



# IMPERIAL EQUITIES INC.

## Q3 2020 Financial Statements

### **NOTICE TO READERS OF THE INTERIM FINANCIAL STATEMENTS**

**The interim consolidated financial statements have not been reviewed by the Company's auditors and should be read in conjunction with the Company's 2019 annual consolidated financial statements.**

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

	Notes	(unaudited) June 30, 2020	(audited) September 30, 2019
<b>Assets</b>			
Investment properties	3	221,227,385	218,468,890
Right-of-use asset	4	850,230	-
<b>Total non-current assets</b>		<b>222,077,615</b>	<b>218,468,890</b>
Investment property held-for-sale	3,25	8,900,000	-
Loan receivable	5	-	728,063
Receivables	7	231,124	279,846
Prepaid and accrued expenses and deposits	8	1,355,696	661,714
Short term investments	6	-	276,000
Cash and cash equivalents		166,579	1,035,322
<b>Total current assets</b>		<b>10,653,399</b>	<b>2,980,945</b>
<b>Total Assets</b>		<b>232,731,014</b>	<b>221,449,835</b>
<b>Liabilities</b>			
Mortgages	9	71,080,507	72,647,419
Lease liability	11	712,398	-
Security deposits		537,108	558,030
Deferred taxes	14 (b)	13,524,307	12,901,426
<b>Total non-current liabilities</b>		<b>85,854,320</b>	<b>86,106,875</b>
Current portion of mortgages	9	23,143,183	15,850,616
Current portion of lease liability		183,015	-
Other financing	24 (b)	2,200,000	-
Bank operating facilities	10	26,454,057	26,353,212
Payables and accruals	12	3,156,559	800,176
Income taxes payable		348,653	857,306
<b>Total current liabilities</b>		<b>55,485,467</b>	<b>43,861,310</b>
<b>Total Liabilities</b>		<b>141,339,787</b>	<b>129,968,185</b>
<b>Equity</b>			
Issued share capital	17 (a)	5,925,098	5,962,095
Retained earnings		85,466,129	85,519,555
<b>Total Equity</b>		<b>91,391,227</b>	<b>91,481,650</b>
<b>Total Equity and Liabilities</b>		<b>232,731,014</b>	<b>221,449,835</b>

Guarantees, contingencies, and commitments (Note 21)

Post-reporting date events (Note 25)

*See accompanying notes to the consolidated interim financial statements.*

**IMPERIAL EQUITIES INC.**  
**UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**  
**Three and nine months ending June 30,**

	Notes	Current Quarter 2020	Prior Year Quarter 2019	9 Months June 2020	9 Months June 2019
Rental revenue	16,20	4,285,825	4,273,657	12,321,517	12,445,515
Property operating expenses	16	(1,078,012)	(996,190)	(3,171,514)	(3,005,574)
<b>Income from operations</b>		<b>3,207,813</b>	<b>3,277,467</b>	<b>9,150,003</b>	<b>9,439,941</b>
Finance costs	13	(1,054,395)	(895,941)	(3,263,447)	(2,963,437)
Administration expenses		(347,795)	(361,723)	(1,111,716)	(1,034,155)
Amortization of deferred leasing		(97,151)	(72,231)	(271,590)	(210,872)
Amortization of right-of-use asset		(37,510)	-	(112,530)	-
Unrealized loss on short term investments	6	-	6,000	(17,494)	(133,500)
Valuation net losses from investment property	3	(992,868)	(148,530)	(2,856,309)	(1,635,159)
<b>Income before income tax</b>		<b>678,095</b>	<b>1,805,042</b>	<b>1,516,917</b>	<b>3,462,818</b>
Income tax expense	14(a)	(30,256)	(285,194)	(971,535)	(1,436,322)
<b>Net income and total comprehensive income for the period</b>		<b>647,839</b>	<b>1,519,848</b>	<b>545,382</b>	<b>2,026,496</b>
<b>Earnings per share, basic and diluted</b>	18	<b>0.07</b>	0.16	<b>0.06</b>	0.21

*See accompanying notes to the consolidated interim financial statements.*

**IMPERIAL EQUITIES INC.**  
**UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**Nine months ending June 30,**

	<b>Number of shares</b>	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>October 1, 2019</b>	9,496,442	\$ 5,975,822	\$ -	\$ 85,519,555	\$ 91,495,377
Shares repurchased, held in treasury	-	(28,044)	-	-	(28,044)
Share repurchased and canceled	(36,000)	(22,680)	-	(123,984)	(146,664)
Dividends paid	-	-	-	(474,822)	(474,822)
Net earnings	-	-	-	545,382	545,382
<b>Balance June 30, 2020</b>	<b>9,460,442</b>	<b>\$ 5,925,098</b>	<b>\$ -</b>	<b>\$ 85,466,129</b>	<b>\$ 91,391,227</b>

	<b>Number of shares</b>	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Total</b>
<b>October 1, 2018</b>	9,583,642	\$ 6,030,758	\$ 593,750	\$ 78,797,739	\$ 85,422,247
Shares repurchased during the period	-	(171,936)	-	-	(171,936)
Net income	-	-	-	2,026,496	2,026,496
<b>Balance June 30, 2019</b>	<b>9,583,642</b>	<b>\$ 5,858,822</b>	<b>\$ 593,750</b>	<b>\$ 80,824,235</b>	<b>\$ 87,276,807</b>

*See accompanying notes to the consolidated interim financial statements.*

**IMPERIAL EQUITIES INC.**  
**UNAUDITED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**Three and nine months ending June 30,**

Notes	Current Quarter 2020	Prior Year Quarter 2019	9 Months June 30 2020	9 Months June 30 2019
<b>Operating activities</b>				
Net income from operations	647,843	1,519,848	545,382	2,026,496
Finance costs	1,054,393	895,941	3,263,447	2,963,437
Items not affecting cash:				
Non-cash accelerated rent	-	(300,000)	(100,000)	(900,000)
Amortization of right-of-use asset	37,510	-	112,530	-
Amortization of tenant inducements	6,878	-	20,635	-
Amortization of deferred leasing commissions	97,151	72,231	271,590	210,872
Fair value changes on investment properties	992,868	148,530	2,856,309	1,635,159
Loss on short term investments	-	(6,000)	17,494	133,500
Straight-line rental revenue	(592,324)	(2,894)	(525,580)	72,953
Deferred income taxes	(30,163)	43,596	622,884	785,937
Leasing commissions	-	(23,277)	(112,883)	(220,020)
Net change in operating working capital	15 628,997	(1,621,180)	2,012,734	(9,743)
<b>Cash provided by operating activities</b>	<b>2,843,153</b>	<b>726,795</b>	<b>8,984,542</b>	<b>6,698,591</b>
<b>Investing activities</b>				
Purchase of investment properties	(52,490)	(2,595,044)	(13,928,029)	(11,482,864)
Property under development	-	(253,568)	-	(1,865,104)
Improvements and additions to investment properties	(146,531)	(58,509)	(240,534)	(445,909)
Proceeds from sale of short-term investments	-	-	258,486	-
Net change in investing working capital	15 (74,214)	100,000	(15,910)	(1,694,361)
<b>Cash used in investing activities</b>	<b>(273,235)</b>	<b>(2,807,121)</b>	<b>(13,925,987)</b>	<b>(15,488,238)</b>
<b>Financing activities</b>				
Proceeds from new mortgages	-	-	10,303,500	9,400,000
Repayment of mortgages on maturity	-	-	-	-
Repayment of mortgages through principal instalments	(1,602,410)	(1,458,985)	(4,565,387)	(4,238,166)
Restricted cash held in guaranteed investment certificates	-	(300,000)	-	(900,000)
Amortization of deferred finance fees	9,206	20,236	69,186	65,252
Fees associated with new or renewed mortgages	(11,851)	(42,875)	(81,645)	(89,186)
Advances from other financing	500,000	1,050,000	5,300,000	1,800,000
Repayment of other financing	(400,000)	-	(3,100,000)	(750,000)
Principal repayments on lease liability	(34,091)	-	(67,348)	-
Finance costs	(1,054,393)	(895,941)	(3,263,447)	(2,963,437)
Dividends paid	(237,411)	-	(474,822)	-
Purchase of common shares for cancellation	(28,065)	741	(160,982)	(171,936)
Net advances on bank operating facilities	61,657	3,223,752	100,845	4,488,333
Net change in financing working capital	15 35,877	(112,177)	12,802	56,023
<b>Cash (used) provided by financing activities</b>	<b>(2,761,481)</b>	<b>1,484,751</b>	<b>4,072,702</b>	<b>6,696,883</b>
<b>Decrease in cash and cash equivalents</b>	<b>(191,563)</b>	<b>(595,575)</b>	<b>(868,743)</b>	<b>(2,092,764)</b>
Cash and cash equivalents, beginning of period	358,142	846,331	1,035,322	2,343,520
<b>Cash and cash equivalents, end of period</b>	<b>166,579</b>	<b>250,756</b>	<b>166,579</b>	<b>250,756</b>

See accompanying notes to the consolidated interim financial statements.

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

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

## **2. Significant accounting policies**

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

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

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

These consolidated interim financial statements have been prepared using the same accounting policies and methods of computation in all material respects as the most recent annual financial statements except for the impact of the adoption of accounting standards described in Note 2 (r). These statements have not been reviewed by the Company’s auditors and should be read in conjunction with the Company’s 2019 annual consolidated financial statements. The preparation of interim financial statements in conformity with IAS34 requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

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

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

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

#### *Investment properties*

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

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

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

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

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

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

#### *Investment properties under development*

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

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

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

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

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

**(d) Impairment of assets**

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

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

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

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

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

**(f) Leases**

The determination of whether an arrangement is, or contains, a lease is whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

**Company as lessee**

The Company assesses whether a contract is, or contains, a lease at the inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability for all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the

lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Lease payments included in the measure of the lease liability comprise fixed payments (including in-substance fixed payments), less any lease incentives; variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; the amount expected to be payable by the lessee under residual value guarantees; the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever: the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, and any initial direct costs. They are subsequently measured either at fair value (in the case of right-of-use assets which are considered part of investment properties) or at cost less accumulated depreciation and impairment losses (for right-of-use assets which are considered property, plant, and equipment). Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applied IAS 36 to determine whether a right-of-use asset is impaired. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments and are included in operating expenses in the consolidated interim statements of comprehensive income. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient on its contract for office space which contains both lease and non-lease components.

**(g) Segment reporting**

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

**(h) Income tax**

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

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

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

**(i) Provisions**

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

**(j) Revenue recognition**

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

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

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

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

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

**(k) Fair value measurements**

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

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

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

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

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

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

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

#### **(I) Financial instruments**

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

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

#### **Classification and measurement**

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

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

<u>Classification and Measurement</u>	
<b>Financial Assets</b>	
Cash and cash equivalents	Amortized cost
Short term investments	FVTPL
Receivables and loans receivable	Amortized cost
<b>Financial Liabilities</b>	
Bank operating facilities	Amortized cost
Payables and accruals	Amortized cost
Lease liability	Amortized cost
Other financing	Amortized cost
Mortgages	Amortized cost
Security deposits	Amortized cost

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

**(m) Cash and cash equivalents**

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

**(n) Stock-based compensation**

The Company has established a stock option plan for its directors, management, and key employees as described in Note 19. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the options issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. For stock options that expire unexercised, the corresponding amount in contributed surplus is transferred to retained earnings. There is no adjustment to past compensation expense. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

**(o) Normal course issuers bid**

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

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

The following are the critical judgments, apart from those involving estimation uncertainty, in applying the Company's accounting policies and that have the most significant effect on the amounts in the consolidated interim 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 concerning 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. Judgement was applied in determining the incremental borrowing rate and discount rate applied to the lease liability and right-of-use asset.

**(iii) Investment properties**

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

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

**(iv) Classification of tenant incentives**

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

**(v) Income tax**

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

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

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

**(i) Investment properties**

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

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

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

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

**(ii) Income taxes**

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

**(iii) Stock-based compensation**

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

**(r) 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, 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, they are currently being reported.

In June 2017, the IASB issued IFRIC 23, *Uncertainty over income tax treatments* (“IFRIC 23”). IFRIC 23 clarifies the 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 interim 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.

### 3. Investment properties

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<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>\$ -</b>	<b>\$ 12,402,032</b>	<b>\$ 221,227,385</b>

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

#### Valuation methodology and processes

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

At June 30, 2020, one property was transferred from a Level 3 asset to a Level 1 asset. During Q3 2020 the Company entered into a binding agreement to sell its Oliver Crossing property. The property has been valued at the selling

price less estimated disposition fees. The transaction was completed subsequent to Q3 2020. There were no other transfers in or out of Level 3 fair value measurements for investment properties during the above periods.

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

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

The key level 3 valuation metrics for the investment properties are set out below.

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Range of capitalization rates applied to investment properties	4.50% - 8.50%	4.50% - 8.50%
Fair values of properties where cap rates were applied	\$ 204,914,645	\$ 193,391,689
Weighted average cap rates	6.36%	6.27%
Fair value impact of increasing average cap rate by 0.25%	\$ (7,747,662)	\$ (7,417,369)
Fair value impact of a 1% decrease in net operating income	\$ (2,049,149)	\$ (1,933,917)
<b>Land held for development</b>		
Average price per acre of land	\$ 157,274	\$ 163,349
Number of acres	64.55	64.55
Total fair values	\$ 10,152,036	\$ 10,516,497
Impact of a 10% change in average price per acre	\$ 1,015,204	\$ 1,051,650
<b>Land under lease agreements with tenants</b>		
Number of acres leased	7.90	7.90
Average price per acre	\$ 779,837	\$ 779,837
Total fair values of leased land	\$ 6,160,710	\$ 6,160,710
Impact of a 10% change in average price per acre	\$ 616,071	\$ 616,071
<b>Level 1 asset</b>		
<b>Investment property held-for-sale, Oliver Crossing</b>		
Selling price less estimated costs to sell in the current period	\$ 8,900,000	\$ 8,400,000
At September 30, 2019, the property was valued at dollars per square foot.		

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

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Straight line rent receivable	\$ 1,979,124	\$ 1,453,543
Tenant inducements	112,345	132,979
Leasing commissions	1,395,694	1,554,400
	<u>\$ 3,487,163</u>	<u>\$ 3,140,922</u>

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

#### 4. Right-of-use asset

The following table presents the change in the balance of the Company's right-of-use asset which is its office lease:

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Opening balance	\$ -	\$ -
Adoption of IFRS 16 (Note 2)	962,760	-
Amortization expense	(112,530)	-
<b>Ending balance</b>	<b>\$ 850,230</b>	<b>\$ -</b>

#### 5. Loan receivable

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Loan receivable, beginning of year	\$ 728,063	\$ 1,009,825
Reversal of provision for impairment	100,000	900,000
Principal payments received	(828,063)	(1,181,762)
<b>Balance, end of the period</b>	<b>\$ -</b>	<b>\$ 728,063</b>

During the current period, the Company reinstated \$100,000 of the receivable that was previously considered impaired (September 30, 2019 - \$900,000). The reversal amount of \$100,000 (September 30, 2019 - \$900,000) was recorded as revenue. All payments were received and the balance is paid in full.

#### 6. Short – term investments

Short-term investments are common shares that were disposed of on the open market during the current period. Total net proceeds from the sale were \$258,486 creating an accounting loss on disposal of \$17,494. (December 31, 2018 - \$136,500 was recorded as an unrealized loss on investments).

#### 7. Receivables

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Tenant receivables	\$ 231,124	\$ 277,965
Accrued interest	-	4,140
Other	-	7,741
Provision for impairment	-	(10,000)
<b>Receivables, net</b>	<b>\$ 231,124</b>	<b>\$ 279,846</b>

Tenant receivables at June 30, 2020, include one billing of \$108,186 for property taxes where the tenant pays annually. The balance of receivables at June 30, 2020, represents amounts outstanding due to COVID-19 rent deferrals. The tenant receivables at September 30, 2019, include invoices for occupancy costs that are reconciled at year-end and subsequently collected. During the current period, the Company recorded a bad debt of \$39,330 from

one tenant occupying a building that was sold subsequent to the quarter ending. At September 30, 2019, there was a provision for impairment for this tenant.

#### 8. Prepaid and accrued expenses and deposits

	June 30, 2020	September 30, 2019
Prepaid operating expenses	\$ 134,572	\$ 610,775
Accrued property taxes	1,179,605	-
Security deposits with municipalities	41,519	50,939
<b>Total prepaid expenses and deposits</b>	<b>\$ 1,355,695</b>	<b>\$ 661,714</b>

Prepaid operating expenses at June 30, 2020, are insurance (September 30, 2019 – insurance and property taxes). Accrued property taxes represent taxes where payment has been deferred due to municipalities extending payment due dates, a result of COVID-19.

#### 9. Mortgages

Maturity	Rate	June 30, 2020	September 30, 2019
* January 1, 2021	3.060%	\$ 1,452,640	\$ 1,578,129
* January 1, 2021	2.980%	3,289,163	3,485,483
* January 1, 2021	2.980%	5,089,390	5,393,160
* April 1, 2021	2.880%	5,273,584	5,581,728
* April 1, 2021	2.948%	2,883,327	3,034,587
October 1, 2021	2.470%	5,633,349	6,086,078
October 1, 2021	2.470%	7,016,995	7,416,065
February 1, 2022	3.040%	5,502,218	5,794,009
June 1, 2022	2.730%	2,059,498	2,209,502
December 1, 2022	3.670%	3,562,105	3,728,639
December 1, 2022	3.671%	3,236,336	3,387,629
February 1, 2023	3.750%	1,954,880	2,044,271
October 1, 2023	3.950%	421,805	509,368
October 1, 2023	4.090%	5,773,615	6,014,888
November 1, 2023	4.330%	3,965,202	4,126,623
December 1, 2023	4.648%	4,733,227	4,919,773
January 1, 2024	4.300%	2,276,038	2,401,720
January 1, 2024	4.300%	1,806,379	1,906,127
August 1, 2024	3.300%	9,755,061	10,156,050
November 1, 2024	3.555%	8,625,109	8,966,286
February 1, 2025	3.420%	4,916,736	-
April 1, 2025	2.310%	5,251,570	-
<i>Total mortgages</i>		\$ 94,478,228	\$ 88,740,115
<i>Less: current portion of principal payments</i>		(23,143,182)	(15,850,616)
<i>Less: balance of unamortized finance fees</i>		(254,539)	(242,080)
		<b>\$ 71,080,507</b>	<b>\$ 72,647,419</b>
Weighted average rate		<b>3.31%</b>	<b>3.35%</b>

\*Mortgages due in the next twelve months

All the above mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property.

**10. Bank operating facilities**

	June 30, 2020	September 30, 2019
Bank operating facilities	\$ 26,454,057	\$ 26,353,212

The Company has two credit facilities set out as follows:

- 1) An operating line of credit (LOC) with a limit of \$13,500,000 (September 30, 2019 - a limit of \$13,500,000).

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 (September 30, 2019 – prime plus 1% per annum) 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% (September 30, 2019 - 5.0%) or the Government of Canada Benchmark Bond Yields plus 225 basis points.
- *Net Operating Income* is stabilized operating income from the secured properties adjusted for normal operating expenses, common area maintenance expenses, property taxes, and other expenses that are not recovered from the tenants.

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

<b>Loan Covenant Requirements:</b>	<b>Min. 90% Occupancy</b>	<b>DSCR 1.25</b>	<b>LTV 70%</b>
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 during any period above.

2) An additional operating LOC with a limit of \$13,000,000 (September 30, 2019 – a limit of \$13,000,000).

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, the LOC was amended by an increase to the limit as follows:

(a) deleting “\$13,000,000.00 revolving demand facility by way of:” and replacing it with “\$14,900,000.00 revolving demand facility, reducing to \$13,000,000.00 by way of:”

(b) Replacing the portion under the heading AVAILABILITY with the following:

**AVAILABILITY**

The Borrower may borrow, repay and reborrow up to the amount of this facility provided this facility is made available at the sole discretion of the Bank and the Bank may cancel or restrict the availability of any unutilized portion at any time and from time to time without notice.

The amount available under this facility is temporarily increased for the period commencing December 23, 2019, and ending January 31, 2020 (the “Reduction Date”). This temporary increase was for the above referenced period only. On the Reduction Date (and provided that the Bank has not canceled this facility or issued a demand for repayment), the amount available under the facility shall reduce to \$13,000,000.00 and the Borrower shall make all payments necessary to ensure that outstanding Borrowings under this facility do not exceed the amount available at any time and from time to time.” At December 31, 2019, the balance on the LOC was \$14,847,997. Subsequent to Q1 2020, and before the Reduction Date, the LOC was reduced to below \$13,000,000.00.

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

**11. Lease liability**

The following table presents the change in the balance of the Company’s lease liability:

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Opening balance	\$ -	\$ -
Adoption of IFRS 16 (Note 2)	962,760	-
Lease payments	(103,090)	-
Interest	35,743	-
<b>Ending balance</b>	<b>\$ 895,413</b>	<b>\$ -</b>
Current portion	\$ 183,015	\$ -
Non-current portion	712,398	
	<b>\$ 895,413</b>	

Incremental borrowing rate 4.95%

Estimated future principal payments required to meet the lease liability as at June 30, 2020, are as follows:

12 months ending June 30, 2021	\$ 138,789
12 months ending June 30, 2022	142,526
12 months ending June 30, 2023	149,602
12 months ending June 30, 2024	157,008
12 months ending June 30, 2025	164,779
Thereafter	142,709
<b>Total</b>	<b>\$ 895,413</b>

**12. Payables and accruals**

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Trade payables	\$ 2,512,794	\$ 98,659
Accrued loan interest	298,471	245,670
Current portion of tenant security deposits	54,679	47,068
Accrued liabilities	-	162,309
Prepaid rents	290,615	246,470
<b>Total payables and accruals</b>	<b>\$ 3,156,559</b>	<b>\$ 800,176</b>

Trade payables at June 30, 2020, include property taxes which will become due in the next quarter. Prepaid rents from tenants largely relate to rent due on the first of the following month, and the balance represents rents paid in advance which is recognized in revenue over the applicable months. The carrying value of payables and accruals approximates fair value due to their short-term maturity.

**13. Finance costs**

The components of finance costs are as follows:

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Interest on mortgages	\$ 2,267,870	\$ 2,258,723
Interest on bank operating facilities	856,449	709,687
Interest on other unsecured financing	48,985	5,633
Interest on lease obligations	35,743	-
Amortization of deferred finance fees	69,186	65,254
Interest income	(14,786)	(75,860)
	<b>\$ 3,263,447</b>	<b>\$ 2,963,437</b>

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

Components of income tax (recovery) expense

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Current tax expense	\$ 348,653	\$ 650,385
Deferred tax expense	622,882	785,937
	<b>\$ 971,535</b>	<b>\$ 1,436,322</b>

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

	<b>2020</b>	<b>2019</b>
Income before income taxes	\$ 1,516,917	\$ 3,462,818
Expected income tax expense at 24.70% (2019 – 27.00%)	\$ 374,678	\$ 934,960
<i>Increase (decrease) resulting from:</i>		
Non-taxable items	21,551	20,218
Tax rate differentials and tax rate changes	575,306	481,144
	<b>\$ 971,535</b>	<b>\$ 1,436,322</b>

**b) Deferred taxes**

Deferred tax assets are attributable to the following:

	June 30, 2020	September 30, 2019
Financing fees	\$ 21,801	\$ 313
Donations	38,536	27,378
Deferred tax assets	60,337	27,691
Offset of tax	(60,337)	(27,691)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax liabilities are attributable to the following:

	June 30, 2020	September 30, 2019
Straight-line rent receivable	\$ 455,199	\$ 334,315
Investment properties	12,792,168	12,236,412
Finance fees	16,270	878
Deferred leasing	321,007	357,512
Deferred tax liabilities	13,584,644	12,929,117
Offset of tax	(60,337)	(27,691)
<b>Net tax liabilities</b>	<b>\$ 13,524,307</b>	<b>\$ 12,901,426</b>

\$30,273,649 (September 30, 2019 - \$30,273,649) related to investments in certain subsidiaries was not recognized because it was not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized.

**15. Supplemental consolidated cash flow information**

	June 30, 2020	June 30, 2019
<b><i>Net change in operating working capital</i></b>		
Decrease in receivables	\$ 48,721	\$ 160,852
Decrease in loans receivable	828,063	879,658
(Increase) in prepaid expenses and deposits	(693,982)	(697,843)
Increase (decrease) in payables and accruals	2,359,492	(90,034)
Decrease in income taxes payable	(508,653)	(265,091)
(Decrease) increase in security deposits	(20,907)	2,715
	<b>\$ 2,012,734</b>	<b>\$ (9,743)</b>

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

Decrease in deposits in trust for property acquisitions	\$ -	\$ 665,000
Decrease in payables and accruals	(15,910)	(2,359,361)
	<b>\$ (15,910)</b>	<b>\$ (1,694,361)</b>

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

Increase in accrued interest payable	\$ 12,802	\$ 56,023
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Interest paid	\$ 3,226,107	\$ 3,232,540
Income taxes paid	\$ 905,468	\$ 915,370

	June 30, 2020	June 30, 2019
<b>Non-cash transactions</b>		
Adoption of IFRS 16 (Note 2)		
Right-of-use asset	\$ 962,760	\$ -
Lease liability	\$ 962,760	-

16 Segmented Information

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

June 30, 2020 and 2019	Agricultural Division				Industrial & Retail Division				Corporate				CONSOLIDATED			
	Current 3 Months	Current 9 Months	Prior Yr. 3 Months	Prior Yr. 9 Months	Current 3 Months	Current 9 Months	Prior Yr. 3 Months	Prior Yr. 9 Months	Current 3 Months	Current 9 Months	Prior Yr. 3 Months	Prior Yr. 9 Months	Current 3 Months	Current 9 Months	Prior Yr. 3 Months	Prior Yr. 9 Months
Rental revenue, contractual amount	\$ 198,245	\$ 590,273	\$ 94,307	\$ 269,974	\$ 2,600,111	\$ 8,532,021	\$ 3,024,148	\$ 8,788,706	\$ -	\$ -	\$ -	\$ -	\$ 2,798,356	\$ 9,122,294	\$ 3,118,455	\$ 9,058,680
Property tax and insurance recoveries	20,457	60,906	36,845	39,053	606,498	1,713,368	606,649	1,767,807	-	-	-	-	626,955	1,774,274	643,494	1,806,860
Operating expense recoveries	3,137	8,480	-	-	271,930	811,524	208,812	570,719	-	-	-	-	275,067	820,004	208,812	570,719
Accelerated rent adjustment	-	-	-	-	-	100,000	300,000	1,082,207	-	-	-	-	-	100,000	300,000	1,082,207
Amortization of tenant inducements	-	-	-	-	(6,878)	(20,635)	-	-	-	-	-	-	(6,878)	(20,635)	-	-
Straight-line rental revenue	12,201	41,065	25,193	44,087	580,124	484,515	(22,297)	(117,038)	-	-	-	-	592,325	525,580	2,896	(72,951)
<b>Rental revenue</b>	<b>234,040</b>	<b>700,724</b>	<b>156,345</b>	<b>353,114</b>	<b>4,051,785</b>	<b>11,620,793</b>	<b>4,117,312</b>	<b>12,092,401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,285,825</b>	<b>12,321,517</b>	<b>4,273,657</b>	<b>12,445,515</b>
<b>Property operating expenses</b>																
Property taxes and insurance	(19,725)	(62,278)	(36,845)	(40,457)	(663,536)	(1,916,265)	(626,757)	(1,767,807)	-	-	-	-	(683,261)	(1,978,543)	(663,602)	(1,808,265)
Operating expenses:																
Repairs and maintenance	(3,840)	(13,899)	-	-	(183,424)	(586,387)	(128,087)	(584,578)	-	-	-	-	(187,264)	(600,286)	(128,087)	(584,578)
Management fees	(8,846)	(26,463)	(5,939)	(13,859)	(144,080)	(453,074)	(168,658)	(502,156)	-	-	-	-	(152,926)	(479,537)	(174,597)	(516,015)
Utilities	-	-	-	-	(54,561)	(113,148)	(29,904)	(96,716)	-	-	-	-	(54,561)	(113,148)	(29,904)	(96,716)
<i>subtotals</i>	<b>(32,411)</b>	<b>(102,640)</b>	<b>(42,784)</b>	<b>(54,317)</b>	<b>(1,045,601)</b>	<b>(3,068,874)</b>	<b>(953,406)</b>	<b>(2,951,257)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,078,012)</b>	<b>(3,171,514)</b>	<b>(996,190)</b>	<b>(3,005,574)</b>
<b>Income from operations</b>	<b>201,629</b>	<b>598,084</b>	<b>113,561</b>	<b>298,797</b>	<b>3,006,184</b>	<b>8,551,919</b>	<b>3,163,906</b>	<b>9,141,144</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,207,813</b>	<b>9,150,003</b>	<b>3,277,467</b>	<b>9,439,941</b>
<b>Finance costs:</b>																
Interest on mortgages	(54,958)	(167,021)	(57,783)	(117,538)	(726,167)	(2,100,849)	(715,915)	(2,139,922)	-	-	-	-	(781,125)	(2,267,870)	(773,698)	(2,257,460)
Interest on bank operating facilities	-	-	-	-	-	-	-	-	(222,716)	(856,449)	(244,363)	(710,950)	(222,716)	(856,449)	(244,363)	(710,950)
Interest on other unsecured financing	-	-	-	-	-	-	-	-	(30,034)	(48,985)	120,918	(5,633)	(30,034)	(48,985)	120,918	(5,633)
Interest on lease obligations	-	-	-	-	-	-	-	-	(11,914)	(35,742)	-	-	(11,914)	(35,742)	-	-
Amortization of deferred finance fees	(1,508)	(4,523)	(301)	(603)	(7,698)	(64,664)	(19,937)	(64,651)	-	-	-	-	(9,206)	(69,187)	(20,238)	(65,254)
Interest income	-	-	-	-	-	-	-	-	601	14,786	21,440	75,860	601	14,786	21,440	75,860
<i>subtotals</i>	<b>(56,466)</b>	<b>(171,544)</b>	<b>(58,084)</b>	<b>(118,141)</b>	<b>(733,865)</b>	<b>(2,165,513)</b>	<b>(735,852)</b>	<b>(2,204,573)</b>	<b>(264,063)</b>	<b>(926,390)</b>	<b>(102,005)</b>	<b>(640,723)</b>	<b>(1,054,394)</b>	<b>(3,263,447)</b>	<b>(895,941)</b>	<b>(2,963,437)</b>
Administration expenses	-	-	-	-	-	-	-	-	(347,795)	(1,111,716)	(361,723)	(1,034,155)	(347,795)	(1,111,716)	(361,723)	(1,034,155)
Amortization of deferred leasing	(3,210)	(9,629)	(2,675)	(8,024)	(93,941)	(261,961)	(69,556)	(202,848)	-	-	-	-	(97,151)	(271,590)	(72,231)	(210,872)
Amortization of right-of-use asset	-	-	-	-	-	-	-	-	(37,510)	(112,530)	-	-	(37,510)	(112,530)	-	-
Unrealized gains (losses) on short-term investments	-	-	-	-	-	-	-	-	-	(17,494)	6,000	(133,500)	-	(17,494)	6,000	(133,500)
Valuation net gains (losses) from investment properties	(40,833)	13,091	137,739	60,556	(952,035)	(2,869,400)	(286,269)	(1,695,715)	-	-	-	-	(992,868)	(2,856,309)	(148,530)	(1,635,159)
<b>Income (loss) before income tax</b>	<b>101,120</b>	<b>430,002</b>	<b>190,541</b>	<b>233,188</b>	<b>1,226,343</b>	<b>3,255,045</b>	<b>2,072,229</b>	<b>5,038,008</b>	<b>(649,368)</b>	<b>(2,168,130)</b>	<b>(457,728)</b>	<b>(1,808,378)</b>	<b>678,095</b>	<b>1,516,917</b>	<b>1,805,041</b>	<b>3,462,818</b>
Income tax (expense) recovery	(23,168)	(106,210)	(50,970)	(62,378)	(291,750)	(803,997)	(554,321)	(1,347,667)	284,662	(61,328)	320,097	(26,277)	(30,256)	(971,535)	(285,194)	(1,436,322)
<b>Net income (loss) and total comprehensive income (loss) for the period</b>	<b>\$ 77,952</b>	<b>\$ 323,792</b>	<b>\$ 139,571</b>	<b>\$ 170,811</b>	<b>\$ 934,593</b>	<b>\$ 2,451,048</b>	<b>\$ 1,517,908</b>	<b>\$ 3,690,341</b>	<b>\$ (364,706)</b>	<b>\$ (2,229,458)</b>	<b>\$ (137,631)</b>	<b>\$ (1,834,655)</b>	<b>\$ 647,839</b>	<b>\$ 545,382</b>	<b>\$ 1,519,848</b>	<b>\$ 2,026,496</b>
<b>Investment properties</b>		<b>\$ 10,850,613</b>		<b>\$ 10,198,791</b>		<b>\$ 219,276,772</b>		<b>\$ 208,606,861</b>						<b>\$ 230,127,385</b>		<b>\$ 218,805,652</b>
<b>Mortgages</b>		<b>\$ 4,733,227</b>		<b>\$ 4,980,540</b>		<b>\$ 89,745,001</b>		<b>\$ 85,850,526</b>						<b>\$ 94,478,228</b>		<b>\$ 90,831,066</b>
<b>Additions to investment properties</b>		<b>\$ 34,741</b>		<b>\$ 4,223,796</b>		<b>\$ 14,133,822</b>		<b>\$ 9,570,082</b>						<b>\$ 14,168,563</b>		<b>\$ 13,793,878</b>

**17. Share capital**

a) The Company has unlimited authorized common share capital.

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
<b>Number of shares issued</b>		
Balance beginning of year	9,496,442	9,583,642
Shares cancelled	(36,000)	(87,200)
<b>Ending number of shares</b>	<b>9,460,442</b>	<b>9,496,442</b>
<b>Capital stock</b>		
Balance beginning of year	\$ 5,975,822	\$ 6,030,758
Shares held in treasury	(28,044)	(13,727)
Shares cancelled during the period	(22,680)	(54,936)
<b>Ending capital stock</b>	<b>\$ 5,925,098</b>	<b>\$ 5,962,095</b>

The Company received approval from the TSX Venture Exchange to purchase up to 479,182 common shares representing 5% of the outstanding shares under a normal course issuer bid ("NCIB") that expires September 2, 2020. During the current period, the Company repurchased 41,900 shares for \$160,982. A total of 36,000 shares were canceled during the period with the excess purchase price over the cost of the shares of \$123,984, was charged to retained earnings. The remaining 9,200 shares are held in treasury until canceled.

During the prior year, 90,500 shares were repurchased for \$361,082. Of the shares repurchased, 87,200 were canceled and the excess purchase price over the cost of the shares of \$292,420 was charged to retained earnings. The remaining 3,300 shares for \$13,727 are held in treasury until canceled.

**b) Contributed surplus**

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

	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Contributed surplus, beginning of the year	\$ -	\$ 593,750
Expired options		(593,750)
<b>Contributed surplus, end of the period</b>	<b>\$ -</b>	<b>\$ -</b>

**18. Earnings per share**

The following are the weighted average number of shares outstanding:

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Net income and comprehensive income	\$ 545,382	\$ 2,026,496
Weighted average shares outstanding – basic and diluted	9,482,337	9,578,149
<b>Earnings per share – basic and diluted</b>	<b>\$ .06</b>	<b>\$ .21</b>

## 19. Stock-based compensation plan

There was no activity in the current year. The following table reflects the activity in the prior year under the stock option plan:

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

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

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

## 20. Rental revenue

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

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

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
No later than one year	\$ 9,270,536	\$ 12,701,999
2 – 5 years	36,351,282	38,062,653
Over 5 years	26,246,243	25,707,313
	<b>\$ 71,868,061</b>	<b>\$ 76,471,966</b>

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

## 21. Guarantees, contingencies, and commitments

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

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

c) The Company has contracts in place with related parties to provide property management and asset management. Both contracts have been in place since 1999 and have been renewed on an annual basis with no changes to the terms. Further information can be found in the Related Party Transactions in Note 24.

## 22. Capital risk management

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

	June 30, 2020	September 30 2019
Mortgages	\$ 94,478,228	\$ 88,740,115
Lease liability	895,413	-
Bank operating facilities	26,454,057	26,353,212
Other financing	2,200,000	-
Total debt financing	124,027,698	115,093,327
Equity	91,391,227	91,481,650
<b>Total capital</b>	<b>\$ 215,418,925</b>	<b>\$ 206,574,977</b>

## 23. Financial instruments

	June 30, 2020	September 30, 2019
<b>Financial assets</b>		
Loans and receivables		
Cash and cash equivalents	\$ 166,579	\$ 1,035,322
Short term investments	-	276,000
Receivables, net of provisions	231,124	279,846
Loan receivable, net of provision	-	728,063
	<b>\$ 397,703</b>	<b>\$ 2,319,231</b>
<b>Financial liabilities</b>		
Other financial liabilities		
Bank operating facilities	\$ 26,454,057	\$ 18,457,672
Payables and accruals	3,156,559	3,145,876
Other financing	2,200,000	4,020,000
Lease liability	895,413	-
Security deposits	537,108	611,654
Mortgages	94,478,228	85,669,230
	<b>\$ 127,721,365</b>	<b>\$ 111,904,432</b>

The carrying value of cash and cash equivalents, restricted cash, receivables, loan receivable, bank operating facilities, other financing, payables and accruals, and security deposits approximate their fair value because of the near-term maturity of those instruments. The fair value of short - term investments in the prior year is a level 1 measurement valued at the quoted market price. The fair value of mortgages payable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable as at June 30, 2020 is \$97,161,259 (September 30, 2019 - \$88,682,977). These estimates are subjective as current interest rates are

selected from a range of potentially acceptable rates and accordingly, other fair value estimates are possible. The interest rate used for this calculation is 2.310% (September 30, 2019 – 3.555%).

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

#### **Credit risk**

The Company's maximum exposure to credit risk is the balance of its trade receivables of \$231,124 at June 30, 2020 (September 30, 2019 - \$267,965), and cash and cash equivalents of \$166,579 (September 30, 2019 - \$1,035,322).

Credit risk on trade receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss with a policy of credit assessment for all new lessees and by limiting its exposure to any one tenant. Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions.

For accounts receivable, the Company applies the general approach to recognize expected credit losses in the next twelve months. Management uses historical credit losses adjusted for current and forward-looking information which may affect the ability of the customers to settle receivables. Historically the Company has very little credit losses as most tenants have been able to meet their financial obligations. The resulting allowance has been set at \$Nil at June 30, 2020 (September 30, 2019 – \$10,000) as the Company believes the tenants will be able to honor their deferred revenue commitments associated with COVID-19 rent deferrals.

Accounts receivable are written off when there is no reasonable expectation of recovery. During the current period, an amount of \$39,330 was written off for one tenant who leased space in a building that was sold subsequent to this quarter ending.

#### **Interest rate risk**

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at June 30, 2020 is \$26,454,057 (September 30, 2019 - \$26,353,212). Under the assumption any balance of debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$264,541 (September 30, 2019 - \$263,532). The Company minimizes its exposure to interest rate risk to the extent that all mortgages except one have fixed rates with terms of five years. One mortgage was renewed during the year at a fixed rate for a further one-year term.

#### **Liquidity risk**

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

During the current period, the Company renewed one mortgage for a further five - year term, and one mortgage was renewed for one year. Two new mortgages were received for the new acquisitions during the period. Both new mortgages have five-year terms.

During Q1 2020, the Company received a temporary increase of \$1,900,000 to the limit on one of the Company's bank operating facilities. This increase facilitated the purchase of investment property during Q1 2020. Subsequent

to Q1 2020, conventional mortgage financing was placed on the new acquisition and the line of credit was reduced. The Company will be able to meet its future obligations through normal operations, current credit facilities, and the use of related-party interim financing.

#### Contractual obligations at June 30, 2020

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 21,077,687	\$ 36,332,913	\$ 40,083,350	\$ -	\$ 97,493,950
Payables and accruals	3,156,559	-	-	-	3,156,559
Lease liability	183,680	360,000	360,000	120,000	1,022,680
Security deposits	72,357	109,563	-	409,866	591,786
	<u>24,489,283</u>	<u>36,802,476</u>	<u>40,443,350</u>	<u>529,866</u>	<u>102,264,975</u>
Operating facilities	26,454,057	-	-	-	26,454,057
	<u>\$ 50,943,340</u>	<u>\$ 36,802,476</u>	<u>\$ 40,443,350</u>	<u>\$ 529,866</u>	<u>\$ 128,719,032</u>

#### Contractual obligations at September 30, 2019

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

#### Coronavirus risk

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 planning for the uncertainties surrounding the effects of COVID-19 on the Company.

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

The impact of COVID-19 on the Q2 and Q3 2020, financial statements included a write-down on some of the Company's properties where there is now 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 affected the earnings per share on the consolidated statements of income. The cash flows from operations were negatively affected in Q3 2020 by the rent deferrals provided to some tenants due to COVID-19.

In light of changing trends and the overall economic outlook, COVID-19 will impact the near future operating cash flows, the availability of cash through the current credit facilities, and potentially, the availability of related party financing to assist with short-term needs. In Q2 2020, some of the Company's tenants requested some relief from rent obligations which was dealt with on a case by case basis. 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 Q2 2020, the Company experienced two vacancies and 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 is deferred until 2021 will impact the cashflows and affect the Company's liquidity. The Company has taken advantage

of municipal incentives to defer payment of annual property taxes which has assisted with immediate cash requirements and has relied on related-party financing to assist with operations.

#### **COVID-19 - impact on capital and financial resources**

The Company's access to capital and funding sources, such as revolving credit facilities, new mortgages, and related party financing has not changed at Q3 2020.

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 Q3 2020 were materially impacted by the deferred revenue from tenant leases, however, the Company anticipates that it has access to the required short-term financing to bridge the gap until revenues return to normal over the next two quarters, and into 2021.

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. Of the April, May, and June 2020 rents due, 95% were received by the Company.

#### **Impact of the flood in Fort McMurray, Alberta**

During Q3 2020, Fort McMurray suffered the impact of a hundred-year flood which caused damage and loss of rental revenue from one of the Company's buildings within the City. Total rent abated in Q3 2020 was \$210,830.

#### **24. Related party transactions**

The following are the related party transactions of the Company.

##### *a) Management agreements*

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

#### ***Fee structure***

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##### ***Payments to Sable Realty & Management Ltd.:***

Property management	4% of gross rents paid plus a flat fee for ground maintenance on certain properties
Property maintenance	\$65-85/hour (Prior year \$65/hour) for labour plus charges for truck, equipment, and parts
Project fees	large scale improvements to tenant space are negotiated at the time services are requested

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

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

<b><u>Payments for the nine months ending June 30,</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Property management and maintenance fees	\$ 769,524	\$ 734,558
Acquisition fees	137,380	113,250
Leasing fees	112,883	134,119
<b>Total payments</b>	<b>\$ 1,019,787</b>	<b>\$ 981,927</b>

**Amounts payable at June 30,** \$ - \$ -

b) *Other related party transactions*

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

	<b><u>2020</u></b>	<b><u>2019</u></b>
Leased office space and parking	\$ 103,090	\$ 75,150
Fees for the Chief Financial Officer	160,000	150,000
Rent at Sable Centre	(66,311)	-
<b>Net payments for the period</b>	<b>\$ 196,779</b>	<b>\$ 225,150</b>

- ii) Sable Realty Corp. a company controlled by Sine Chadi leases space at one of the Company's commercial properties. The total lease revenue received by the Company was \$18,000 (June 30, 2019 – Nil).

- iii) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the nine months ending June 30, 2020, were \$47,500 (June 30, 2019 – \$40,000).

- iv) Key management personnel is those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The Company's key management personnel include President Sine Chadi, who is also a director of the Company, and the Chief Operating Officer, Patricia Misutka.

<b><u>Nine months ending June 30,</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Sine Chadi	\$ 225,000	\$ 225,000
Patricia Misutka	105,000	-
	<b>\$ 330,000</b>	<b>\$ 225,000</b>

- v) Chadi Family Foundation is a private charitable foundation of which Sine Chadi is a director. During the current year, the board of directors approved a donation to the foundation for \$67,025 of which half was paid at Q3 2020 (September 30, 2019 - \$67,025).

vi) Other financing, unsecured

<b>Related Parties</b>	<b>Balance 1-Oct-19</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 30-Jun-20</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ -	\$ 3,900,000	\$ (3,100,000)	\$ 800,000
Sine Chadi, Shareholder <sup>1</sup>	-	1,200,000	-	1,200,000
NAMC <sup>2</sup>	-	200,000	-	200,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 5,300,000</b>	<b>\$ (3,100,000)</b>	<b>\$ 2,200,000</b>

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

- Loans received from shareholders bear interest at an annual rate of 6%. Total interest paid at June 30, 2020, is \$48,789. In the prior year, loans repaid to shareholders totaling \$200,000 were repaid with interest at an annual rate of 6%. Total interest paid at September 30, 2019, was \$1,184.
- North American Mortgage Corp. ("NAMC") is controlled by Mr. Sine Chadi, President of the Company. Total interest paid in the current year at an annual rate of 6% was \$197 (September 30, 2019 - \$5,633).
- Imperial Land Corp. is controlled by Mr. Sine Chadi, President of the Company. Total interest paid in the prior year at an annual rate of 6% was \$19,287.

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

## 25. Post-reporting date events

Subsequent to the quarter ending, the Company completed an agreement to purchase land and buildings in Edmonton, AB. for a total purchase price of \$5,360,000. The Company received financing of \$4,000,000 from one of its current lenders to complete the purchase. The transaction closed on July 15, 2020.

Subsequent to the quarter ending, the Company completed an agreement to sell one of its multi-tenant buildings in Edmonton, AB. Total sale proceeds were \$9,350,000 with a Vendor Take-Back Mortgage of \$8,000,000 to be paid in full, on or before 24 months of the sale date. The sale date is July 21, 2020.

Subsequent to the quarter ending, one of the Company's lending facility was amended to reflect the removal of a sold property noted above. The LTV is at 74% after removal of the sold property and therefore the limit will need to be lowered to 70% within 18 months, by way of a monthly reduction of \$16,500 to the limit, commencing August 1, 2020.

Subsequent to the quarter ending, the Company placed a deposit on a conditional offer to purchase a 0.312 acres PUL lot adjacent to one of the Company's properties. The total purchase price is \$93,600 and it is expected to close in Q1 2021.

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.

**26. Authorization of the unaudited consolidated interim financial statements**

The unaudited consolidated interim financial statements for the nine months ending June 30, 2020 (including comparatives) were authorized for issue by the Board of Directors on August 12, 2020.

*Signed "Sine Chadi", Director*

*Signed "Kevin Lynch", Director*