fixed rate for a further one-year term.

#### **Liquidity risk**

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

During the current year, the Company received two new conventional mortgages secured against a new property acquisition and one building that was newly constructed. Three mortgages were renewed for further five - year terms and one mortgage was renewed for one year. Concurrent with the renewal of a specific mortgage on July 1, 2019, the restricted cash held in GIC's totaling \$1,300,000 was released to the Company. The proceeds of \$1,300,000 plus interest were used to repay other financing.

During the current year, the Company received an increase of \$3,000,000 to the limit on one of the Company's bank operating facilities. A further \$3,500,000 increase to the limit of the second facility was finalized during the last quarter. An investment property purchased in the third quarter was purchased using available credit facilities. This new property was used as additional security to increase the limit of the second credit facility.

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

**Contractual obligations at September 30, 2019**

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 18,437,048	\$ 44,360,063	\$ 33,410,035	\$ -	\$ 96,207,146
Payables and accruals	800,176	-	-	-	800,176
Security deposits	47,069	200,454	32,538	325,037	605,098
	19,284,293	44,560,517	33,442,573	325,037	97,612,420
Operating facilities	26,353,212	-	-	-	26,353,212
	<b>\$ 45,637,505</b>	<b>\$ 44,560,517</b>	<b>\$ 33,442,573</b>	<b>\$ 325,037</b>	<b>\$ 123,965,632</b>

**Contractual obligations at September 30, 2018**

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

**22. Related party transactions**

The following are the related party transactions of the Company.

a) *Management agreements*

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

***Fee structure******Payments to Sable Realty & Management Ltd.:***

Property management	4% of gross rents paid plus a flat fee for ground maintenance on certain properties
Property maintenance	\$65/hour for labour plus charges for truck, equipment, and parts (September 30, 2018 - \$50-\$65/hour)
Project fees	large scale improvements to tenant space are negotiated at the time services are requested

***Payments to North American Realty Corp.:***

Leasing	6% of the value of new leases for the first five years plus 3% of the value of the leases that extend from six years to a maximum of ten years
	3% of the value of lease renewals to a maximum of five years
Acquisitions	1% of the purchase price of the property
Dispositions	3% of the sale price of investment property

<b><i>Payments for the year ending September 30,</i></b>	<b>2019</b>	<b>2018</b>
Property management and maintenance fees	\$ 1,038,486	\$ 931,553
Project fees	101,140	-
Acquisition fees	113,250	159,588
Disposition fees	51,300	-
Leasing fees	134,119	938,730
<b>Total payments</b>	<b>\$ 1,438,295</b>	<b>\$ 2,029,871</b>

**Amounts payable at September 30,** **\$ 3,245** **\$ 10,684**

b) *Other related party transactions*

- i) Payments made to (received from) Sable Realty & Management Ltd.

	<b>2019</b>	<b>2018</b>
Leased office space and parking	\$ 100,200	\$ 97,750
Fees for the Chief Financial Officer	200,000	200,000
Leased warehouse space	-	5,918
Rent at Sable Centre	(22,104)	-
<b>Net payments for the year</b>	<b>\$ 278,096</b>	<b>\$ 303,668</b>

- ii) Sable Realty Corp. a company controlled by Sine Chadi leases space at one of the Company's commercial properties. The total lease revenue received by the Company was \$24,000 (September 30, 2018 – Nil). Realty commissions were paid to Sable Realty Corp. in the amount of \$51,300 for the disposition of an investment property during the year (September 30, 2018 – Nil).
- iii) Chadi Family Foundation is a private charitable foundation of which Sine Chadi is a director. During the current year, the board of directors approved a donation to the foundation in the amount of \$67,025 (September 30, 2018 – Nil).
- iv) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the year September 30, 2019 were \$52,500 (September 30, 2018 – \$45,000).
- v) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The Company's key management personnel include the President Sine Chadi who is also a director of the Company. Total compensation paid to Mr. Chadi for the year ending September 30, 2019, was \$300,000 (September 30, 2018 - \$300,000).

vi) Other financing, unsecured

<b>Related Parties</b>	<b>Balance Oct 1'18</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 30-Sep-19</b>
NAMC <sup>1</sup>	\$ -	\$ 750,000	\$ (750,000)	\$ -
Imperial Land Corp. <sup>2</sup>	4,020,000	1,050,000	(5,070,000)	-
Sine Chadi, Shareholder <sup>3</sup>	-	200,000	(200,000)	-
<b>Total</b>	<b>\$ 4,020,000</b>	<b>\$ 2,000,000</b>	<b>\$ (6,020,000)</b>	<b>\$ -</b>

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

1. North American Mortgage Corp. ("NAMC") is controlled by Mr. Sine Chadi, President of the Company. Total interest paid at an annual rate of 6% on September 30, 2019, was \$5,633. (No interest was paid on the repayment of the loan in the prior year due to the short-term nature of the loan.)
2. Imperial Land Corp. is controlled by Mr. Sine Chadi, President of the Company. Total interest paid at an annual rate of 6% on September 30, 2019, was \$19,287 (September 30, 2018 – accrued interest at an annual rate of 6% totaled \$19,287).
3. Loans repaid to shareholders totaling \$200,000 were repaid with interest at an annual rate of 6%. Total interest paid at September 30, 2019, was \$1,184. In the prior year, \$3,800,000 was repaid with interest at an annual rate of 6%. Total interest paid at September 30, 2018, was \$43,685.

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

**23. Post-reporting date events**

Subsequent to the year ending, the Company disposed of all the short-term investments for total gross proceeds of \$262,595.

**24. Authorization of the audited consolidated financial statements**

The consolidated financial statements for the year ending September 30, 2019 (including comparatives) were authorized for issue by the Board of Directors on December 3, 2019.

*Signed "Sine Chadi", Director*

*Signed "Kevin Lynch", Director*