

# Imperial Equities Inc.

## Nine months ending June 30, 2020

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

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In 1966 Robert F. Kennedy delivered a speech that noted: "There is an ancient Chinese curse which says, *may you live in interesting times*. Like it or not, we live in interesting times. They are times of danger and uncertainty; but they are also the most creative of any time in the history of mankind". These words are every bit as appropriate for today. In our most recent days, we have all felt the true sense of that expression and its impact globally.

I am pleased to be able to provide you with our third quarter report and to reflect on the status of our Company in the midst of a most interesting time. There have been positives over the last quarter, which speak well to the overall health and resilience of our Company. The foundation that we have built throughout the past 21 years is stable and even growing. But there is no question we have been impacted by our sluggish oil-based economy, COVID-19 and a natural disaster in Fort McMurray. In managing through, we have been flexible as required, and have invested in the long-term relationships with tenants that underpin our overall success.

The impacts of COVID-19 are profound and everywhere. We are experiencing these impacts in our business, in our community and in our personal lives. As a business we are managing by working with our tenants as they deal with hopefully short-term business interruption. As all communities face pressures in every social organization, we are careful to balance efforts to preserve and sustain our Company's interest with our values and belief that we are inextricably tied to the interests and wellbeing of all our stakeholders. So recently when the Edmonton Food Bank needed extra space to better manage growing community need and create space for additional social/physical distancing, we were pleased to be able to provide access for 10,000 square feet of temporary space that takes pressure off the organization at a key time.

As we grapple with this new reality, we have had to be vigilant in our own practices. This means adopting protocols to ensure the health of our team and aligning practices in our Company to match those of our tenants. All of our suppliers, especially our property management company which makes regular visits to address maintenance issues, are equally vigilant. As of the time of writing, we have had no COVID-19 incidents in our Company and only one incident at one of our agricultural properties which was resolved swiftly and satisfactorily. We are committed to taking every step to maintain a safe and healthy record.

In this quarter, we can see more of the impacts due to demand for tenant rent deferrals evident in our Q3 2020 results. In addition, we faced an unexpected challenge with the flood in Fort McMurray impacting one of our properties. Restoration to the property was not fully completed within Q3 and the full rent abatement, which began in May 2020 will likely continue until the property is fully restored and occupied. We expect full occupancy of the property within Q4 2020.

As we look towards the possibility of ongoing uncertainty, our creative business strategy and our strong balance sheet will serve us well. Despite the challenges we are facing, Imperial remains firm on our commitments to expanding our real estate portfolio, generating, and efficiently managing cash flows and creating value for our shareholders.

During Q3 2020, we finalized negotiations for the acquisition of a new industrial property in Edmonton and we moved towards one key disposition. On the acquisition side, we completed

our due diligence process on a classic “Imperial” property in west Edmonton. This property, located in Edmonton’s McNamara Industrial neighbourhood has 41,054 square feet within two buildings, each on a separate but contiguous parcel of land for a total of 4.67 acres. The tenant on the property is Wajax, a company we know, and one that is a strong, steady performer in the industrial services market. This transaction was negotiated in Q3 2020, and closed subsequent to the end of the quarter.

On the disposition side, we entered into an agreement to sell our Oliver Crossing property for \$9.35 million, a transaction that closed in Q4 2020. The timing was right on this transaction. Oliver Crossing was one of the last remaining multi-tenant commercial/retail property in our portfolio. It was a property that derived its value largely from its redevelopment potential, being located on the fringe of downtown and in close proximity to the MacEwan University Campus. Given our industrial/agricultural focus the redevelopment opportunity was not one we would pursue, and so an opportunity for its disposition made sense.

In addition, we are continuously focused on our ultimate objective of creating value for our shareholders by maintaining our properties and leases at their maximum performance. At June 30, 2020, our building occupancy was 96.2%, compared to 96.3% at September 30, 2019 and our Gross Leasable Space increased by 108,719 ft<sup>2</sup>, totalling 998,017 ft<sup>2</sup> at June 30, 2020. This is key to our business as issues with increased vacancy rates can affect the Company’s ability to meet mortgage obligations, as well as carrying costs including property taxes, utilities and insurance.

Our goal is always to generate consistent, long-term cash flows in order to support new growth. Short-term this has meant making adaptations to leases and to our cash flow management to ensure we can support our long-term stability while supporting our tenants. We have done so in a manner which ensures we have sufficient cash flows to meet our obligations and are able to continue to invest in our asset management program. We have managed this successfully this quarter, and without seeking any new payment terms from our lenders, even as we wait to receive payment deferrals that we have granted.

Paying dividends have been a source of pride for Imperial Equities and after several years of economic volatility we have only recently brought back our dividend in Q1 2020, and we did so to give consideration to our investors who have faith in our Company and its progress. At the same time, there is no question that cash flow impacts over the past two quarters have caused us to reassess our dividend policy. In response, our Board of Directors has made the hard decision to suspend our dividend for the 3<sup>rd</sup> and 4<sup>th</sup> Quarters of 2020. We anticipate that we will be able to resume quarterly dividends in Q1 of 2021.

While there have been abundant strains and stresses this year, there is one particularly positive upside that we are now experiencing. This has to do with the current interest rate environment. At the end of Q2 2020, just as the COVID-19 crisis really began to be felt, the Bank of Canada reacted quickly to improve market functioning with short-term liquidity programs including historic low interest rates. Indeed, we were able to finance our newest acquisition at the end of Q2 2020, obtaining the lowest mortgage interest rate in our history, achieving a significant savings over the term of this mortgage.

While the economy is slowly starting to recover, the July 15, 2020 update from the Bank of Canada made clear that there is ongoing uncertainty which means ongoing need for caution as the recovery is slowed by ongoing impacts to consumer confidence and as economic adaptations are made. As slack persists in the recovery, inflation continues to be pushed down

and demand has not fully recovered. Thus, the Bank anticipates it will continue to hold interest rates low as a key part of its overall monetary policy support. As we find our own situation stabilizing, the ongoing low interest rate environment will assist in our efforts to assess and move forward with some key acquisitions and property improvements in the coming months.

And it is with this hopeful thought that we close this quarter. As always, we are grateful for the ongoing interest and support of our shareholders and we invite you to reach out with any questions, comments or investment opportunities.

Sincerely,

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

Sine Chadi  
President

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. ("Imperial" or "Imperial Equities" or the "Company") and its subsidiaries. This MD&A should be read in conjunction with the consolidated interim financial statements for the nine months ended June 30, 2020, and the related notes. Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol "IEI". Additional information on the Company may be obtained by visiting [www.sedar.com](http://www.sedar.com).

## RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

## FORWARD-LOOKING INFORMATION

In our report to shareholders, Management may talk about the current economy and express opinions on future market conditions. This forward-looking information is based on Management's current assessments made based on internal expertise as well as the opinions of other professionals in this industry. While Management may consider these statements to be reasonably optimistic and favorable, the opinions and estimates of future trends are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in Note 23 of the consolidated interim financial statements and this MD&A. Any forward-looking statements in this report should not be relied upon as facts, as actual results may differ from estimates.

## ADDITIONAL NON-IFRS MEASURES

Debt and unencumbered properties are non-IFRS financial measures and do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar calculations reported by other Canadian issuers.

Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies.

## BUSINESS OVERVIEW

Based in Edmonton, Alberta, Imperial Equities is a publicly-traded company anchored by commercial, industrial, and agricultural properties in its targeted markets throughout Western Canada.

Annually, since operations began in 1998, Imperial Equities has achieved solid growth. The Board of Directors along with corporate Management are all vigorously and enthusiastically committed to the continued growth of the Company.

## STRATEGIC DIRECTION

### *Our Value Statement*

Imperial's team of professionals is dedicated and motivated to grow its real estate portfolio and earn value for its shareholders. As a growth-focused company, Imperial has financed acquisitions largely through conventional mortgages. However, issuing new share capital may be considered at a future date to support the Company's growth objectives. We believe in building value in the shares through a commitment to acquire and develop high-quality properties and gain capital appreciation to benefit the shareholders. As part of our strategy, we would consider the disposition of a property where the Company believes that we have maximized the potential of that property and its disposition would be beneficial to the Company.

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

### *Strategic Goals*

- Acquire commercial, industrial, and agricultural properties in strategic locations for capital appreciation
- Acquire fully occupied, single-tenant or multi-tenant industrial properties with long-term lease agreements and rental rates commensurate with the location
- Finance acquisitions with the lowest available cost of capital
- Achieve a defined rate of return on each asset
- Maximize the revenue potential of each asset in its region
- Dispose of older assets that may have reached their maximum earning potential to reduce the overall age of the properties in the portfolio
- Community investment

## KEY PERFORMANCE DRIVERS

Imperial Equities continues to engage a dedicated team of professionals to manage and oversee business activities. The CEO and CFO have been with the Company since becoming publicly traded 21 years ago. During Q1 2020, the Company hired Patricia Misutka as Chief Operating Officer (“COO”). Patricia brings extensive experience as a corporate strategist to her role with Imperial. There is a strong Board of Directors with significant real estate experience to guide and assess Company strategy and investment decisions. This dedication and professional experience of Imperial’s Management team has helped the Company achieve positive earnings every year the Company has been in business.

Management monitors the success of Imperial by measuring how well the Company delivers on its strategies and executes due diligence. This assessment will include the size of the tenant, the length of time they have been in business, their operations, and exposure to the industry they operate in; all these factors will be a part of our evaluation of the strength of their lease covenant. The Company’s success is also impacted by external factors including the overall economic health of industries operating in the province of Alberta. Alberta is still largely reliant on the oil industry and the Company is careful to select tenants that are best able to weather an economic downturn. Another external factor is interest rates related to the financing of the properties. Investment properties are financed with conventional mortgages that can expose the Company to possible increases in interest rates, affecting operating income and cash flow. The Company, in the short term, does not consider rising interest rates to have a significant impact on the operating cash flows. Any new commercial lease terms associated with new acquisitions and lease renewals will reflect changing market conditions including current interest rates and will be assessed on this basis.

### *Strategic Objectives*

- Conduct comprehensive due diligence on all acquisitions, including evaluating the strength of the tenant(s) before entering into contracts
- Maximize the revenue per property and secure long lease terms to reduce the turnover of tenants
- Maintain high occupancy rates to recover carrying costs of the properties
- Monitor the quality of tenants in the portfolio to reduce the risk of defaults on leases
- Maintain the assets to high standards including structural, mechanical and cosmetic to showcase the existing properties to prospective tenants or purchasers
- Complete preventative maintenance on the properties to reduce operating costs and to maximize the longevity of the buildings
- Ensure that maintenance on the properties is done to exacting standards involving monitoring the quality of work provided by business partners while ensuring the costs are competitive
- Maximize the cash flow from operations to ensure funding for growth opportunities

- Select mortgage terms that provide a low cost of capital and utilize debt leverage opportunities
- Minimize higher rate short-term borrowings to reduce the cost of capital

## KEY PERFORMANCE INDICATORS

	Nine months ending June 30, 2020	Year ending September 30, 2019
<b>Investment Properties</b>		
Total number of investment properties	37	35
Property acquisitions during the period	2	4
Property dispositions during the period	-	1
Raw land properties held for future development	9	9
Raw land properties under lease with tenants	5	5
Gross leaseable area (GLA) square feet	998,017	889,298
<b>Leasing Activities by Gross Leaseable Area (GLA)</b>		
Leases renewed	-	48,973
New tenant leases	108,719	87,177
GLA of leases expiring within twelve months	134,715	95,206
Space available for lease	63,264	32,762
Average lease term to maturity in years	3.79	4.08
Building occupancy	96.2%	96.3%
<b>Property Operations</b>		
% operating expense recoveries	82%	82%
Income from operations	\$ 9,150,003	\$ 12,504,230
Investment property improvements	\$ 240,534	\$ 475,141
<b>Financing</b>		
Debt to total assets ratio	54%	53%
Weighted average interest rates on mortgages	3.31%	3.35%

### Investment Properties

#### Acquisitions during the current period

- Wajax in Nisku, AB. 37,200 ft<sup>2</sup> acquired in December 2019
- Russell Hendrix in Edmonton, AB. 71,519 ft<sup>2</sup> acquired March 2020

#### Raw land properties held for future development – unchanged from the prior year

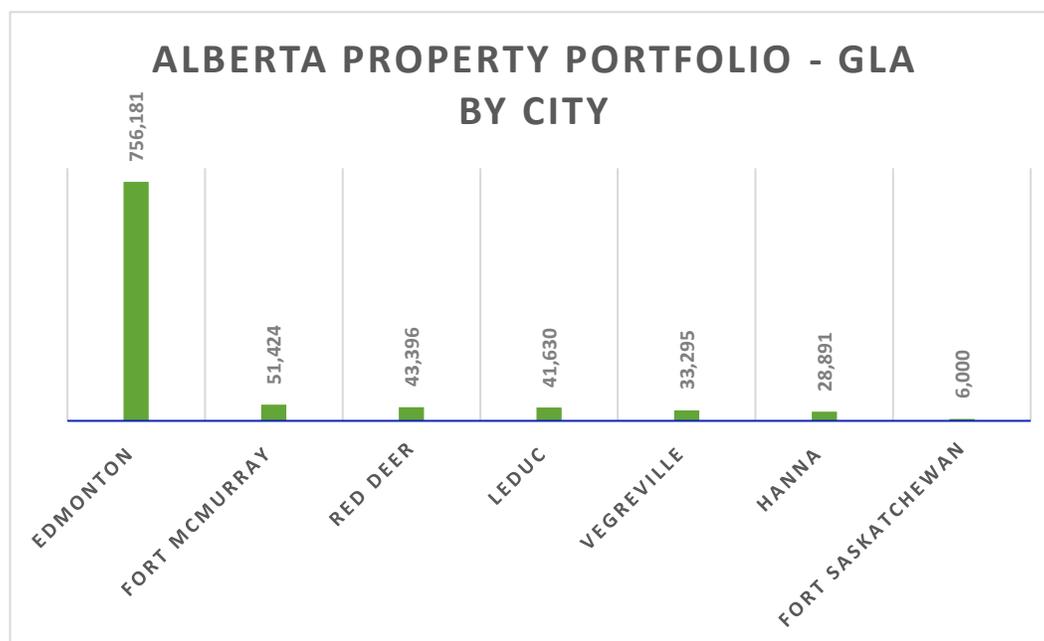
- 12.9 acres in Strathcona County, AB.
- 2.24 acres in NW Edmonton, AB.
- 49.42 acres in Hanna, AB.
- 3 acres in NW Edmonton, AB.

## Raw land properties held for future development and under a lease with tenants in place – unchanged from the prior year

- 1.7 acres in SE Edmonton, AB. under a lease with an existing tenant
- 1.71 acres in SE Edmonton, AB. under a lease with an existing tenant
- 1.49 acres in SE Edmonton, AB. under a lease with an existing tenant
- 2 acres in NW Edmonton, AB. under a lease with an existing tenant
- 3 acres in NW Edmonton, AB. under individual leases with six tenants

**Gross leasable area (GLA)** increased by net 108,719 square feet since September 30, 2019, with the following additions:

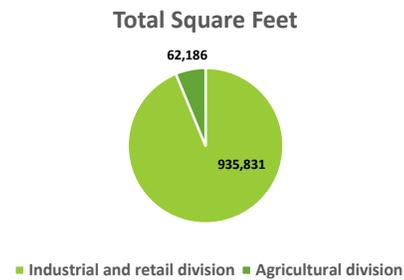
	SF <sup>2</sup>
Wajax building in Nisku, AB.	37,200
<u>Russell Hendrix building in Edmonton, AB.</u>	<u>71,519</u>
	108,719
<u>Total GLA at September 30, 2019</u>	<u>889,298</u>
<b><u>Total GLA at June 30, 2020</u></b>	<b><u>998,017</u></b>



The Company has expanded its investment property holdings to locations outside of major cities and continues to explore opportunities in provinces across Canada.

## Investment Property Diversification

During the prior year, the Company completed two property acquisitions that are now classified as agricultural division.



The first property was a new build-to-suit project in Hanna, Alberta, that was completed in Q1 2019. The tenant, Cervus Equipment Corporation is an international tenant that operates 63 heavy equipment and farm implement dealerships across Canada, Australia, and New Zealand.

The second agricultural property was acquired in Q3 2019 and is located in Vegreville, Alberta. The tenant Rocky Mountain Equipment is a multi-branch dealership focused around the Case and New Holland brands of equipment.

The total annual combined rental revenue for these two properties is \$884,564. The Company is working towards further acquisitions that will expand the agricultural division in Alberta and throughout the prairie provinces.

## Leasing Activities

### New tenant leases sf<sup>2</sup>

- Wajax in Nisku, AB. 37,200
  - Russell Hendrix in Edmonton, AB. 71,519
- 108,719**

### Total GLA of leases expiring in the next twelve months

Nine tenant leases are expiring during the next twelve months, totaling 134,627 ft<sup>2</sup>. Six of the nine tenants are in the process of renewing, one tenant has already renewed, and two tenants with a total of 19,390 ft<sup>2</sup> have leases that are not within the required notice period at this date. The renewal process for each tenant will commence according to provisions in their lease agreement.

### Space available for lease

- 32,762 ft<sup>2</sup> in one of the Company's multi-tenant buildings (tentative lease agreement)
- 4,907 ft<sup>2</sup> in a multi-tenant mixed-use building
- 25,595 ft<sup>2</sup> in a single tenant industrial building

The Company is actively marketing these vacancies for lease.

**LEASE RETENTION during the current year**

<b>Location</b>	<b>GLA</b>	<b>Expiring Rate/PSF*</b>	<b>Renewal Rate/PSF*</b>	<b>Renewal Term</b>
Edmonton, Alberta	25,590	\$ 10.00	Vacated	-
Edmonton, Alberta	50,000	\$ 8.40	\$ 6.00	M to M
Edmonton, Alberta	4,907	\$ 12.00	Vacated early	-
	<b>80,497</b>			

*\*per square foot*

**LEASE RETENTION during the prior year**

<b>Location</b>	<b>GLA</b>	<b>Expiring Rate/PSF*</b>	<b>Renewal Rate/PSF*</b>	<b>Renewal Term</b>
Edmonton, Alberta	22,939	\$ 13.00	\$ 13.65	5 years
Edmonton, Alberta	4,907	\$ 10.60	\$ 12.00	5 years
Edmonton, Alberta	21,127	\$ 18.00	\$ 18.00	5 years
	<b>48,973</b>			

*\*per square foot*

A lease encompassing 25,595 ft<sup>2</sup> that expired May 31, 2020, in one of the Company's single tenant industrial buildings was not renewed and the tenant vacated the building. A tenant occupying 4,907 ft<sup>2</sup> in a multi-tenant mixed-use building vacated their lease early. Other leases that are expiring in the next twelve months are either under current negotiations, or the leases are not within the notice period.

The performance drivers of the Company include ensuring a low turnover of tenants through lease retentions and maintaining high occupancy levels. During the prior year, three tenants renewed their leases for further five-year terms at higher rates or the same rate as the expiring terms. In prior years, the Company has been very successful in retaining the current tenant base upon lease expiries, however, there is now greater uncertainty surrounding the effects of the pandemic and low oil prices, which could have a negative effect on lease renewals. The two vacancies this year were not a result of the COVID-19 pandemic.

## LEASE TERMS at June 30, 2020

Single-tenant buildings		Multi-tenant buildings	
Square Feet	Maturity Year	Square Feet	Maturity Year
50,000	M to M	4,798	Month to Month
33,295	2020	76,194	2020
52,890	2021	2,941	2021
190,207	2022	9,037	2022
75,151	2023	4,929	2023
74,206	2024	21,127	2024
26,400	2026	4,864	2025
29,450	2027	<b>123,890</b>	
188,149	2028		
62,224	2029		
28,891	2038		
<b>810,863</b>			

Total GLA of in-place leases	934,753
Available GLA for lease	63,264
Total GLA at June 30, 2020	<b>998,017</b>

### *Weighted Average Remaining Lease Terms*

**Single-tenant buildings = 4.82 years      Multi-Tenant buildings = 1.17 years**

**Total average lease term to maturity = 3.79 years**

The risk to the Company when a tenant does not renew a lease is for the Company to absorb the ongoing operating costs of vacant space. These costs include property taxes, insurance, utilities, and any maintenance items. If a single-tenant building becomes vacant, additional vacancy costs could include mortgage payments, if applicable. Management works closely with tenants to ensure retention rates remain high, primarily through responsive property management which ensures their leased space in the building, and the exterior parking lot and landscaping, are all well maintained.

One of the Company's goals is to maximize the revenue of each asset in its region. With the proper market analysis of comparables, the Company has been able to negotiate lease rates that achieve its desired rate of return.

At June 30, 2020, the year-to-date occupancy is 96.2% (September 30, 2019 - 96.3%).

**AVERAGE ANNUAL LEASE RATES per City, per square foot  
at June 30**

	<b>2020</b>	<b>2019</b>
Edmonton, Alberta	\$ 11.55	\$ 11.99
Red Deer, Alberta*	\$ 25.80	\$ 25.92
Fort Saskatchewan, Alberta*	\$ 36.83	\$ 35.40
Fort McMurray, Alberta	\$ 37.55	\$ 43.26
Leduc, Alberta	\$ 15.70	\$ 15.70
Hanna, Alberta	\$ 19.17	\$ 18.24
Nisku, Alberta	\$ 13.00	\$ -
Vegreville, Alberta	\$ 7.18	\$ 7.18

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

Lease rates in Edmonton dropped slightly this quarter due to rent deferrals from the impact of COVID-19. The rates quoted above reflect deferred rents. Provided the tenants have no further impacts to their operations, these deferrals will be recovered in full beginning in Q4 2020.

**Property Operations**

	<b>Nine months ending June 30, 2020</b>	<b>Year ending September 30, 2019</b>
Property tax and insurance recoveries	\$ 1,774,274	\$ 2,444,428
Operating expense recoveries	820,004	908,825
	\$ 2,594,278	\$ 3,353,253
Total property operating expenses	\$ 3,171,514	\$ 4,093,678
<b>% of property operating expense recoveries</b>	<b>82%</b>	<b>82%</b>

Property taxes, insurance, and operating expenses are budgeted annually and reconciled every 12 months on a tenant-by-tenant basis. All the Company's leases except one small lease are triple net leases, which allows the landlord to recover all operating costs except for any structural repairs. Management will decide how to treat the recovery from the tenant of expenses related to large maintenance items, so as not to impose hardship on the tenant's operations. In some cases, Management will amortize the expenditures over a period within the tenant's lease term. Some leases have lower management fees than other leases dependent upon the responsibility of performing maintenance remaining with the tenant or the landlord. Because of these variations, there will always be a percentage of operating expenses not recovered by the landlord in the current fiscal year. Historical optimal recovery percentages will be in the range of 80%-86%.

Further affecting recoveries is vacant space of 37,669 ft<sup>2</sup> in multi-tenant buildings, and 25,595 ft<sup>2</sup> in a single-tenant building that became vacant this Q3 2020.

Typically, recovery percentages will vary each quarter depending on utilities, snow removal, lawn care, and other seasonal expenditures. Management ensures operating expense recoveries are maximized for our shareholders.

The current vacancies if not leased in the next quarter will put downward pressure on cash flows in addition to the current rent deferrals expected over the next several months. The deferrals are a direct result of the COVID-19 pandemic. Management expects all tenants will continue to meet their rent obligations going forward and there have been no further requests for rent relief.

The **income from operations** is a measure of funds available to service the debt repayments on financing, provide cash for capital expenditures on the properties, and fund further growth.

	<b>Nine months ending June 30, 2020</b>	<b>Year ending September 30, 2019</b>
<b>Income from operations for the period</b>	<b>\$ 9,150,003</b>	<b>\$ 12,504,230</b>
Less: Interest on financing* during the period	3,209,047	4,048,009
Less: Principal instalments on mortgages, during the period	4,565,387	5,617,362
Funds available for property improvements and growth	\$ 1,375,569	\$ 2,838,859

*\*Interest on financing includes capitalized interest and excludes interest income and amortization of deferred finance fees.*

The Company, through third-party contractors, continues to ensure all properties are well-maintained in terms of maintenance, electrical, mechanical, structural, and cosmetic which includes exterior maintenance of the buildings through painting, landscaping, parking lot striping, etc.

	<b>Nine months ending June 30, 2020</b>	<b>Year ending September 30, 2019</b>
<b>Total property improvements during the period</b>	<b>\$ 240,534</b>	<b>\$ 475,141</b>

During Q1 2020 the Company made improvements to two parking lots by installing geotechnical fabric and resurfacing with concrete, as well as forming proper concrete retaining walls. One building received new overhead heaters and minor structural improvements. During Q2 2020, the Company replaced all unit heaters at two properties and completed a major upgrade to a fire alarm panel. During this Q3, property improvements include capitalized property taxes to vacant land, design fees for new projects, and continued interior and exterior maintenance on the buildings. Property improvements during the prior year included parking lot upgrades, energy-efficient mechanical components such as new rooftop HVAC units, new infrared heaters, and new boilers for specific locations.

The Company strives to provide high-quality service to the tenants by responding promptly to address any property maintenance issues. Maintaining equipment regularly improves the life of the equipment, keeps equipment running smoothly, and avoids major interruptions to the tenant's

operations. The Company has a great relationship with all the tenants and will respond to maintenance issues within hours. Working with strong business partners that are familiar with the properties and tenants, the Company has enjoyed a very high quality of work while ensuring costs are very competitive.

The Company is continuing to convert all buildings to energy-efficient LED lighting both interior and exterior light fixtures. Also, energy-efficient heating, ventilating, and air conditioning units are being installed to replace outdated units. The impact of these improvements is the reduction of the operating costs to the tenants and the promotion of a greener environment through reduced emissions.

The Company's hands-on approach to maintaining its properties results in very high tenant retention with little turnover and shows a firm commitment by the Company to promote pride of ownership, which in turn will attract new prospective tenants and possible future build-to-suit opportunities.

## Financing

Debt, and unencumbered properties, are non-IFRS financial measures and do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar calculations reported by other Canadian issuers.

Management considers the ratio of debt to assets to be useful for evaluating the leverage the Company may have on its investment properties to consider additional financing opportunities if any.

	<b>Nine months ending June 30, 2020</b>	<b>Year ending September 30, 2019</b>
<b>Investment properties</b>	<b>\$ 230,127,385</b>	<b>\$ 218,468,890</b>
Mortgages excluding transaction fees	94,478,228	88,740,115
Other financing	2,200,000	-
Bank operating facilities	26,454,057	26,353,212
<b>Debt</b>	<b>\$ 123,132,285</b>	<b>\$ 115,093,327</b>

### Ratio of debt to assets

**54%**

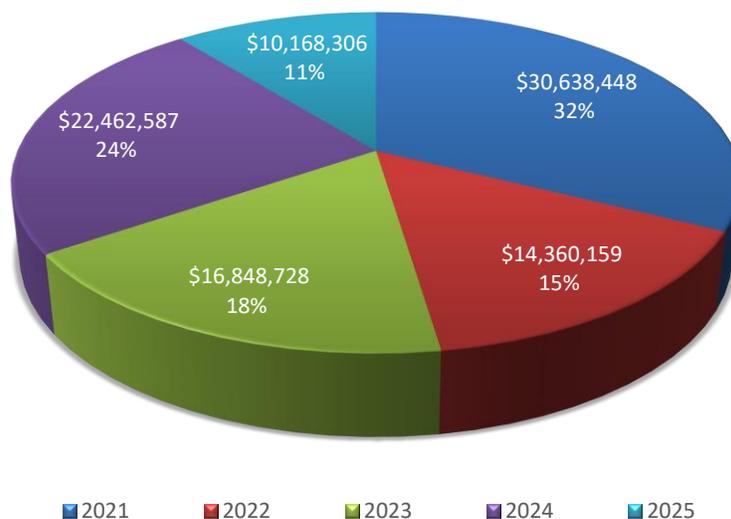
**53%**

The Company continues to enjoy a good relationship with its lenders and has been able to renew mortgages as they come due and place new conventional financing on acquisitions. Unencumbered properties at June 30, 2020, have fair values of \$17,560,830. (September 30, 2019 - \$17,204,993).

**Weighted average interest rates on the mortgages** have decreased to 3.31% at June 30, 2020, from 3.35% at September 30, 2019, with rates decreasing for new financing from the Company's lenders. During Q1 2020, the Company renewed two mortgages at the term dates. During Q2 2020, rates began to decrease and the Company received two new mortgages on the recent acquisitions with the newest mortgage at a significantly lower rate than previous mortgages.

While the weighted average rate had been slightly rising each quarter, the last mortgage received brought the weighted average rate down.

## Mortgage Maturities



The following table details the mortgage activities during the current year.

Maturity Date	Rate	Principal Balance Sept. 30'19	Mortgages Advanced/ Assumed	Y-T-D Principal Payments	Principal Paid on Maturity	Principal Balance June 30'20
01-Jan-21	3.060%	\$ 1,578,129		\$ 125,489		\$ 1,452,640
01-Jan-21	2.980%	3,485,483		196,320		3,289,163
01-Jan-21	2.980%	5,393,160		303,770		5,089,390
01-Apr-21	2.880%	5,581,728		308,145		5,273,584
01-Apr-21	2.948%	3,034,587		151,260		2,883,327
01-Oct-21	2.470%	6,086,078		452,729		5,633,349
01-Oct-21	2.470%	7,416,065		399,070		7,016,995
01-Feb-22	3.040%	5,794,009		291,791		5,502,218
01-Jun-22	2.730%	2,209,502		150,004		2,059,498
01-Dec-22	3.670%	3,728,639		166,534		3,562,105
01-Dec-22	3.671%	3,387,629		151,293		3,236,336
01-Feb-23	3.750%	2,044,271		89,391		1,954,880
01-Oct-23	3.950%	509,368		87,563		421,805
01-Oct-23	4.090%	6,014,888		241,274		5,773,615
01-Nov-23	4.330%	4,126,623		161,421		3,965,202
01-Dec-23	4.648%	4,919,773		186,546		4,733,227
01-Jan-24	4.300%	2,401,720		125,682		2,276,038
01-Jan-24	4.300%	1,906,127		99,748		1,806,379
01-Aug-24	3.300%	10,156,050		400,989		9,755,061
01-Nov-24	3.555%	8,966,286		341,177		8,625,109
01-Feb-25	3.420%	-	5,002,500	85,764		4,916,736
01-Apr-25	2.310%	-	5,301,000	49,430		5,251,570
		<b>\$ 88,740,115</b>	<b>\$ 10,303,500</b>	<b>\$ 4,565,387</b>	<b>\$ -</b>	<b>\$ 94,478,228</b>

All mortgages are secured by a first charge over the related investment property and a general assignment of rents, insurance, and site-specific goods and chattel paper.

The Company's two bank operating facilities are secured with specific revenue-producing properties and the other financing is unsecured.

## ACTIVITY Q1 to Q3, 2020

Imperial expanded its executive management team to include the position of **Chief Operating Officer**. The COO is tasked with strategic planning of the Company's long-term direction and operational structure, and the allocation of resources to support the Company's pursuit of an increased scale of operations and future overall growth.

The Company completed an agreement to **purchase a 37,200 ft<sup>2</sup> building situated on 2.82 acres** in Nisku, Alberta. The total purchase price was \$6,670,000. The tenant, Wajax, signed a 10-year lease agreement, making this their second location with Imperial.

The Company completed an agreement to **purchase a 71,519 ft<sup>2</sup> building situated on 2.97 acres** in west Edmonton, Alberta. The total purchase price was \$7,068,000. The tenant, Russell Food Equipment Limited has over 8 years remaining on a 10-year lease agreement.

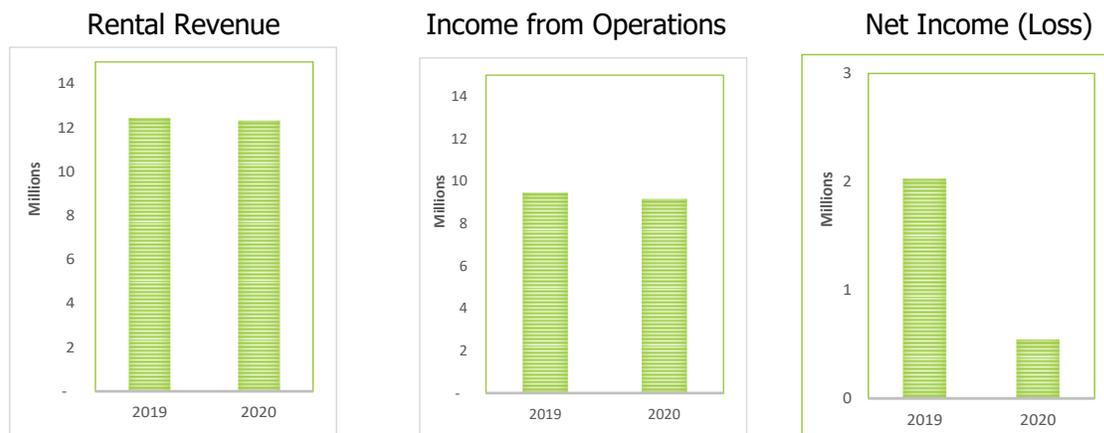
The Company renewed one mortgage at its term date for a further five years and renewed one mortgage for a one-year term. Two new mortgages were received for financing on the new acquisitions in Nisku and Edmonton. Total **mortgage proceeds were \$10,303,500**.

During Q3 the Company entered into an agreement to **purchase two contiguous lots with two buildings totaling 41,054 ft<sup>2</sup> situated on 4.67 acres** in west Edmonton. The total purchase price of \$5,360,000 was completed subsequent to the quarter ending with related-party financing and a conventional mortgage. The tenant, Wajax, signed a 10-year lease agreement, making this their third location with Imperial.

During Q3 the Company entered into an agreement to **sell one of its investment properties** for total gross proceeds of \$9,350,000. The sale of this multi-tenant building in central Edmonton was completed subsequent to the quarter ending.

The Company **resumed payment of dividends** which had been suspended since January 2015. Total annual dividends of \$.10 per common share and are payable quarterly at \$.025 per share. The first quarterly payment was distributed in January 2020 and the second quarterly payment was distributed in April 2020.

## PERFORMANCE RESULTS



With the addition of several investment property acquisitions and new leases in the last twelve months, the straight-line rental revenue has increased \$775,902 year over year. During Q2 2020 revenue was increased \$100,000 through a reversal of a provision relating to a loan receivable. (Q3 2019 – the provision reversed was \$900,000). Removing the non-cash provision from total revenue means Q3 2020 revenue was \$12,321,417 compared to Q3 2019 revenue of \$11,545,515.

Total revenue was impacted in Q3 2020 by a severe flood that occurred in Fort McMurray, AB. The tenant's rent was abated while the building and grounds are being restored to allow occupancy. The total revenue abated at Q3 2020 was \$200,830. Subsequent to the quarter ending, it is expected that the tenant will take occupancy and resume operations.

Income from operations is lower at Q3 2020 compared to Q3 2019. This is due to the increase in vacancies this current year where the Landlord is absorbing the costs of the utilities and property taxes, as well as the revenue adjustments noted in the above paragraph.

During Q3 2020 the Company applied further write-downs on some of the investment properties where vacancies exist, recording an additional \$992,868 of net losses on valuations.

The net income at Q3 2020 reflects year-to-date net valuation losses of \$2,856,309 recorded on the investment properties, compared to valuation net losses of \$1,635,159 at Q3 2019.

## RESULTS OF OPERATIONS AND CASH FLOWS

During Q1 2020, a tenant that leased 4,907 ft<sup>2</sup> in a multi-tenant retail plaza vacated their space prior to their lease expiry. During Q3 2020, a tenant that leased 25,595 ft<sup>2</sup> in a single-tenant building vacated their space upon their lease expiry. A further vacant lease space of 32,762 ft<sup>2</sup> available in a multi-tenant industrial building brings the year-to-date occupancy to 96.2%. The Company is in negotiations to have the 32,762 ft<sup>2</sup> leased in the next quarter.

## Fair Market Value of Investment Properties (Millions)



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

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

At each reporting date, this calculation method is performed on all the investment properties except for the Oliver Crossing property, vacant land, and land under lease. At Q3 2020, Oliver Crossing is valued at the selling price less estimated costs to sell as the property as it was disposed of subsequent to the quarter ending. Construction of new buildings is valued at cost until the earlier of the date that fair value can be reliably determined, or the projects are complete. Land held for development is valued using Management's research of similar vacant lands that have sold recently or are available for sale. Land under lease with tenants is valued at the fair value of similar vacant land in the area.

The Company continues to increase the investment property portfolio each year by acquiring properties with a view towards capital appreciation. Affecting operations for each quarter are the fair valuations of investment properties.

Net valuation gains (losses) per quarter:

2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
\$ (992,868)	\$(1,953,004)	\$ 89,563	\$ 1,103,099	\$ (148,530)	\$ (33,127)	\$(1,453,502)	\$ 805,792

When valuing the investment properties to fair value, all other inputs being equal, an increase in property revenue for the ensuing twelve months will have a positive impact on the fair values and a decrease in revenue will have a negative impact. When interest rates are low, investors are eager to expand their portfolios creating a healthy, competitive environment in which to acquire property, which will keep the cap rates very competitive. Management marginally increases the cap rates on some of the properties where the Company believes property values and lease rates have decreased as a result of more products coming on stream from developers eager to lease up vacant buildings. Some properties' cap rates were increased to maintain existing values, despite increased contracted revenue streams which would otherwise drive the value upwards.

INVESTMENT PROPERTY CAP RATES	June 30, 2020			Rate Change	September 30, 2019	
	Total GLA sf	Range Cap Rates			Total GLA sf	Range Cap Rates
Edmonton, Alberta	692,932	4.50% - 7.35%		↑	651,797	4.50% - 6.80%
Red Deer, Alberta	43,396	6.35%		↑	43,396	6.33%
Fort Saskatchewan, Alberta	6,000	6.41%		↔	6,000	6.41%
Fort McMurray, Alberta	51,424	6.14% - 6.33%		↔	51,424	6.14% - 6.33%
Leduc, Alberta	41,630	6.50%		↓	41,630	6.85%
Vegreville, Alberta	33,295	8.50%		↔	33,295	8.50%
Nisku, Alberta	37,200	6.50%		-	-	
Hanna, Alberta	28,891	7.00%		↔	28,891	7.00%
	934,768				856,433	
Available for lease, Edmonton, AB.	63,249				32,762	
Total GLA square feet	998,017				889,195	

Cap rates continue to be evaluated on a property-by-property basis to ensure values reflect current market conditions.

During the current period, six properties were lowered in value for total net valuation losses of \$2,856,309 at Q3 2020. Two buildings have uncertainties surrounding lease renewals, and two buildings have large vacancies that may take further time to lease-up. These losses were offset by gains on other properties in the portfolio.

Events that took place subsequent to Q2 2020 relating to COVID-19, and the significant economic downturn brought about by low oil prices, did not have a direct effect on the properties at Q2 2020 as the Company received all rents due. These events have impacted the operations and the cash

flows in Q3 2020 with downward pressure on the rental revenue received as the Company accommodated those tenants that required some rent deferrals.

At Q4 2019 there was an appreciation gain on vacant land that was valued at the market rate for similar land available for sale, and a revaluation gain was recorded on a retail plaza that was valued using the current cap rate for this type of property.

During Q1 2019, the Company lowered the values of two properties, which contributed significantly to the net valuation losses of \$1,453,502. One property, from which a tenant occupying 32,762 ft<sup>2</sup> vacated after paying out its lease obligations, represents 34% of the square footage of the building. The Company made significant improvements to this space after the tenant vacated and it is being actively marketed for lease. The decrease in value represents the lost revenue, carrying costs, and leasing costs. A tenant in the second property requested a reduction in its contracted lease rate to the term of its lease. The lower revenue is reflected in a lower valuation of this property.

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

Fair value losses will often occur during Q3 each year, being the result of items capitalized as building improvements that are performed in the warmer summer months of Q3. The capitalized building improvements generally exceed any incremental fair value increase, and Management will make a negative adjustment to the property's carrying value to bring it to the fair value at the reporting date. Also, at Q3 each year, property taxes are capitalized to vacant land causing a negative revaluation to bring the values back to estimated market values.

The Company will adjust the cap rates upward on some properties because, if left unadjusted, the increase in contracted revenue for the next twelve months would cause fair value increases that are not likely indicative of current market values.

**Income from operations** is lower in 2020 over 2019 due to entries recorded for accelerated rent. In the current year, an entry for \$100,000 increased revenue, and in the prior year accelerated rent increased the revenue reported by \$900,000. These entries were due to a reversal of a loan impairment provision made in the prior year.

Revenue generated from acquisitions and new leases in the last twelve months has positively affected the income from operations. A major flood that occurred in Fort McMurray, Alberta, suspended one of the tenant's operations until the water damage to the property could be dealt with. During this Q3 2020, the tenant's rent was abated in the amount of \$200,830.

**Property operating expenses** are up this year due to an increase in acquisitions over the last twelve months.

**Finance costs** include interest on financing and amortization of deferred finance fees and are net of interest income. Interest on financing is higher at June 30, 2020, compared to June 30, 2019, due to additional mortgages, increased use of the bank credit facilities, and increased related party financing. The Company utilized its lines of credit and related-party financing to assist with new acquisitions and to temporarily provide cash for operations due to COVID-19 rent deferrals, and the loss of revenue from a major flood in Fort McMurray, Alberta.

The most recent mortgage received in Q2 2020 reflected a decrease in the lending rates due to the significant drop in the prime rates offered by the major banks. A mortgage received subsequent to the quarter was also at a favorable lower rate than the Company has experienced in the past.

**Amortization of right-of-use asset** refers to the head office lease space for the Company. Effective October 1, 2019, the Company has recorded a right-of-use asset and it will be amortized over the term of the lease on a straight-line basis.

**Unrealized loss on short-term investments** is the accounting loss on the disposal of all the short-term investments during Q1 2020. In the prior year, the unrealized investment loss is the result of valuing the marketable securities at market prices at the reporting date.

## CHANGES IN CASH FLOWS

**Cash provided by operating activities** was \$8,984,542 at Q3 2020 (Q3 2019 – \$6,698,591). The Company continues to generate positive cash from operations each quarter to cover day-to-day expenditures and provide reserves for future opportunities. The cash flow from operations this Q3 2020 was impacted by COVID-19 rent deferrals and the flood in Fort McMurray, AB. The months of April, May, and June 2020 the Company agreed to defer revenue from some tenants. The cumulative rent deferred during the three months was \$600,715. The impact of the flood caused abated rent of \$200,830 at Q3 2020. This Q3 2020 is the most significant period for the impact of rent deferrals. Beginning in Q4 2020 the Company has started to recover some of the deferred rents and regular lease payments have resumed. To assist with the decline in cash flows this quarter, the Company took advantage of deferred payment due dates for annual property taxes that will be paid in Q4 2020.

**Cash used in investing activities** was \$13,925,987 at Q3 2020 (Q3 2019 – \$15,488,238) as the Company completed two acquisitions in the current year for a total of \$13,928,029. In the prior year, acquisitions totaled \$11,482,864 and construction costs associated with the properties under development were \$1,865,104.

**Net cash provided by financing activities** was \$4,072,702 at Q3 2020 compared to \$6,696,883 at Q3 2019. Mortgage proceeds in Q2 2020 were \$10,303,500 (Q3 2019 - \$9,400,000). Related party financing net of repayments, is \$2,200,000 at Q3 2020 (Q3 2019 - \$1,050,000). During the current year, the Company resumed quarterly dividend payments. Total payments made at Q3 2020 are \$474,822 (Q3 2019 – Nil).

At Q3 2020, there was a **net decrease in cash** of \$868,743 compared to a net decrease in cash at Q3 2019 of \$2,092,764.

## CHANGES IN FINANCIAL POSITION

**Investment properties** include the fair value of the properties at the reporting date as valued by Management, including the unamortized balance of straight-line rent receivables, the unamortized balance of deferred leasing costs and unamortized balance of tenant inducements if any. Changes since the fiscal year-end of September 30, 2019, are detailed below.

	<b>Income Producing Properties</b>	<b>Held For Development</b>	<b>Total Investment Properties</b>
<b>Opening balance at September 30, 2019</b>	\$ 205,702,397	\$ 12,766,493	\$ 218,468,890
<i>Additions:</i>			
Property improvements and additions	99,572	-	99,572
Capitalized property taxes and other	-	140,965	140,965
Leasing commissions	112,883	-	112,883
Property acquisitions	13,928,029	-	13,928,029
Amortization of tenant inducements	(20,635)	-	(20,635)
Change in straight-line rental revenue	525,580	-	525,580
Revaluation gains (losses), net	(2,350,883)	(505,426)	(2,856,309)
Transfer to held-for-sale	(8,900,000)	-	(8,900,000)
Amortization of deferred leasing commissions	(271,590)	-	(271,590)
<b>Ending balance at June 30, 2020</b>	<b>\$ 208,825,353</b>	<b>\$ 12,402,032</b>	<b>\$ 221,227,385</b>

Property improvements include structural improvements, new HVAC units, new overhead heaters, parking lot improvements, upgrades to fire alarm panels, and project design fees. Leasing commissions were paid for a new lease on the acquisition in Nisku, Alberta.

**Right-of-use asset** refers to the head office lease with payments made to a related party described in Note 4 of the consolidated financial statements. The asset was recorded at the present value of the lease payments to the term of the lease. The asset is amortized on a straight-line basis over the term of the lease.

**Loan receivable** is paid in full at Q3 2020 (Q4 2019 – loan of \$728,063 net of a provision of \$100,000). The loan related to the early lease termination of a tenant in Fort McMurray, Alberta.

**Receivables** of \$231,124 at Q3 2020, include annual property tax invoices to tenants of \$108,186. The balance of \$122,938 relates to rent deferrals from the impact of COVID-19. During Q3 2020 one tenant receivable was written off to bad debts for \$39,330. This tenant occupies space in a property that was sold subsequent to the quarter ending. All current tenant receivables are estimated to be collected as required under tenant-specific repayment schedules. At September 30, 2019 receivables include tenant occupancy cost reconciliations that were collected subsequent to the year-end.

**Prepaid and accrued expenses and deposits** have a balance at Q3 2020 of \$1,355,695 (Q4 2019 – \$661,714) relating to property insurance premiums, security deposits with municipalities, and property taxes at Q3 2020. At Q4 2019 prepaid expenses include property taxes that are amortized to December 31.

**Mortgages** at Q3 2020 have a balance of \$94,478,228 (Q4 2019 – \$88,740,115). During the current year, one mortgage was renewed for a further five-year term and one mortgage was renewed for one year. Two new mortgages were received for recent acquisitions which lowered the weighted average rate to 3.31% from 3.35% at Q4 2019. There are currently five mortgages up for renewal in the next twelve months with combined principal balances of \$17,988,104, which are shown as a current liability. Netted against mortgages on the consolidated interim statements of financial position is the balance of unamortized fees associated with new or renewed mortgages, totaling \$254,539 at Q3 2020 (Q4 2019 – \$242,080).

**Other financing** unsecured at Q3 2020 of \$2,200,000 is due to related parties. The loans are unsecured and bear interest at an annual rate of 6%. Other financing was used to assist with the acquisitions in Nisku and Edmonton, Alberta, and also the temporary shortfall due to the COVID-19 rent deferrals.

**Bank operating facilities** at Q3 2020 have a balance of \$26,454,057 with two of the Company's major lenders (Q4 2019 - \$26,353,212 with two of the Company's major lenders).

## CREDIT FACILITIES

	June 30, 2020	September 30, 2019
Bank credit facilities	\$ 26,500,000	\$ 26,500,000
Amounts drawn on facilities	(26,454,057)	(26,353,212)
<b>Available credit facilities</b>	<b>\$ 45,943</b>	<b>\$ 146,788</b>

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

1) An operating Line of Credit with a limit of \$13,500,000 (unchanged from September 30, 2019).

This LOC is used to assist with property acquisitions and general operations and has a balance at June 30, 2020, of \$13,474,247 (September 30, 2019 - \$13,372,362). The credit facility bears interest at prime plus 1% per annum (unchanged from September 30, 2019) and is secured by specific revenue-producing properties with combined fair values of \$45,918,870 (September 30, 2019, specific revenue-producing properties with combined fair values of \$46,341,730). The Company pays a standby fee of .25% per annum (September 30, 2019 – .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, 2019); or b) the level at which a Loan to Value Ratio of 70% can be

maintained for the secured properties, over which the Lender has a 1<sup>st</sup> mortgage and 60% for 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, 2019). 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 a 25-year amortization and an interest rate that is the greater of 5.0% (unchanged from September 30, 2019) 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%
June 30, 2020	Yes	2.89	68%
March 31, 2020	Yes	2.89	68%
December 31, 2019	Yes	2.89	69%
September 30, 2019	Yes	2.89	69%

The Company was not in breach of its covenants for any period noted above.

- 2) An additional operating Line of Credit with a limit of \$13,000,000 (unchanged from September 30, 2019).

This credit facility bears interest at prime plus .95% per annum (unchanged from September 30, 2019) and is secured by specific revenue-producing properties with combined fair values at June 30, 2020, of \$70,973,903 (September 30, 2019 - \$73,601,828).

During Q1 2020, this LOC was amended by a temporary increase allowing a limit of \$14,900,000 to facilitate the acquisition of an investment property. When a conventional mortgage was received, the proceeds were used to reduce the LOC back to the original limit of \$13,000,000.

There are no specific covenants or margin formulas for this LOC. The balance on the credit facility at June 30, 2020 is \$12,979,810 (September 30, 2019 – \$12,980,850).

**Lease liability** is the result of the adoption of IFRS 16 "Leases" at October 1, 2019. The Company has recorded a lease liability at the present value of the remaining lease payments for its head office leased space. The lease payments were discounted using the Company's incremental borrowing rate of 4.95%. Previously these payments were expensed as rent. A corresponding entry was made to a right-of-use asset which is amortized on a straight-line basis over the term of the lease.

**Payables and accruals** are \$3,156,559 at Q3 2020 (Q4 2019 – \$800,176). The balance includes accrued interest on financing, prepaid rents from tenants, and annual property taxes where the municipalities have deferred payment due dates due to the impact from COVID-19.

## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
<i>REVENUE</i>	4,285,825	4,037,197	3,998,495	4,152,393	4,273,657	4,150,537	4,021,321	5,497,881
<i>TOTAL COMPREHENSIVE INCOME (LOSS)</i>	647,839	(1,636,200)	1,533,743	4,393,990	1,519,848	1,393,144	(886,496)	3,395,251
<i>EPS-Basic</i>	0.07	(0.17)	0.16	0.46	0.16	0.15	(0.09)	0.35
<i>EPS-Diluted</i>	0.07	(0.17)	0.16	0.46	0.16	0.15	(0.09)	0.35

### QUARTERLY CHANGES IN THE REVENUE

The increase in revenue during any quarter will reflect additional revenue from new tenant leases. Revenue is recorded on a straight-line basis over the terms of the leases so there are not typically large swings quarter to quarter. Affecting current year revenue is the reversal of a provision for impairment on a loan receivable of \$100,000, the prior year reversal was \$900,000. Although the Company accommodated several tenants with a deferral of their rent from the impact of COVID-19, because the revenue is straight-line over the term of the lease, the revenue will be not be affected quarter to quarter unless the tenant stops paying. At Q3 2020 the revenue was negatively impacted by a severe flood in Fort McMurray Alberta that damaged one of the properties. The tenant's rent was abated until the cleanup and repairs allowed them to reoccupy the building and open their business in Q4 2020.

At each Q4, revenue includes the reconciliation of occupancy costs and associated billings to tenants. During Q4 2018 revenue of \$1,992,928 is non-recurring revenue generated from the accelerated rent adjustment for early termination of a lease.

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

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

The Company reports straight-line revenue therefore, typically, quarterly changes in revenue are not material until new tenants begin paying rent.

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

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

Net valuation gains (losses) per quarter:

2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
\$ (992,868)	\$(1,953,004)	\$ 89,563	\$ 1,103,099	\$ (148,530)	\$ (33,127)	\$(1,453,502)	\$ 805,792

Q3 2020 had two additional property write-downs; several acres of vacant land were revalued to comparable land in the immediate area and a building that was vacated at the end of Q2 2020, may not generate the same lease rate as the previous tenant.

At Q2 2020 properties that had large vacancies and two properties where leases are coming up for renewal, were lowered in value due to the uncertainty surrounding tenancies.

Q4 2019 unrealized gains are net of small losses. The largest gains occurred on two properties: 3 acres of vacant land in west Edmonton, where land was revalued to market at Q4 2019 based on similar land values in the immediate area; and a multi-tenant building that is quasi retail and very much in demand in Edmonton, that was revalued based on similar properties available for sale or sold in the immediate area.

Q1 2019 unrealized losses reflect small gains and losses on all the properties where revaluing the properties to market values takes into consideration the amortization of straight-line rents and deferred leasing. Any amounts capitalized to the properties during the quarter will have a downward adjustment to the value, to maintain current market values. During Q1 2019, three properties had larger write-downs due to events that occurred after the year-end. A tenant vacated 32,762ft<sup>2</sup> or 34% of a multi-tenant building. The lower value on this property reflects the loss in revenue and the costs to re-let the space. During the latter part of Q1 2019, a tenant requested some relief from their lease obligations. Management agreed to reduce their rent to the term of their lease. All other inputs remaining the same, the lower revenue from this lease caused a large decrease in the value of the property.

Q4 2018 had small property-by-property decreases to maintain the values at the current market rates. These small losses were offset by a gain on one property that was under construction during the year in Hanna, Alberta. At Q4 2018, the building was substantially complete with a signed lease in place and the tenant took occupancy in Q1 2019.

While a considerable number of properties had increases in the contracted revenue stream, which increases the value when applying a capitalization ("cap") rate, the Company has chosen to keep the values the same on some of the properties by adjusting some of the cap rates upward. Most of the values are adjusted slightly upward to offset the amortization of deferred charges, which includes straight-line rent, leasing fees, and tenant inducements if any.

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

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

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

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at Q3 2020 is 9,460,442 (Q4 2019 – 9,496,442). The Company received approval to renew its normal course issuer bid, which now expires on September 2, 2020. During the current period, the Company purchased 41,900 shares for a total cost of \$160,982. Of the repurchased shares, 36,000 were canceled with the excess cost of the purchase price over the cost of the shares of \$123,984 charged to retained earnings. The remaining 9,200 shares are held in treasury until canceled.

In the prior year, the Company purchased 90,500 shares for a total cost of \$361,082. Of those shares, 87,200 were canceled with a charge to retained earnings of \$292,419. The remaining 3,300 shares were held in treasury until canceled during the current period.

There are currently no options outstanding.

## DIVIDENDS

The Company issued a press release on January 6, 2020, announcing the declaration of a quarterly dividend of \$.025 per share payable on January 31, 2020, to shareholders of record effective January 13, 2020. A second press release on April 8, 2020, announced the declaration of a quarterly dividend of \$.025 per share payable on April 30, 2020, to shareholders of record effective April 17, 2020. Subsequent to the quarter ending, due to economic uncertainty brought about by COVID-19, the Board of Directors agreed to suspend the quarterly dividend payments for Q3 and Q4 2020. It is anticipated that quarterly dividends will resume in Q1 2021.

Dividend distribution is determined by the Board of Directors after evaluating the earnings of the Company and the overall outlook for the economy. Dividends are declared and paid based on the common shares owned at the record date. Shareholders are cautioned that past issuance of dividends by the Company does not guarantee that future dividends will be issued.

## RELATED PARTY TRANSACTIONS

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

**Property management and maintenance fees** of \$769,524 (Q3 2019 - \$734,558) were paid to Sable Realty & Management Ltd. ("Sable"), a company controlled by Sine Chadi, a director and officer of the Company. Fees paid to Sable are pursuant to a contract with Imperial to bill for the management and maintenance of its properties for a fee of 4% of rents collected. Maintenance performed by Sable's property management team is charged at rates of \$85 per hour (2019 - \$65 per hour) for labour, plus truck charges, equipment use, and parts charges. Sable provides its trucks, tools, and equipment to perform property maintenance. Imperial Equities recovers most of the management and maintenance fees from the tenants under their occupancy costs. Four leases have no management fee recoverable and the remaining leases have a provision for the recovery of 2%-5% of minimum rent or rent which would include minimum rent and operating expense recoveries. The percentage of management fees negotiated and collectible under the leases varies based on the amount of work undertaken by Management, as compared to the tenant, in maintaining the property.

**Acquisition and leasing fees** in the aggregate of \$250,263 (Q3 2019 – \$247,369) were paid to North American Realty Corp. ("NARC"), a company controlled by Sine Chadi. In the current period, \$137,380 was paid to NARC for the acquisition of the Wajax building in Nisku, Alberta, and the Russell Hendrix building in Edmonton, Alberta. Leasing fees were \$112,883 for the negotiated lease in Nisku. Fees and commissions are in line with current industry standards and are comparable or favorable to similar transactions undertaken by the Company with unrelated parties.

**Leased office space and parking** were paid to Sable in the aggregate amount of \$103,090 (Q3 2019 - \$75,150). Imperial Equities shares office space with Sable head office.

**Fees for the Chief Financial Officer** of \$160,000 (Q3 2019 – \$150,000) were paid to Sable for the services provided by the Company's Chief Financial Officer who is not paid directly by Imperial Equities.

**Rent collected from** Sable for commercial lease space was \$66,311 at Q3 2020 (Q3 2019 – Nil). Sable leases a 7,871 ft<sup>2</sup> building in Edmonton, Alberta from the Company.

**Rent collected from** Sable Realty Corp., a company controlled by Sine Chadi, who is a director and officer of the Company, was \$18,000 at Q3 2020 (Q3 2019 - Nil). Sable Realty Corp. leases commercial space in one of the Company's multi-tenant buildings in Edmonton, Alberta.

**Charitable donations** were made to the Chadi Family Foundation, a private charitable foundation, of which Sine Chadi is a director. During the current year, the Board of Directors approved a charitable donation of \$67,025 of which half was paid at Q3 2020. (Q3 2019 - \$67,025).

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

*Contracts with Sable and NARC have been in place since 1999 with no changes to the terms. They can be viewed on-line at [www.Sedar.com](http://www.Sedar.com). These contracts and the associated fees and rates are reviewed quarterly by the Company's Board of Directors.*

### **Paid to directors**

Directors' fees paid for attending directors' meetings were \$47,500 at Q3 2020 (Q3 2019 - \$40,000). Fees per director per meeting are \$2,500, unchanged from the prior year. The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

### **Compensation to key Management personnel**

The Company's key Management personnel include President Sine Chadi, who is also a director and significant shareholder of the Company. The total salary paid to Mr. Chadi at Q3 2020 was \$225,000, unchanged from the prior year. The Company's COO, Patricia Misutka, was paid \$105,000 at Q3 2020 (Q3 - 2019 Nil).

### **Unsecured interim financing from directors and shareholders**

In the current year, \$1,200,000 was received from a director and a shareholder and remains outstanding at Q3 2020. A shareholder advanced the Company \$3,900,000 during the current period, of which \$800,000 remains outstanding at Q3 2020. Related party financing bears interest at an annual rate of 6% (2019 - 6%). The total interest at Q3 2020 is \$48,789.

In the prior year, a director and shareholder advanced the sum of \$200,000 to the Company, which was repaid with interest of \$1,184.

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

In the current year, \$200,000 was received and is outstanding from North American Mortgage Corp. The total interest at an annual rate of 6% is \$197.

In the prior year, financing from North American Mortgage Corp. totaled \$750,000 and was repaid with interest of \$5,633 at an annual rate of 6%.

### **Unsecured interim financing from a company under common control**

In the prior year, interim financing of \$5,070,000 was owed to a company that is under common control by Sine Chadi. The \$5,070,000 was repaid in full during the prior year. Total interest paid was \$19,287 calculated at an annual rate of 6%.

## LIQUIDITY, CAPITAL RESOURCES, AND SOLVENCY

Income from operations or cash flows from operating activities is the primary source of liquidity measures to service debt and fund planned expenditures for maintenance and capital improvements on the investment properties. Net income is not used as a liquidity measure, as it includes non-cash fair value changes on investment properties and fluctuations on mark-to-market short-term investments.

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<b>Income from operations</b>	<b>\$ 9,150,003</b>	<b>\$ 9,439,941</b>
<b>Cash provided by operating activities</b>	<b>\$ 8,984,542</b>	<b>\$ 6,698,591</b>

The Company continues to generate cash from operating activities to meet the requirements of ongoing property maintenance including capital improvements and to meet its debt financing requirements. The Company relies on the existing credit facilities to assist with short-term borrowing needs including funding a portion of property acquisitions. The Company has not breached any debt covenants and maintains a healthy relationship with its current lenders.

The impact of COVID-19 on cash flows was felt during Q3 2020 as the Company provided some rent deferrals to specific tenants. The months of April, May, and June 2020 had cumulative rent deferrals of \$600,715. The recovery dates for the deferrals vary by tenant and commence July 2020. Due to COVID-19, \$24,741 of rent was abated for two tenants.

During Q3 2020 there was a severe flood in Fort McMurray, Alberta and as a result of the tenant's inability to remain open, \$200,830 of rent was abated during this period. It is expected that the tenant will resume operations and full rent will commence in Q4 2020. During this Q3, the lines of credit were drawn to their maximum and the Company relied on related-party financing to bridge the gap between revenue and expenses in the interim. Provided tenants can continue to meet their lease obligations, the cash flow from operations will increase over the next 20 months as the rent deferral agreements begin to be repaid. At this date, the Company cannot predict the further outcome of the pandemic and the effects it may have on the cashflows and financing opportunities.

The cash provided by operating activities was positively affected through the net change in operating working capital where invoices for annual property taxes are accrued until the due dates in the next quarter.

The Company primarily relies on its lenders to finance the majority cost of property acquisitions through conventional mortgage financing. Any further cash shortfalls are covered through related-party financing. The Company has been very successful to date with financing its acquisitions and does not foresee any long-term impediments to obtaining the required financing to continue growth and to satisfy short-term borrowing needs and obligations.

Investment properties that are unencumbered with debt are \$17,560,830 at Q3 2020. The ratio of debt to assets is 54%, providing possible leverage opportunities in the future.

At Q3 2020, five mortgages are due in the next twelve months with combined principal balances of \$17,988,104 and shown as current liabilities. When mortgages are renewed, the Company may have the option of increasing the debt on a particular property, subject to the lender's approval, to provide increased capital. There is a risk to the Company that mortgages that are up for renewal may not be renewed or may not be renewed at the same rates and therefore the monthly P&I may change.

Subsequent to this quarter, the Company sold an investment property for \$9,350,000 and acquired another investment property for \$5,360,000. A conventional mortgage of \$4,000,000 was received from one of the Company's current lenders, and the cash proceeds from the sale were used to repay a portion of the related-party financing.

The Company has no other contractual commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 25 of the consolidated interim financial statements.

## CRITICAL ESTIMATES OF THE CURRENT ECONOMIC ENVIRONMENT AND OUTLOOK

The economic environment in which Imperial operates within could be adversely affected by tenants challenged by unfavorable economic conditions within the economy, most recently the collapse in oil prices, and the effect of the COVID-19 virus.

The economic future is uncertain for every sector of the economy including commercial real estate but the hardest hit has been the retail sector. Fortunately, the Company has little exposure to retail tenants. Over 70% of the Company's tenants are large national and multi-national corporations with reserves to endure a downturn in the economy. While it is anticipated that continuing low oil prices will have an impact on the Alberta economy, the Company's tenants with exposure to the oil sector have thus far weathered the storm.

The Company has entered into rent deferral arrangements with certain tenants whose businesses have been impacted by COVID-19. It is not possible to forecast with certainty the duration and full scope of the impact of COVID-19 and so the Company may experience further issues with rent collection, occupancy rates, and capitalization rates that may affect the valuations of the investment properties. The full extent and duration of COVID-19 remain uncertain at this time.

During Q1 2020, an Edmonton-based tenant occupying a single-tenant building encompassing 50,000 ft<sup>2</sup> asked Management for some relief from its current lease obligations due to cash flow issues. The Company complied and in Q2 2020 this tenant vacated their premises before their lease expiry. There is currently a tenant occupying the space on a month to month basis. Also, during Q1 2020, a retail tenant occupying 4,907 sf<sup>2</sup> was unable to meet their lease obligations and vacated the premises. At Q2 2020 a tenant occupying a single-tenant building of 25,595 sf<sup>2</sup> vacated at the

end of their lease term. This brings the total vacant space to 63,264 ft<sup>2</sup> at Q3 2020. These vacancies were not a result of the oil price collapse or COVID-19 as they occurred before those events.

Management is continuing its efforts to fully lease the remaining vacancies and ongoing negotiations could see 60% of the vacant space filled in the next quarter.

Financing from the Company's lenders is currently at lower rates than in the past few years which may provide an advantage for the Company when renewing mortgages or acquiring new mortgages on acquisitions. To date, Imperial has been very successful with its financing requirements and diligently monitors risk factors when considering strategic plans.

## RISKS

### **Coronavirus risk – (“COVID-19”)**

The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain, making it difficult to assess or predict the broad effects on industries and individual tenants. The actual impact will depend on many factors beyond the Company's control and knowledge. Management is responding to evolving events and any further impact will be accounted for when it is known and it is possible to properly measure.

### **COVID-19 - Impact on the financial condition and results of operations.**

The impact of COVID-19 began to be seen in the Q3 2020 financial statements which include a write-down on some of the Company's properties where there may be more uncertainty surrounding leasing vacant space, and more uncertainty whether leases up for renewal in the next twelve months will be renewed. The write-downs have affected the earnings per share on the consolidated statements of income and any rent deferrals offered to tenants have affected the cash flows from operations in Q3 2020.

In light of changing trends and the overall economic outlook, COVID-19 may impact the future operating cash flows, the availability of cash through the current credit facilities, and the availability of related party financing, to assist with short-term needs. Fortunately, the Company has little exposure to retail tenants who have had to suspend operations during this pandemic.

Imperial's long-term financial impact will be determined if some tenants are not able to survive the crisis and subsequently vacate the property. Valuations on properties that are vacant will no doubt be lower and any mortgage renewals will become challenging. There is a possibility that the Company may not be able to renew mortgages as they come due as a result of vacancies. At Q3 2020, the Company is not aware of any other tenants that will need to vacate their premises.

Much of the rent relief offered is in the form of deferrals. Over the next quarter, revenue from tenants that has been deferred will impact the cashflows and affect the Company's liquidity. The majority of the recovery of the deferrals will begin in Q2 2021. To assist with the cashflow shortages, the Company has taken advantage of municipal incentives to defer payment of property taxes which will now be due in Q4 2020. If necessary, the Company will secure additional related-party financing to meet interim requirements.

### COVID-19 - Impact on capital and financial resources

The Company's access to capital and funding sources, such as new mortgages, and related party financing has not changed at Q3 2020. One of the Company's revolving credit facilities was altered subsequent to this quarter because a property that was held as collateral was sold in Q4 2020. The changes to the amended facility are minor and described in Note 25 of the consolidated interim financial statements.

At this reporting date, the Company has no known uncertainties as it relates to the ability to service the current debt and other financial obligations. The operating cashflows for Q4 2020 will not be materially impacted by the deferred revenue from tenant leases unless the impact of COVID-19 provides new challenges for our tenants. At this date, there have been no further requests for rent relief.

At Q3 2020, there is no material uncertainty about the Company's ongoing ability to meet the covenants of the credit agreements. If a material liquidity deficiency has been identified, the Company will work with the lender as to a course of action to take, and proposals to remedy any deficiency.

At Q3 2020, the Company does not expect to disclose or incur any material COVID-19-related contingencies.

### Portfolio of Tenants and Lease Roll-Over Risk

One of the Company's internal performance drivers is to ensure the quality of the tenant base is strong. Most of the Company's tenants are large and are very likely to manage their operations sustainably during any economic turbulence. The Company does not have any tenant comprising 10% or more of its rental revenue thus limiting potential impacts from a single tenant.

Mix of Tenant Base	Institutional	Multi - National	National	Regional Large	Regional Medium	Local Small	Totals
% of Occupied GLA	8%	39%	33%	8%	2%	10%	100%
% of Annual Rental Revenue	3%	48%	29%	12%	1%	6%	100%

The Company's annual rental revenue is the 12-month revenue stream from contracted rents, also called Minimum Rent or Basic Rent in the Company's leases, and excludes revenues from property taxes and insurance, operating expense recoveries, and month-to-month leases.

Imperial's real estate portfolio is predominately comprised of large single-tenant buildings that are leased to multinational and national tenants.

Most tenants have been with Imperial for many years and the Company conducts due diligence on all prospective tenants. Notwithstanding the size of each tenant, Imperial's risks involve losing tenants due to unforeseen and poor economic conditions.

The risk of vacancy of any leased space is the Company's ability to continue to meet the mortgage obligations on the property, as well as carrying costs including property taxes, utilities, and

insurance. If in an extreme case a property became vacant, the carrying costs and mortgage payments if any could be paid for with existing cash flows from operations. At Q3 2020 Imperial's occupancy rate is 96.2% year-to-date.

As with all the Company's past transactions, future opportunities will be evaluated through proper due diligence, assessment of industry conditions and geographical locations, and other external considerations.

**Market values of the investment properties** can decrease if the demand for industrial properties lease space decreases and rental rates are reduced, or capitalization rates increase. Imperial's exposure to the market value of its real estate assets affects mortgages up for renewal. Properties with mortgages that are maturing in the next 12 months may be externally appraised for their current market value if the lender requires. During Q1 and Q2 2020, one mortgage was renewed for a further five-year term, another mortgage renewed for one year, and two new mortgages were received for the new acquisitions.

Factors that influence market values of investment properties are the income generated from the property, demand, vacancy rates, term of the current lease, the strength of the current tenant, age of the building and location. Imperial is not aware of any obstacles at this date that would negatively affect its ability to refinance its buildings as the mortgages come due.

The total fair value of the investment properties at Q3 2020 is \$230,127,385 which includes \$17,560,830 of properties unencumbered with debt. The mortgages and bank operating facilities against specific properties total \$122,932,285 or 54% of the investment properties. Management believes the amount of debt against the properties is low enough to absorb any decline in values and support our ability to refinance.

**Lease rates** will adjust downward if the demand for comparable lease space decreases, which is expected in any economic downturn. As demand for lease space increases, so does the lease rate. Imperial is mindful of these risks. Management believes that any further leases that are up for renewal in the next twelve months will likely be renewed at the same rates, but the Company will be responsive to economic conditions. The current vacancies are taking longer than initially anticipated to lease-up. For the foreseeable future, it is difficult to predict when the Company will achieve its prior occupancy levels of 100%.

**Interest rates** on mortgages that are up for renewal are currently at the lowest the Company has seen for several years. This bodes well for renewals and new mortgages on acquisitions as the Company will save significantly on interest costs while the rates are low. The Company tries to mitigate the risk of rising interest rates by fixing rates for longer terms and by minimizing its exposure to floating-rate financing. All mortgages have fixed rates.

### **Environmental risk**

The Company is subject to various federal, provincial, and municipal laws relating to the environment. To mitigate this risk, each newly acquired property and those currently owned by the Company have undergone a thorough Phase I Environmental Site Assessment (ESA) by a qualified environmental consultant. This ESA then becomes a benchmark used in conjunction with the tenant

leases, which include a section outlining environmental liability. The Company then conducts regular inspections of each property to ensure compliance.

### **Cybersecurity risk**

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

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

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

## **PLANNED EXPENDITURES**

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

## **CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES**

### **Adoption of accounting standards**

The Company has adopted IFRS 16, "Leases" which introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the commencement of all leases, except for short-term leases and leases of low value assets. The

change in the definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has determined its previously classified operating lease falls under the new definition and a right-of-use asset and lease liability have been recognized at the date of adoption, being October 1, 2019. The Company has recorded a lease liability at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate. A right-of-use asset was measured at an amount equal to the lease liability. The Company has applied the modified retrospective approach and, therefore, the comparative information has not been restated.

In May 2020, the IASB issued an Amendment to IFRS 16, COVID-19-Related Rent Concessions. The amendment permits lessees not to assess whether particular COVID-19-related rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. In addition, the amendment to IFRS 16 provides specific disclosure requirements regarding COVID-19-related rent concessions. The amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted including in financial statements not yet authorized for issue at May 28, 2020. The adoption of this amendment had no impact on the consolidated financial statements.

Under IFRS 16, lessor accounting remains largely unchanged, and the distinction between operating and finance leases is retained. The Company has assessed this standard and, consistent with IAS 15, leases with tenants will be accounted for as operating leases in the same manner as they are currently being reported.

In June 2017, the IASB issued IFRIC 23, Uncertainty over income tax treatments ("IFRIC 23"). IFRIC 23 clarifies application of recognition and measurement requirements in IAS 12, Income taxes when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019 with early adoption permitted. IFRIC23 requires the Company to contemplate whether uncertain tax treatments should be considered separately or together as a group, based on which approach provides better predictions of the resolution, and to determine if it is probable that the tax authorities will accept the uncertain tax treatment or, if it is not probable that the uncertain tax treatment will be accepted, measure the uncertainty based on the most likely amount or expected value, depending on which method better predicts the resolution of the uncertainty. On October 1, 2019, the Company adopted this standard with no impact on its consolidated financial statements.

### **Future accounting standards**

IAS 1 *Presentation of Financial Statements* has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in January 2020. The amendments clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued

and have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

**(a) 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) COVID-19**

The COVID-19 coronavirus has had a substantial impact on the economy in 2020. The uncertainty surrounding the pandemic has required significant judgement when measuring the investment properties at fair value, which requires assumptions about the market conditions. The long-term impact is unknown and the Company has used judgement when assessing the collectability of future rents.

**(ii) 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 for the point in time at which revenue recognition under the lease commences.

The Company applies judgement in assessing whether an arrangement is, or contains, a lease in which the Company is a lessee, and in determining the lease term by considering the probability of an option being exercised to extend the term. Judgment was applied in determining the incremental borrowing rate and discount rate applied to the lease liability and right-of-use asset.

**(ii) Investment property**

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

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

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

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

**Investment properties**

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

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

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

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

**Income taxes**

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

## MEASURES NOT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Throughout the MD&A, Management will use measures that will include debt and unencumbered investment properties. These measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar calculations presented by other issuers. Different issuers may use the same term(s) to refer to different calculations or may vary the definitions of a particular term from one period to another period. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies.

## DISCLOSURE CONTROLS AND PROCEDURES

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

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

Imperial Equities is a Venture Issuer and is not required to certify the design and evaluation of the disclosure controls and procedures and internal control over financial reporting, and has not completed such an evaluation. There are inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis DC&P and ICFR for Imperial, and therefore there may be additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

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

All proposed acquisitions are discussed at the Audit Committee stage. Once all internal conditions are met, an independent appraisal is ordered. Upon the successful closing of the transaction, acquisition fees charged by the asset manager, a related party, are disclosed to the Audit Committee. The Audit Committee provides oversight of financial statements and the MD&A released to the public on a quarterly basis.

The Company cannot guarantee that controls and procedures in place will prevent all errors or misstatements.

## OFF-BALANCE SHEET ARRANGEMENTS

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