

# Imperial Equities Inc.

## Year ending September 30, 2022

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

#### TABLE OF CONTENTS

2.	President's report
5.	Responsibility of Management and the Board of Directors
5.	Forward-looking information
5.	Additional non-IFRS measures
5.	Business overview
6.	Strategic direction
6.	Key performance drivers
8.	Key performance indicators
16.	Activity during the year
17.	Performance results
18.	Results of operations and cash flows
20.	Changes in cash flows
21.	Changes in financial position
24.	Summary of consolidated quarterly results
25.	Outstanding share data
25.	Dividends
26.	Related party transactions
27.	Liquidity, capital resources, and solvency
28.	Critical estimates of the current economic environment and outlook
29.	Risks and risk management
32.	Critical accounting estimates and changes in accounting policies
34.	Measures not in accordance with International Financial Reporting Standards
34.	Disclosure controls and procedures
35.	Off-balance sheet arrangements

**REPORT TO SHAREHOLDERS**

It's an old truism on the prairies that if you don't like the weather, you can just wait five minutes. A prairie sky is huge, and views are long. But experience tells you not to ever take a clear sky for granted. Changes can be abrupt and dramatic, and the biggest storms seem to appear out of nowhere. They challenge even the most experienced forecaster. Doing business is no different. Our world has been hit by dramatic changes over the last few years, and even though so much has returned to normal, ongoing global uncertainty, breaks in supply chain dependability, spikes in inflation and a return to a higher interest rate environment, have all changed our environment, and reminded us that we can't always predict the weather.

Our Company is one that understands change. We are careful investors and we manage towards sustainable growth and stability. We invest only in assets we believe we can sustain over the long term, and we seek to gain the most out of our base and maximize our investments and relationships to support our strategic goals. We are prudent managers because it's always good strategy and it best positions us to manage through virtually any environment. We can never control our environment, but we have yet to find ourselves reeling in response to environmental shocks, not even in the last few years. In 2022, as things shifted again, we continued to see the wisdom in this posture, as we delivered across all measures, and proved again that we are building and growing in a manner which will sustain.

The most dramatic impact on our business world is the new interest rate environment. There is no question that the shifts of the last 18 months have brought challenges. In anticipation, we took advantage of historically low interest rates that preceded this period to refinance a number of properties at lower interest rates and to generate proceeds to pay down our higher interest debt instruments such as our operating facilities.

Still, even with these measures, our interest costs started to move upward in 2022 with our highest mortgage rate now at 5.45%. Since March 2, 2022, we have seen six consecutive increases, and recent indications from the Bank of Canada are that rate increases will continue. This is due to ongoing uncertainty about policy impacts and whether the inflation reductions we have seen are indicative of a generalized decline in price pressure. In addition, the Bank has expressed ongoing concern about excess demand in the economy including labour shortages. The challenges of managing this environment are further complicated by the possibility that abrupt shifts we've seen may tip our economy into recession.

This forecasts more uncertainty ahead and means we will continue to be prudent in how we make decisions about investments. Our priorities will have us focused on completing a major expansion at a property in Fort McMurray, as well as on retaining tenants, filling any vacancies and ensuring that any investments we do make are secured at rates of return that can offset the increased costs coming our way.

Despite all of the changes and challenges we've faced, our bottom line continues to be extremely healthy. We have maintained a highly competitive debt to total asset ratio of 51%, which is down from 54% during the prior year. And further, even though the changes in the external environment are much more pronounced, the weighted average interest rate being paid across all properties is at 3.23%, only up slightly from 3.15% in the prior year. This reflects well on the strategy of refinancing that was carried out in anticipation of these conditions.

We continue to excel where we always have, as strong asset managers who offer competitive products, well-managed. Our tenants are discerning. They seek out our properties because of our management expertise and reliability, and yet still, tenants sometimes change. Some tenants move on due to business challenges and some consolidate in other locations. In some cases, business ownership changes and with it, so do ideas about leasing needs.

Being able to adapt as our tenants adapt, or to quickly turnover a property when a vacancy occurs, is key to managing for stability. This was a particularly busy year for us, with 7 leases and 170,048 square feet of space (representing 16% of our total square footage) up for renewal or may become vacant.

With the larger vacancies that occurred through the year, we moved quickly to address any apparent property maintenance issues and to upgrade the properties to suit new tenant needs. While we market the property, we also assess its market-readiness and make adjustments to ensure the best possible condition is achieved, whether it be by addressing cosmetic upgrades or taking advantage of the vacancy to address any needed environmental remediation or making energy efficiency improvements that will benefit a future tenant.

We did extremely well in meeting this challenge over the past year. We brought a new tenant into our one vacancy in Coppertone VII to bring that property up to full occupancy, and another 56,519 square feet of space in additional properties was renewed through the course of the year. Renewals were generally at extended terms and all were at competitive market rates. A further 85,957 square feet of new leases were secured, with tenant occupancy beginning subsequent to year end. These leases brought new blue-chip tenants onto our tenant roster. At year end, space available for lease was only 23,267 square feet, or 2.1% of our total, across our entire portfolio.

Over the last year, our acquisition activities have been modest as we assessed a changing environment. We completed only one transaction, valued at \$2.25 million for two separate parcels. One of the parcels, with a building on site, was then sold for \$1.675 million. We've retained the second parcel, which sits within our Coppertone Industrial Common, for future development opportunities.

We continue to enjoy healthy cash flows from our operations, which has both ensured sufficient ability to reinvest in our asset base and it has also provided funds to begin a significant construction project in Fort McMurray, where we are adding 33,200 square feet of leasable space through the 8,000 square foot expansion of an existing building and the construction of a new 25,200 square foot building. Altogether we invested more than \$5 million in property improvements throughout the year, and expect to invest at least another \$5 million during fiscal 2023 – a massive and prudent

investment in boosting our portfolio value overall. All of this has been financed through cash flows and short-term financing.

We've always maintained our commitment to shareholders to hold firm on our payment of dividends and we were able to deliver on this commitment by providing a slight increase this year starting in Q2-2022 to \$0.08/share annually (up from \$0.06/share). This consistent return to our shareholders is an important benefit of stable growth, and perhaps one of the best barometers of our overall financial health.

Our Company holds more than \$250 million in assets and all of it contributes to the growth and stability that we've been able to maintain for almost 25 years. As we complete some major projects, we continue to assess the marketplace, including more investments in neighbouring provinces, with our eyes on properties that may come available as the environment begins to settle around us.

As always, I am looking forward to having the chance to discuss our Company at our Annual General Meeting to be held on March 16, 2023. In the meantime, I want to thank our shareholders for their ongoing faith in our company. Please do not hesitate to contact me, anytime, with your questions or suggestions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sine Chadi', is centered below the text 'Sincerely,'.

Sine Chadi, President & CEO

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. ("Imperial" or "Imperial Equities" or the "Company") and its subsidiaries. This MD&A should be read in conjunction with the consolidated financial statements for the year ended September 30, 2022, and the related notes. Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol "IEI". Additional information on the Company may be obtained by visiting [www.sedar.com](http://www.sedar.com).

## RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

## FORWARD-LOOKING INFORMATION

In our report to shareholders, Management may talk about the current economy and express opinions on future market conditions. This forward-looking information is based on Management's current assessments made based on internal expertise as well as the opinions of other professionals in this industry. While Management may consider these statements to be reasonably optimistic and favourable, the opinions and estimates of future trends are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in Note 20 of the consolidated financial statements and this MD&A. Any forward-looking statements in this report should not be relied upon as facts, as actual results may differ from estimates.

## ADDITIONAL NON-IFRS MEASURES

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

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

## BUSINESS OVERVIEW

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

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

## STRATEGIC DIRECTION

### *Our Value Statement*

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

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

### *Strategic Goals*

- Acquire industrial, agricultural, and commercial properties in strategic locations for capital appreciation
- Acquire fully occupied, single-tenant or multi-tenant industrial properties with long-term lease agreements and rental rates commensurate with the location
- Finance acquisitions with the lowest available cost of capital
- Manage the Company's environmental impacts with a view to moving to net zero emissions
- Achieve a defined rate of return on each asset
- Maximize the revenue potential of each asset in its region
- Dispose of older assets that may have reached their maximum earning potential to reduce the overall age of the properties in the portfolio
- Invest in the communities where properties are located

## KEY PERFORMANCE DRIVERS

Imperial Equities continues to engage a dedicated team of professionals to manage and oversee business activities. There is a strong Board of Directors with significant real estate experience to guide and assess the Company's strategy and investment decisions. The dedication and professional experience of Imperial's Management team has helped the Company achieve positive earnings every year the Company has been in business.

Management monitors the success of Imperial by measuring how well the Company delivers on its strategies and executes due diligence. This assessment includes the size of the tenant, the length of time they have been in business, their operations, and exposure to the industry in which they operate. All these factors are part of the evaluation of the strength of the lease covenant. The Company's success is also impacted by external factors, including the overall economic health of industries operating in the province of Alberta as well as social and environmental factors. Alberta is still largely reliant on the oil industry and the Company is careful to select tenants that are best able to weather an economic downturn and retain relevance as the economic base of the province shifts over time. Interest rates related to the financing of the properties is a key additional external factor. Investment properties are financed with conventional fixed term mortgages and help the Company when mortgages are placed in a low interest environment. Conversely, there is a risk that mortgages can be fixed at higher rates, affecting operating income and cash flows. The Company will closely monitor rising interest rates as they could have a significant impact on the operating cash flows. Any new commercial lease terms associated with new acquisitions and lease renewals will reflect changing market conditions, including current interest rates, and will be assessed on this basis.

#### *Strategic Objectives*

- Conduct comprehensive due diligence on all acquisitions, including evaluating the strength of the tenant(s) before entering into contracts
- Maximize the revenue per property and secure long lease terms to reduce the turnover of tenants
- Maintain high occupancy rates to recover carrying costs of the properties
- Monitor the quality of tenants in the portfolio to reduce the risk of defaults on leases
- Monitor GHG emissions on all properties and move towards net zero emissions
- Maintain the assets to high standards, including structural, mechanical, and cosmetic, to showcase the existing properties to prospective tenants or purchasers
- Complete preventative maintenance on the properties to reduce operating costs, and to lower emissions, improve energy efficiency, and maximize the longevity of the buildings
- Ensure that maintenance on the properties is done to exacting standards, and performed at rigorous safety standards, while ensuring the costs are competitive
- Maximize the cash flow from operations to ensure funding for growth opportunities
- Select mortgage terms that provide a low cost of capital and utilize debt leverage opportunities
- Minimize higher rate short-term borrowings to reduce the cost of capital

## KEY PERFORMANCE INDICATORS

	September 30, 2022	September 30, 2021
<b>Investment Properties</b>		
Total number of investment properties	42	40
Property acquisitions during the period	2	3
Property dispositions during the period	1	-
Raw land properties held for future development	10	9
Raw land properties under lease with tenants	4	5
Gross leaseable area (GLA) in square feet	1,084,003	1,084,003
<b>Leasing Activities by Gross Leaseable Area (GLA)</b>		
Lease Retention	56,519	180,317
New tenant leases	12,359	151,110
GLA of leases expiring within twelve months	105,504	170,048
Space available for lease	23,267	9,264
Average lease term to maturity in years	4.83	4.73
Building occupancy	97.9%	99.1%
<b>Property Operations</b>		
% operating expense recoveries	82%	82%
Income from operations	\$ 13,458,786	\$ 13,138,345
Investment property improvements	\$ 5,205,210	\$ 1,973,550
<b>Financing</b>		
Debt to total assets ratio	51%	54%
Weighted average interest rates on mortgages	3.23%	3.15%

During the past twelve months, several properties held by the Company have been remeasured and certified to BOMA standards, hence updating the gross leaseable area in the current & previous fiscal years.

## Investment Properties

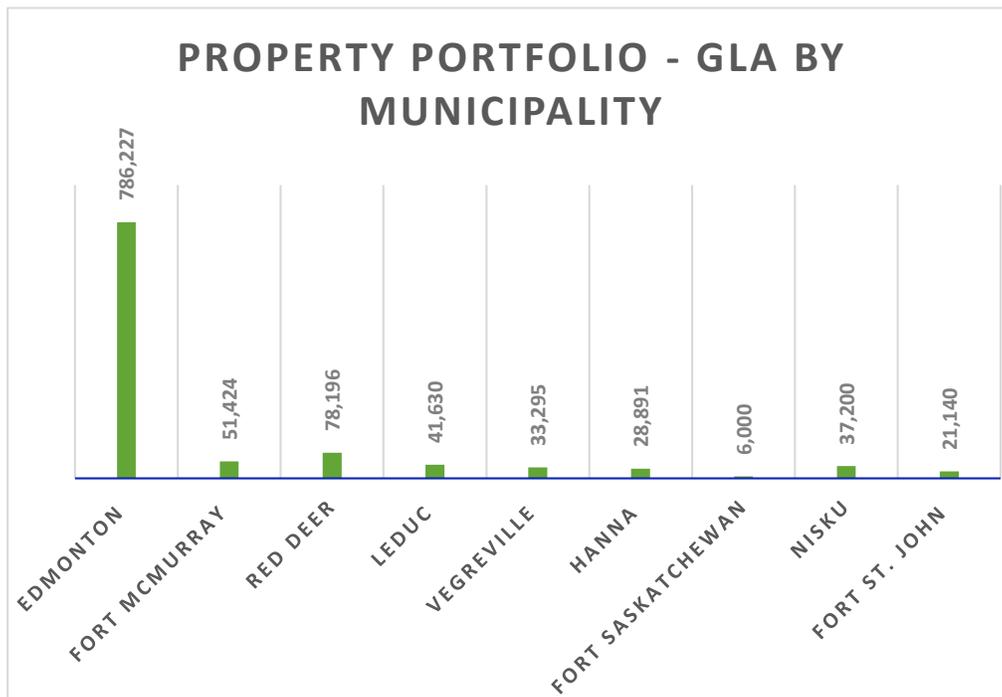
### Raw land properties held for future development

- 12.9 acres in Strathcona County, AB
- 2.24 acres in NW Edmonton, AB
- 49.42 acres in Hanna, AB
- 3 acres in NW Edmonton, AB
- 1.7 acres in SE Edmonton, AB
- 1.71 Acres in SE Edmonton, AB

### Raw land properties held for future development and leased with tenants in place

- 1.49 acres in SE Edmonton, AB, under a lease with an existing tenant
- 2 acres in NW Edmonton, AB, under a lease with an existing tenant
- 3 acres in NW Edmonton, AB, under individual leases with five tenants
- 0.91 Acres in NW Edmonton, AB, under individual lease with a tenant

**Gross leasable area (GLA)** – as of September 30, 2022, totals 1,084,003 ft<sup>2</sup> – unchanged from prior year.



## Leasing Activities

### LEASE RETENTION during the year ending September 30, 2022

Location	GLA	Expiring Rate/PSF*	Renewal Rate/PSF*	Renewal Term (months)
Edmonton, Alberta	21,801	\$ 15.60	\$ 15.60	60
Edmonton, Alberta	12,124	\$ 16.00	\$ 16.00	24
Edmonton, Alberta	22,594	\$ 15.48	\$ 15.48	60
	<b>56,519</b>			

*\*per square foot*

Performance drivers of the Company include ensuring a low turnover of tenants through lease retentions and maintaining high occupancy. During the current year, the Company had seven leases expiring with 170,048 ft<sup>2</sup> of space, which accounted for 16% of its portfolio. Of these expiring leases, the Company has been successful in renewing 56,519 ft<sup>2</sup> with the existing tenants and securing a new tenant for 7,266 ft<sup>2</sup> in a freestanding building. Additionally, two new leases accounting for 85,957 ft<sup>2</sup> were signed as of September 30, 2022, with lease terms commencing in fiscal 2023.

All new and renewed leases signed in the current year were at the same lease rates or higher than those expiring.

### NEW TENANT LEASES during the current year

Location	GLA	Rate/PSF*	Lease Term
Edmonton, Alberta	1,996	\$ 12.00	60
Edmonton, Alberta **	3,097	\$ 11.60	Month to Month
Edmonton, Alberta	7,266	\$ 16.93	60
	<b>12,359</b>		

*\*per square foot*

*\*\*Gross lease*

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

As at September 30, 2022, there are six leases that are expiring within the next 12 months with a combined total of 105,504 ft<sup>2</sup>. As of September 30, 2022, one lease has been renewed at the same expiring lease rate. Subsequent to year end, two tenants with a combined 30,855 ft<sup>2</sup> have exercised their options to renew for further 5-year terms. The Company will work with each tenant to determine renewal potential or seek to re-lease the property.

### Space available for lease as at September 30, 2022

- 4,160 ft<sup>2</sup> in a multi-tenant mixed-use building
- 19,107 ft<sup>2</sup> in a single-tenant building

## LEASE TERMS at September 30, 2022

Single-tenant buildings		Multi-tenant buildings	
Square Feet	Maturity Year	Square Feet	Maturity Year
3,097	Month to month	5,498	2023
100,006	2023	21,127	2024
119,830	2024	62,903	2025
33,295	2025	1,996	2027
76,400	2026	11,944	2030
98,764	2027	38,015	2031
168,183	2028	<b>141,483</b>	
62,224	2029		
41,054	2030		
118,305	2031		
34,404	2033		
34,800	2034		
28,891	2038		
<b>919,253</b>			

Total GLA of in-place leases	1,060,736
GLA available for lease	23,267
<b>Total GLA at September 30, 2022</b>	<b>1,084,003</b>

### Total average lease term to maturity = 4.83 years

At September 30, 2022, the occupancy rate is 97.9% (September 30, 2021 – 99.1%). This is as a result of the expiry during the year of the lease of one 70,660 ft<sup>2</sup> single-tenant building in its entirety, following which a new lease was signed for 51,553 ft<sup>2</sup> of that building, leaving 19,107 ft<sup>2</sup> available for lease.

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

This work helps the Company meet its main goal: to maximize the revenue of each asset in its region.

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

	<b>2022</b>	<b>2021</b>
Edmonton, Alberta	\$ 10.13	\$ 11.56
Red Deer, Alberta*	\$ 22.71	\$ 22.49
Fort Saskatchewan, Alberta*	\$ 38.32	\$ 36.83
Fort McMurray, Alberta	\$ 44.31	\$ 43.96
Leduc, Alberta	\$ 17.66	\$ 15.70
Hanna, Alberta	\$ 19.55	\$ 19.36
Nisku, Alberta	\$ 13.26	\$ 13.13
Vegreville, Alberta	\$ 7.18	\$ 7.18
Fort St. John, British Columbia	\$ 14.75	\$ 14.75

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

**Property Operations**

	<b>2022</b>	<b>2021</b>
Property tax and insurance recoveries	\$ 2,823,511	\$ 2,728,491
Operating expense recoveries	1,767,294	1,346,245
	\$ 4,590,805	\$ 4,074,736
Total property operating expenses	\$ 5,608,308	\$ 4,971,156
<b>% of property operating expense recoveries</b>	<b>82%</b>	<b>82%</b>

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

The recovery percentage of 82% in the current year included costs to bring two single-tenant buildings to leasable condition subsequent to their lease expiries. Total costs incurred relating to these two buildings were \$178,303 and these costs were not recoverable.

Recovery percentages may vary year depending on property taxes, utilities, snow removal, lawn care, and other seasonal expenditures. Management ensures operating expense recoveries are accurately recorded, recovered, and budgeted for the subsequent year.

**Income from operations** is a measure of funds available to service the debt repayments on financing, provide cash for capital expenditures on the properties, and fund further growth. For the year ending September 30, 2022, income from operations have exceeded September 30, 2021 due to the improved performance of the Company overall, and higher income for the year relative to finance costs and mortgage installments.

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
<b>Income from operations</b>	<b>\$ 13,458,786</b>	<b>\$ 13,138,345</b>
Less: Interest on financing*	4,284,996	4,344,996
Less: Principal instalments on mortgages	7,298,326	6,976,104
<b>Funds available for property improvements &amp; growth</b>	<b>\$ 1,875,464</b>	<b>\$ 1,817,245</b>

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

The Company, working closely with third-party contractors, continues to ensure all properties are well-maintained in terms of maintenance, electrical, mechanical, structural, and cosmetic (which includes exterior maintenance of the buildings through painting, landscaping, parking lot striping, etc.). In addition, the Company undertook several upgrade projects this year that will improve the energy efficiency of some properties.

## **Investment on property improvements**

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
<b>Total property improvements</b>	<b>\$ 5,205,210</b>	<b>\$ 1,973,550</b>

Prior to September 30, 2022, the Company had entered into a construction contract to build an additional 33,200 ft<sup>2</sup> of industrial space on one of its investment properties in Fort McMurray, Alberta. The total contract price is \$8,600,000. As of September 30, 2022, construction is 51% complete, and therefore the Company has paid approximately 51% of the contract price.

During the prior year, the Company made improvements to two large yards by installing geotechnical fabric and resurfacing with recycled crushed concrete. Work also commenced and was completed on another building that had extensive renovations to its exterior as well as a new showroom and service center. Property improvements additionally included design fees for new projects and ongoing interior and exterior maintenance on the buildings.

In terms of energy efficiency, the Company continued its efforts to replace all interior and exterior light fixtures throughout the portfolio with new energy-efficient LED lighting. Also, energy-efficient heating, ventilating, and air conditioning units are being installed in several properties to replace outdated components and equipment. The impact of these improvements is the reduction of the operating costs to the tenants and the promotion of a greener environment through reduced emissions.

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

## Financing

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

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

### Year ending September 30,

	<b>2022</b>	<b>2021</b>
<b>Investment properties</b>	<b>\$ 253,596,382</b>	<b>\$ 244,943,895</b>
Mortgages excluding transaction fees	108,242,930	108,736,618
Other financing	3,000,000	3,800,000
Bank operating facilities	18,883,408	20,360,492
<b>Debt</b>	<b>\$ 130,126,338</b>	<b>\$ 132,897,110</b>

### Ratio of debt to assets

**51%**

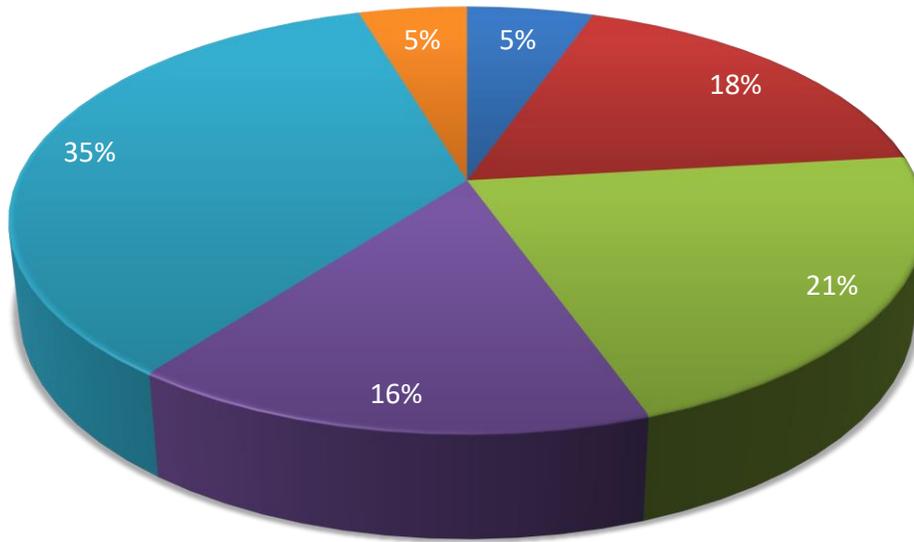
**54%**

The Company continues to enjoy a good relationship with its lenders and has been able to renew mortgages as they come due and place new conventional financing on acquisitions. Unencumbered properties at September 30, 2022 have fair values of \$22,138,517 (September 30, 2021 - \$21,816,843).

**Weighted average interest rates on the mortgages** have increased to 3.23% at September 30, 2022 from 3.15% at September 30, 2021, as four mortgages totalling \$17,998,957 were renewed during the year at interest rates ranging between 2.930% and 5.450%, which is higher than the average interest rates for mortgages renewed during fiscal 2021.

## Mortgage Maturities

(Calendar Years)



■ 2022   ■ 2023   ■ 2024   ■ 2025   ■ 2026   ■ 2029

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

Maturity Date	Rate	Principal Balance Sep 30'21	Mortgages Advanced/ Assumed	Y-T-D Principal Payments	Principal Paid on Maturity	Principal Balance Sep 30'22
01-Sep-21	3.000%	\$ 2,500,000		\$ 2,500,000	\$ -	\$ -
01-Dec-22	3.670%	3,274,254	-	239,891	-	3,034,362
01-Dec-22	3.671%	2,974,825	-	217,941	-	2,756,884
01-Feb-23	3.750%	1,800,247	-	128,982	-	1,671,265
01-Apr-23	1.860%	3,478,861	-	209,477	-	3,269,384
01-Jul-23	5.450%	1,802,612	-	207,527	-	1,595,085
01-Oct-23	3.950%	270,036	-	126,873	-	143,163
01-Oct-23	4.090%	5,354,849	-	350,612	-	5,004,237
01-Nov-23	4.330%	3,684,371	-	235,747	-	3,448,623
01-Dec-23	4.648%	4,407,669	-	274,250	-	4,133,419
01-Jan-24	4.300%	2,057,447	-	183,438	-	1,874,009
01-Jan-24	4.300%	1,632,895	-	145,586	-	1,487,309
01-Apr-24	2.110%	4,035,050	-	238,621	-	3,796,429
01-Aug-24	3.300%	9,064,479	-	573,173	-	8,491,306
01-Nov-24	3.555%	8,038,382	-	488,349	-	7,550,033
01-Feb-25	3.310%	5,000,983	-	411,000	-	4,589,983
01-Feb-25	3.420%	4,586,347	-	274,582	-	4,311,765
01-Apr-25	2.310%	4,874,751	-	309,342	-	4,565,410
01-Aug-25	2.837%	3,764,283	-	224,063	-	3,540,220
01-Apr-26	2.675%	2,622,407	-	217,452	-	2,404,956
01-Jul-26	2.710%	11,173,373	-	619,486	-	10,553,887
01-Jul-26	2.710%	5,846,820	-	324,165	-	5,522,655
01-Oct-26	2.940%	6,335,332	9,500,000	468,963	6,335,332	9,031,037
01-Nov-26	2.930%	4,860,030	11,000,000	493,414	4,860,030	10,506,586
11-Jun-29	3.480%	5,296,315	-	335,393	-	4,960,922
		<b>\$ 108,736,618</b>	<b>\$ 20,500,000</b>	<b>\$ 9,798,324</b>	<b>\$ 11,195,362</b>	<b>\$ 108,242,930</b>

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

The Company's two bank operating facilities are secured with specific revenue-producing properties.

## ACTIVITY DURING THE YEAR

During the year, the Company **acquired** two contiguous properties in Edmonton, Alberta for a combined purchase price of \$2,250,000. One parcel is 0.72 acres with a 5,840 ft<sup>2</sup> industrial building, and the second parcel is a vacant 0.91 acre lot.

On August 1, 2022, the Company completed the sale of the 0.72 acre parcel with the industrial building for total sale proceeds of \$1,675,000 and agreed to a Vendor Take Back ("VTB") mortgage in the amount of \$1,475,000. The VTB bears interest at an annual rate of 4.5% with monthly blended payments of principal and interest, and a maturity date of July 31, 2024. The VTB mortgage can be prepaid in whole or in part without penalty.

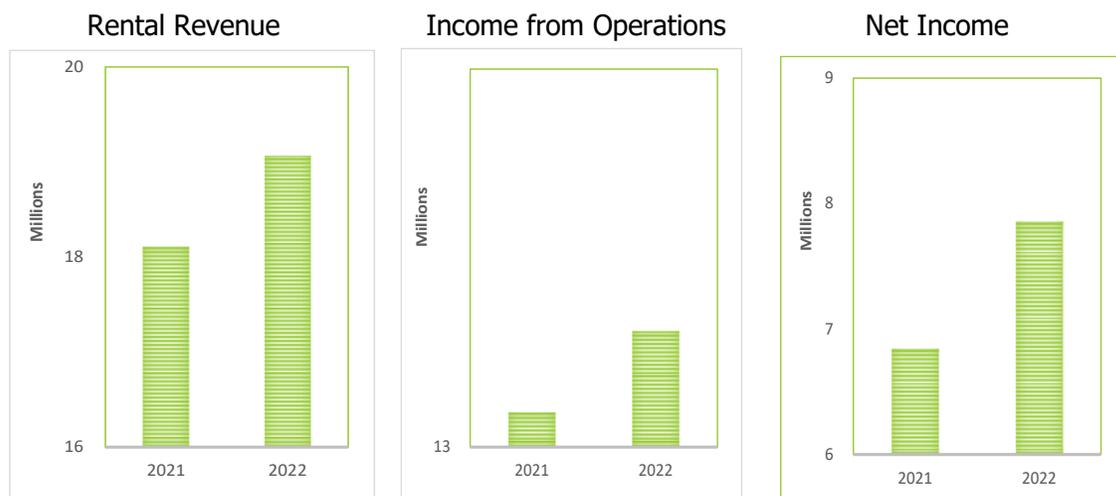
During the year, the Company entered into an agreement amounting to \$8.6 million to build an additional 33,200 ft<sup>2</sup> to one of its investment properties in Fort McMurray, Alberta. The project is 51% complete as of September 30, 2022 and will secure an additional 15-year lease from the date of completion with one of the Company's large multi-national tenants. The project is expected to be complete within the 2023 fiscal year.

The Company's **leasing activities** resulted in a 97.9% occupancy rate (September 30, 2021 – 99.1%). This was the product of being able to renew or secure new tenants for all leases expiring in the current fiscal year. Only one of the properties was partially leased to a new tenant who will only occupy 73% of the building, leaving 19,107 ft<sup>2</sup> vacant; this was the sole cause of the decrease in occupancy rate from the prior fiscal year.

Due to the low interest rate environment in late 2021 and early 2022, the Company focused on using proceeds generated from mortgage refinancing at lower interest rates to **repay higher interest debt** (such as its operating facilities and other financing). The balances outstanding on operating facilities have decreased in the current year by \$1,477,084. As at September 30, 2022, the Company has reduced its Other Financing debt to \$3,000,000 from \$3,800,000 in the prior fiscal year.

The Company **increased its dividends starting Q2 2022**. The Company's dividend increased to \$.08/share annually (\$.02/share quarterly) from \$.06/share. This came as the Company saw improved performance and renewed economic stability in 2022 and expects consistent growth over the upcoming periods.

## PERFORMANCE RESULTS



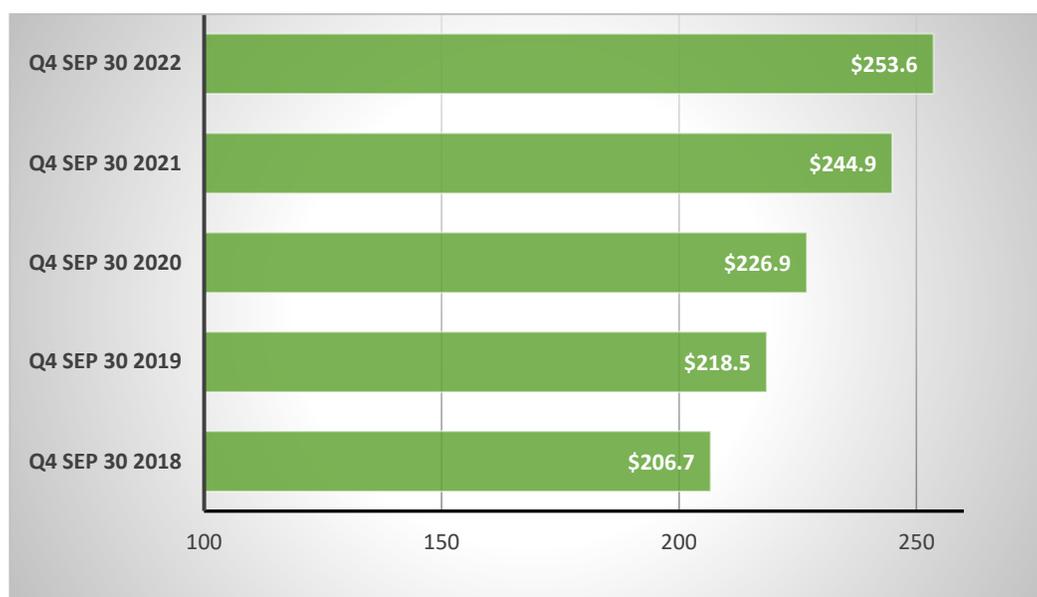
Rental revenue is higher during the current year in comparison with the prior year as a result of revenue from new leases on three properties purchased in 2021 and one property purchased in 2022. This is in addition to the increases in rent from previously vacant space in 2021 that is now occupied.

The increase in income from operations is correlated to the increase in rental revenue during the current year.

Net income is higher during this fiscal year in comparison to fiscal 2021. This is a result of net fair value gains of \$2,507,969 on investment properties in comparison to net fair value gains of \$1,685,903 in the comparative year, as well as a gain on sale of investment property amounting to \$193,123 in the current year.

## RESULTS OF OPERATIONS AND CASH FLOWS

### Fair Market Value of Investment Properties (Millions)



**Increase in fair value of investment properties** from 2021 in the amount of \$5,206,267 is a result of an expansion of one of our Fort McMurray properties. We also added another \$851,574 with the acquisition of 0.91 acres of land as part of the Coppertone X purchase. Additionally, there were valuation gains of \$2,507,969 during the current year, as well as a gain on sale of investment property amounting to \$192,123.

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

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

At each reporting date, this calculation method is performed on all the investment properties except for vacant land and land under lease. Vacant land held for development is valued using Management's research of similar vacant lands that have been sold recently or are available for sale. Land under lease with tenants is valued at the fair value of similar vacant land in the area.

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

Net valuation gains (losses) per quarter:

2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4
\$ 667,538	\$ 866,337	\$ 379,994	\$ 594,100	\$ (714,103)	\$ 2,399,494	\$ 152,745	\$ (152,233)	\$ (74,228)

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

INVESTMENT PROPERTY CAP RATES	September 30, 2022			Rate Change	September 30, 2021	
	Total GLA sf	Range Cap Rates	Total GLA sf		Range Cap Rates	
Edmonton, Alberta	762,960	4.50% - 7.00%	↑	776,963	4.27% - 7.00%	
Red Deer, Alberta	78,196	6.10-6.63%	↑	78,196	6.10-6.52%	
Fort Saskatchewan, Alberta	6,000	6.51%	↑	6,000	6.44%	
Fort McMurray, Alberta	51,424	6.23% - 6.70%	↑	51,424	6.14% - 6.60%	
Leduc, Alberta	41,630	6.50%	↔	41,630	6.50%	
Vegreville, Alberta	33,295	8.00%	↔	33,295	8.00%	
Nisku, Alberta	37,200	6.50%	↔	37,200	6.50%	
Hanna, Alberta	28,891	7.00%	↔	28,891	7.00%	
Fort St. John, British Columbia	21,140	8.50%	↓	21,140	9.34%	
	1,060,736			1,074,739		
Available for lease, Edmonton, AB.	23,267			9,264		
Total GLA square feet	1,084,003			1,084,003		

Some of the leases have rental rate escalations throughout their terms and the Company has increased the cap rates on those properties to keep the value of the properties at current market rates, despite the increase in rent. Cap rates in Fort St. John have decreased as a result of repairs and improvements the Company has made to its property since it was acquired. Cap rates continue to be evaluated on a property-by-property basis to ensure values reflect current market conditions.

During the current year, increases in the fair value of properties reflect income generated by properties that were previously vacant, as well as increased income from lease rate escalations and income from new leases entered into during the year with higher lease rates than in previous years. This accounted for approximately \$1,804,974 of the fair value gains. The Company acquired a bulk purchase of 2 separate contiguous parcels of land. The Company valued each parcel separately resulting in valuation gains of \$329,668. Additionally, the project in Fort McMurray adding 33,200 ft<sup>2</sup> to an existing property had a fair value gain of \$319,566. One property acquired in Q4 of 2021 in Fort St. John, British Columbia, with extensive deferred maintenance was substantially improved during the year and saw a cap rate reduction resulting in a gain of \$321,675 in the current fiscal year.

**Income from operations** is higher in 2022 than 2021 as a result of increased revenues directly stemming from the increased number of investment properties that the Company owns as well as increased lease rates as a result of new leases, lease renewals, or lease escalations.

**Property operating expenses** have increased in this year in correlation with the increase in investment properties.

**Finance costs** include interest on financing and amortization of deferred finance fees and are net of interest income.

Finance costs overall have increased from the prior year as a result of increased mortgages outstanding as the Company used proceeds from mortgage renewals to pay down high interest debt during the year. This was offset by a decrease in interest expenses on bank operating facilities and interest on Other Financing as balances have been reduced since the prior fiscal year.

**Amortization of right-of-use asset** refers to the head office lease space for the Company. Effective October 1, 2019, the Company began recording this right-of-use asset which is amortized over the term of the lease on a straight-line basis.

## CHANGES IN CASH FLOWS

**Cash provided by operating activities** was \$11,210,070 (2021 – \$10,445,706). The Company continues to generate positive cash from operations each quarter to cover day-to-day expenditures and provide reserves for future opportunities. The increase in the current year can be attributed to increased rental revenue and operating income.

**Cash used in investing activities** was \$3,014,840 (2021 – \$7,997,068) as the Company completed acquisitions in both the current and prior year. During the current year, cash used in

the purchase of investment properties, improvements, and additions to properties totalled \$7,899,053. This was offset by proceeds of \$2,500,000 from a loan receivable, \$202,684 from an asset disposition as well as a net change working capital of 2,181,529 bringing the net cash used to \$3,014,840.

**Net cash used in financing activities** was \$8,158,346 (2021 – \$2,376,143). During the current year, the Company used proceeds to from renewed mortgages as well as cash provided by investing activities to reduce high interest debt. The Company repaid \$800,000 of its debt from Other Financing, and bank operating facilities have been reduced by \$1,477,084. Additionally, the Company repaid a \$2,500,000 vendor take back mortgage on a property it purchased in Red Deer in the prior fiscal year that matured in the current year.

At September 30, 2022, there was a **net increase in cash** of \$36,884.

## CHANGES IN FINANCIAL POSITION

**Investment properties** include the fair value of the properties at the reporting date as valued by Management, including the unamortized balance of straight-line rent receivables, the unamortized balance of deferred leasing costs and the unamortized balance of tenant inducements if any. Changes since the fiscal year-end of September 30, 2021, are detailed below.

	<b>Income Producing Properties</b>	<b>Properties Under Development</b>	<b>Held For Development</b>	<b>Total Investment Properties</b>
<b>Opening balance at September 30, 2021</b>	\$ 232,421,152	\$ 120,751	\$ 12,401,992	<b>\$ 244,943,895</b>
<i>Additions:</i>				
Property improvements and additions	119,692	5,085,518	-	<b>5,205,210</b>
Capitalized property taxes and other	-	-	130,872	<b>130,872</b>
Tenant inducements	217,639	-	-	<b>217,639</b>
Leasing commissions	319,964	-	-	<b>319,964</b>
Property acquisitions	2,285,534	-	-	<b>2,285,534</b>
Property dispositions	(1,422,078)	-	-	<b>(1,422,078)</b>
Amortization of tenant inducements	(66,201)	-	-	<b>(66,201)</b>
Change in straight-line rental revenue	(174,164)	-	-	<b>(174,164)</b>
Revaluation gains (losses), net	2,324,868	313,973	(130,872)	<b>2,507,969</b>
Amortization of deferred leasing commissions	(352,258)	-	-	<b>(352,258)</b>
<b>Ending balance at September 30, 2022</b>	<b>\$ 235,674,149</b>	<b>\$ 5,520,242</b>	<b>\$ 12,401,992</b>	<b>\$ 253,596,382</b>

Property improvements and additions include the structural improvements, and additions to the Company's property under development. Leasing commissions were paid for lease renewals during the year. Acquisitions are composed of the two contiguous parcels purchased during the year for \$2,250,000, and property dispositions relate to one of the two parcels with a 5,840 ft<sup>2</sup> building situated on it.

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

**Receivables** at the year-end date were \$434,538 (September 30, 2021- \$279,750) which is comprised of rent receivable, interest income receivable, and receivables from tenants as a result of occupancy cost reconciliations performed for the year.

**Prepaid expenses and deposits** have a balance at year end of \$926,750 (September 30, 2021 - \$905,499 relating mainly to property taxes, insurance, and security deposits with municipalities. Prepaid taxes and insurance were amortized over approximately a 3-month period as they are paid in May & June of each year.

**Mortgages** have a balance of \$108,242,930 (September 30, 2021 - \$108,736,618). The decrease in mortgages is as a result of paying down mortgages through monthly principal payments, as well as the repayment of a vendor take back mortgage amounting to \$2,500,000 maturing in the current fiscal year. This was offset by proceeds received on maturity of two existing mortgages upon renewal.

**Other financing** at September 30, 2022 of \$3,000,000 (September 30, 2021 – \$3,800,000) is due to related parties. The loans are unsecured and bear interest at an annual rate of 6%. Proceeds from mortgage renewals at lower interest rates were used to repay related party financing in the current year.

**Bank operating facilities** at September 30, 2022 have a balance of \$18,883,403 with two of the Company’s major lenders (September 30, 2021 - \$20,360,492). The limit on one of the facilities was reduced as proceeds received on mortgage renewals were used to reduce existing facility balances.

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Bank credit facilities	\$ 19,500,000	\$ 20,500,000
Amounts drawn on facilities	(18,883,408)	(20,360,492)
<b>Available credit facilities</b>	<b>\$ 616,592</b>	<b>\$ 139,508</b>

The Company has two credit facilities set out as follows:

- 1) One operating Line of Credit (LOC) with a limit of \$13,500,000 (September 30, 2021 - a limit of \$13,500,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at September 30, 2022, of \$13,047,268 (September 30, 2021 - \$13,476,456). The credit facility bears interest at prime plus 1% per annum (September 30, 2021 – prime plus 1% per annum) and is secured by specific revenue-producing properties with combined fair values of \$36,469,039 (September 30, 2021 - \$ \$36,338,761). In Q4 2021, the standby fee provisions were deleted and no longer in effect (September 30, 2021 - .25% per annum). 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, 2021): 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, 2021). 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 4.5% (September 30, 2021 – 4.5%) or the Government of Canada Benchmark Bond Yields plus 225 basis points.
- *Net Operating Income* is stabilized operating income from the secured properties adjusted for normal operating expenses, common area maintenance expenses, property taxes, and other expenses that are not recovered from the tenants.

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

<u>Loan Covenant Requirements:</u>	<u>Min. 90% Occupancy</u>	<u>DSCR 1.25</u>	<u>LTV 70%</u>
September 30, 2022,	No*	2.57	64%
June 30, 2022,	Yes	2.39	66%
March 31, 2022,	Yes	2.21	67%
December 31, 2021,	Yes	3.03	63%
September 30, 2021,	Yes	2.69	68%

\*All securing properties on this operating facility must have a minimum occupancy of 90%. During the year, one of the securing properties had a lease expiration on March 31, 2022 where the lease was not renewed. A new lease was signed on August 4, 2022 with a new tenant. This resulted in a temporary breach of the bank's covenants relating to the occupancy rate of this facility as it fell below the 90%. The Company's lender was aware of the vacancy throughout the period and has waived the breach as at September 30, 2022.

2) A second operating LOC with a limit of \$6,000,000 (September 30, 2021 – a limit of \$7,000,000).

The decrease in the limit from the prior year is a result of increased mortgage amounts upon maturity of existing mortgages. During the current year, proceeds from the increases in mortgage amounts were used to reduce the limit on the facility by \$1,000,000.

This credit facility bears interest at prime plus .95% per annum (unchanged from September 30, 2021) and is secured by specific revenue-producing properties with combined fair of \$72,441,276 (September 30, 2021 - \$72,210,516).

There are no specific covenants or margin formulas for this line of credit. The balance on the credit facility at September 30, 2022 is \$5,836,140 (September 30, 2021 - \$6,884,036).

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

**Payables and accruals** are \$3,754,446 (September 30, 2021 – \$1,701,278). The balance includes accrued interest on financing, prepaid rents from tenants, trade payables, and accrued amounts payable on the construction of the investment property in Fort McMurray. Additionally, there is a tenant inducement payable to one of the Company's tenants amounting to \$200,000 (2021- \$200,000).

## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
<b>REVENUE</b>	4,772,001	4,758,558	4,653,262	4,883,273	4,860,652	4,540,224	4,430,598	4,278,027
<b>TOTAL COMPREHENSIVE INCOME</b>	1,648,262	2,298,469	1,910,112	1,996,828	870,558	3,359,351	1,230,561	1,381,850
<b>EPS-Basic</b>	0.17	0.24	0.20	0.15	0.21	0.35	0.13	0.15
<b>EPS-Diluted</b>	0.17	0.24	0.20	0.15	0.21	0.35	0.13	0.15

## QUARTERLY CHANGES IN REVENUE

The increase in revenue in 2022 reflects additional revenue from new tenant leases in the new properties acquired during the current & prior fiscal years. Revenue is recorded on a straight-line basis over the terms of the leases so there are not typically large swings quarter to quarter.

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

- Revenue generated from new leases
- Amortization of tenant inducements
- Increases due to the reconciliation of operating costs to budget at each Q4
- Changes in straight-line revenue due to lease renewals, new leases, and rent deferrals

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

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

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

Net valuation gains (losses) per quarter:

2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4
\$ 667,538	\$ 866,337	\$ 379,994	\$ 594,100	\$ (714,103)	\$ 2,399,494	\$ 152,745	\$ (152,233)	\$ (74,228)

During the first two quarters of the current year, increases in the fair value of properties reflect increases in income generated by properties that were previously vacant. The increase additionally reflects additional income from leases that were amended in the prior fiscal year. One property acquired in Q4 of 2021 in Fort St. John, British Columbia, with extensive deferred maintenance was substantially improved during the year and saw a cap rate reduction resulting in a gain of \$321,675 in the first two quarters of the year.

The Company acquired a bulk purchase of 2 separate contiguous parcels of land. The Company valued each parcel separately resulting in valuation gains of \$329,668 in Q3 2022.

During the last two quarters of the current year, the Company secured 3 new leases with tenants with higher lease rates resulting in valuation gains of \$869,279. Additionally, the project in Fort McMurray adding 33,200 ft<sup>2</sup> to an existing property had a fair value gain of \$319,566 in Q4 2022.

The overall decrease in valuations in Q4 of 2021 resulted from write downs of two properties where existing tenants renewed their leases at lower lease rates. The write-downs amounted to an aggregate of \$1.1M.

During Q3 2021, increases in the fair value of properties amounting to \$2.4M reflected increases in income generated by the properties that had previously been vacant and leased as of June 30, 2021. Additionally, the Company invested a significant amount of funds in one of its properties to improve its exterior as well as interior design and added a new showroom to the property. The investment in the improvements have increased the value of the building by \$1.3M in the quarter.

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

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

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at September 30, 2022 is 9,451,242 (September 30, 2021 was 9,451,242).

There are currently no options outstanding.

## DIVIDENDS

Dividend distribution is determined by the Board of Directors after evaluating the earnings of the Company and the overall outlook for the economy. Dividends are declared and paid based on the

common shares owned at the record date. Shareholders are cautioned that past issuance of dividends by the Company does not guarantee that future dividends will be issued.

On February 16, 2022, the Company announced an increase in dividends from \$0.06/share to \$0.08/share to its shareholders effective Q2, 2022. The Company paid a total of \$661,587 in dividends to its shareholders during the current year. Subsequent to the year ending September 30, 2022, the Company issued a press release on October 14, 2022 announcing the declaration of a quarterly dividend of \$0.02 per share payable on October 31, 2022 (Q4 2022) to shareholders of record effective October 24, 2022.

## RELATED PARTY TRANSACTIONS

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

**Property management and maintenance fees** of \$1,454,155 (2020 - \$1,240,524) were paid to Sable Realty & Management Ltd. ("Sable"), a company controlled by Sine Chadi, a director and officer of the Company. Fees paid to Sable are pursuant to a contract with the Company to bill for the management and maintenance of its properties for a fee of 4% of rents collected. Maintenance performed by Sable's property management team is charged at \$85 per hour for labour, plus truck charges, equipment use, and parts charges. Sable provides its trained personnel, trucks, tools, and equipment to perform property maintenance. The Company recovers most of the management and maintenance fees from the tenants under their occupancy costs. Four leases have no management fee recoverable and the remaining leases have a provision for the recovery of 2%-5% of either minimum rent or rent (which would include minimum rent and operating expense recoveries). The percentage of management fees negotiated and collectible under the leases varies based on the amount of work undertaken by Management, as compared to the tenant, in maintaining the property.

**Acquisition, disposition and leasing fees** in the aggregate of \$302,547 (2021 - \$674,774) were paid to North American Realty Corp. ("NARC"), a company controlled by Sine Chadi.

**Leased office space and parking** were paid to Sable in the aggregate amount of \$180,000 (2021 - \$181,675). Imperial Equities shares its head office space with the Sable head office. The decrease in lease fees paid in the current year is due to a lower lease rate in 2022.

**Consulting fees** during 2022 were \$1,800 (Q3 2021 - \$49,802) were paid to Sable for the services provided by the Company's Financial Advisor (formerly the CFO) who is not paid directly by the Company.

**Rent collected from** Sable for commercial lease space was \$94,923 (2021 - \$90,242). Sable leases a 7,871 ft<sup>2</sup> building in Edmonton, Alberta from the Company.

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

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

### **Paid to directors**

Directors' fees paid for attending directors' meetings during the year were \$45,500 (2021-\$52,500). Fees per director per meeting are \$2,500, unchanged from the prior year. The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

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

The Company's key Management personnel include President Sine Chadi, who is also a director and significant shareholder of the Company. The total compensation paid to Mr. Chadi during the year was \$300,000 (2021 - \$300,000). The Company's COO, Patricia Misutka was paid \$145,909 in the current year (2021 - \$180,000). The Company's CFO, Azza Osman was paid \$180,000 during the current year (2021 - \$155,000).

During Q4, 2022, the Company announced the departure of its COO effective July 15, 2022.

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

As of the year ending September 30, 2022, unsecured financing from directors and shareholders amounts to \$3,000,000 with interest expenses of \$34,597. As of September 30, 2021, \$3,800,000 remained outstanding bearing interest at an annual rate of 6% with accrued interest amounting to \$251,838.

## **LIQUIDITY, CAPITAL RESOURCES, AND SOLVENCY**

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

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
<b>Income from operations</b>	<b>\$ 13,458,786</b>	<b>\$ 13,138,345</b>
<b>Cash provided by operating activities</b>	<b>\$ 11,210,070</b>	<b>\$ 10,445,706</b>

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

The Company primarily relies on its lenders to finance the majority cost of property acquisitions through conventional mortgage financing. Any further cash shortfalls are covered through related-

party financing, or current cashflows. The Company has been very successful to date with financing its acquisitions and does not foresee any long-term impediments to obtaining the required financing to continue growth and to satisfy short-term borrowing needs and obligations.

Investment properties unencumbered with debt are valued at \$22,138,517 (September 30, 2021 - \$21,816,843). Overall, the ratio of debt to assets is 51% (September 30, 2021 - 54%), providing possible leverage opportunities in the future.

At September 30, 2022, five mortgages are due in the next twelve months with combined principal balances of \$12,326,981 and are shown as current liabilities. When mortgages are renewed, the Company may have the option of increasing the debt on a particular property, subject to the lender's approval, to provide increased capital. There is a risk to the Company that mortgages that are up for renewal may not be renewed or may not be renewed at the same rates and therefore the monthly principal and interest may change.

As at September 30, 2022, the Company entered into a construction contract to build an additional 33,200 ft<sup>2</sup> of industrial space on one of its investment properties in Fort McMurray, Alberta. The total contract price is \$8,600,000. As of year end, the project is 51% and payments amounting to approximately 51% of the value of the contract have been made.

Subsequent to the year ending September 30, 2022, the Company declared a quarterly dividend of \$0.02 per share, paid on October 31, 2022 to shareholders of record effective October 24, 2022.

The Company has no other contractual commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 18 of the consolidated financial statements.

## CRITICAL ESTIMATES OF THE CURRENT ECONOMIC ENVIRONMENT AND OUTLOOK

The economic environment in which Imperial operates could be adversely affected market risks such as product and service supply shortages, utility price increases, and property tax increases. These risk factors have a direct impact on the Company's costs, however they are mitigated through the Company's lease term structures which recover the majority of these costs from the respective tenants. An additional risk is the tenants' exposure to these risks and their impact on their economic performance; however, the Company's strong tenant portfolio and continuous communication with its tenants helps the Company in managing and mitigating these risks.

Vacancies as at September 30, 2022 are 23,267 ft<sup>2</sup>, up from the previous fiscal year ending September 30, 2021 (9,264 ft<sup>2</sup>). The Company continues to actively market current vacancies and is optimistic in leasing prospects.

The Company has been successful in obtaining financing and renewing its mortgages. To date, the Company has been very successful with its financing requirements and diligently monitors risk factors when considering strategic plans.

## RISKS AND RISK MANAGEMENT

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

One of the Company's internal performance drivers is to ensure the quality of its tenant base is strong. Most of the Company's tenants are large multi-national or national and are very likely to manage their operations sustainably during any economic turbulence. The Company has one large tenant occupying five properties in five different locations being Edmonton, Nisku, Red Deer, Fort McMurray, and Fort St. John in British Columbia. The revenue from this tenant now accounts for approximately 20% of Imperial's total revenue. The Company continuously carries out risk assessment activities with all its tenants to assess potential exposure associated with the tenant's performance. This tenant has been assessed to have strong financial performance and this is reflected through all property performance and in all financial matters between the Company and the Tenant.

Mix of Tenant Base	Institutional	Multi - National	National	Regional Large	Regional Medium	Local Small	Totals
% of Occupied GLA	5%	38%	39%	9%	1%	8%	100%
% of Annual Rental Revenue	2%	47%	37%	11%	1%	2%	100%

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

The Company's real estate portfolio is predominately comprised of large single-tenant industrial buildings that are leased to multi-national and national tenants.

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

The risk of vacancy in any leased space is a risk to the Company's ability to continue to meet the mortgage obligations on the property, as well as carrying costs including property taxes, utilities, and insurance. If in an extreme case a property became vacant, the carrying costs and mortgage payments if any could be paid for with existing cash flows from operations. At September 30, 2022 Imperial's occupancy rate is 97.9%.

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

**Market values of the investment properties** can decrease if the demand for industrial properties lease space decreases and rental rates are reduced, or capitalization rates increase. The Company's exposure to the market value of its real estate assets affects mortgages up for renewal. Properties with mortgages that are maturing in the next 12 months will be externally appraised for their current market value if the lender requires.

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

The total fair value of the investment properties at September 30, 2022 is \$253,596,382 which includes \$22,138,517 of properties unencumbered with debt. The mortgages and bank operating facilities secured against specific properties total \$127,126,338 or 50% of the value of the Company's investment properties. Management believes the amount of debt against the properties is low enough to absorb any decline in values and support our ability to refinance.

**Lease rates** will likely adjust downward if the demand for comparable lease space decreases, which is expected in any economic downturn. As demand for lease space increases, so does the lease rate. Imperial is mindful of these risks, and Management believes that any further leases that are up for renewal in the next twelve months will likely be renewed at the same rates. Nonetheless, the Company will be responsive to economic conditions.

**Interest rates** on mortgages that are up for renewal are currently at the highest the Company has seen in a few years. The Company tries to mitigate the risk of rising interest rates by fixing rates for longer terms and by minimizing its exposure to floating-rate financing. All mortgages have fixed terms and fixed rates.

### **Environmental risk**

The Company is subject to various federal, provincial and municipal laws relating to the environment and is increasingly responsible for accounting for its environmental impacts and those of its associated tenants, partners and supply chain. The Company is moving to ensure it can meet its accountability requirements as well as to set goals to ensure its environmental risks are managed, mitigated and its environmental footprint is reduced overtime. The Company has set a goal of achieving Net Zero impact and in the coming months, will more directly determine a path and timeline to achieve this goal.

The Company manages its environmental impacts in three ways:

- 1) Any new builds, or redevelopment of a property are assessed to ensure structures are designed to improve overall energy efficiency and to lower emissions.
- 2) All property purchases include commissioning of an environmental site assessment and increasingly rigorous assessment of environmental risks with the applicable financing body. The company will reject potential investments if environmental factors are not manageable or will factor required mitigation into any purchase price. It will move to address or manage any remediation immediately upon purchase. The Company aims to ensure it has no sustaining environmental mitigation required at any of its properties.
- 3) Improving the energy efficiency of its assets is an ongoing basis. When the company renovates an existing site, it looks for opportunities to upgrade existing systems, especially in older properties. Roof maintenance, upgraded windows, and installation of LED lighting is prioritized to improve the overall environmental footprint of an older building, to a level of a newer build. In addition, effective asset management improves the overall longevity of a property to extend the life, rather than investing in the demolition and reconstruction of assets. In addition, the Company is investigating opportunities to introduce new systems

into building to support its tenants' environmental goals, such as providing EV chargers for tenants' staff and visitors, environmental offsets, and on-site power generation.

The Company is following developments of the Canadian Securities Administrators current consultation on Climate-related disclosures, to ensure it will achieve timely compliance with any new requirements. In addition, it has chosen the Global Reporting Initiative (GRI) as a framework with which to account for its environmental, social and governance-related measures. The first report based on the GRI General Disclosures is integrated in this Annual Report. Starting in fiscal 2024, the Company will also report using the GRI's Construction and Real Estate Disclosures.

### **Cybersecurity risk**

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

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

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

## **PLANNED EXPENDITURES**

There are opportunities to purchase other properties currently on the market. The Company continues to look at all opportunities and evaluate the best possible alternatives. Cash needed to fund an acquisition of property will be provided through cash flows from operations, available funds through current bank credit facilities, and securing long-term financing. Related-party financing is available to the Company, generally on a short-term basis.

The upcoming acquisitions and property construction will be funded with cash, conventional mortgage, and the existing lines of credit if necessary.

## CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

### **Future accounting standards**

The Company has performed an assessment of new standards issued by the International Accounting Standards Board ("IASB") that are not yet effective. The Company has not yet determined the impact of the new standards on its consolidated financial statements.

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

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

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

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

#### **(ii) Investment property**

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

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

**(iii) Income tax**

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by Management at the end of the reporting year 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.

**(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 IFRS 16.

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

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

**Investment properties**

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

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

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

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and capitalization rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment property under construction. These estimates are based on local market conditions existing at the reporting date. In arriving at estimates of market values, Management used their market knowledge and

professional judgement and did not rely solely on historical transaction comparables. In estimating the fair values of investment property in these circumstances, there is more uncertainty than which exists in a more active market. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 3.

### **Income taxes**

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

## **MEASURES NOT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

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

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

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

In addition to performing the accounting and reporting functions of the Company, the CFO also provides accounting functions to numerous other private companies owned and operated by the

CEO. There is the potential for conflict of interest regarding related-party transactions. All related-party transactions are disclosed each quarter and the Audit Committee is provided with comparable figures for fees charged by other companies.

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

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

## OFF-BALANCE SHEET ARRANGEMENTS

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