

# Independent Auditor's Report

---

**Grant Thornton LLP**  
Suite 1600  
333 Seymour Street  
Vancouver, BC  
V6B 0A4  
T +1 604 687 2711  
F +1 604 685 6569

To the Shareholders of  
Imperial Equities Inc.

## Opinion

We have audited the consolidated financial statements of Imperial Equities Inc. (the "Company") which comprise the consolidated statements of financial position as at September 30, 2022 and September 30, 2021 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2022 and September 30, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for opinion

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

## Information other than the consolidated financial statements and auditor's report thereon

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

*Grant Thornton LLP*

Vancouver, Canada  
December 7, 2022

Chartered Professional Accountants

**IMPERIAL EQUITIES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**At September 30,**

	Notes	2022	2021
<b>Assets</b>			
Investment properties	3	\$ 253,596,382	\$ 244,943,895
Mortgage receivable	3	1,439,324	-
Right-of-use asset	4	512,639	662,679
<b>Total non-current assets</b>		<b>\$ 255,548,345</b>	<b>\$ 245,606,574</b>
Current portion of mortgage receivable	3	32,992	2,500,000
Receivables	5	434,538	279,750
Prepaid expenses and deposits	6	926,750	905,499
Cash and cash equivalents		232,998	196,114
<b>Total current assets</b>		<b>\$ 1,627,278</b>	<b>\$ 3,881,363</b>
<b>Total Assets</b>		<b>\$ 257,175,623</b>	<b>\$ 249,487,937</b>
<b>Liabilities</b>			
Mortgages	7	89,072,503	82,293,558
Lease liability	9	409,195	564,738
Security deposits		763,276	748,608
Deferred taxes	12 (b)	15,410,921	14,272,154
<b>Total non-current liabilities</b>		<b>\$ 105,655,895</b>	<b>\$ 97,879,058</b>
Current portion of mortgages	7	18,969,418	26,216,379
Current portion of lease liability	9	155,543	148,046
Other financing	21 (b)	3,000,000	3,800,000
Bank operating facilities	8	18,883,408	20,360,492
Payables and accruals	10	3,754,446	1,701,278
Income taxes payable		886,079	703,934
<b>Total current liabilities</b>		<b>\$ 45,648,894</b>	<b>\$ 52,930,129</b>
<b>Total Liabilities</b>		<b>\$ 151,304,789</b>	<b>\$ 150,809,187</b>
<b>Equity</b>			
Issued share capital	15 (a)	5,947,346	5,947,346
Retained earnings		99,923,488	92,731,404
<b>Total Equity</b>		<b>\$ 105,870,834</b>	<b>\$ 98,678,750</b>
<b>Total Equity and Liabilities</b>		<b>\$ 257,175,623</b>	<b>\$ 249,487,937</b>

Guarantees, contingencies, and commitments (Note 18)  
Post-reporting date events (Note 22)

*See accompanying notes to the consolidated financial statements.*

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

	Notes	2022	2021
Rental revenue	14,17	\$ 19,067,094	\$ 18,109,501
Property operating expenses	14	(5,608,308)	(4,971,156)
<b>Income from operations</b>		<b>\$ 13,458,786</b>	<b>\$ 13,138,345</b>
Finance costs	11	(4,376,974)	(4,258,511)
Administrative expenses		(1,476,540)	(1,581,600)
Amortization of deferred leasing	3	(352,258)	(307,109)
Amortization of right-of-use asset	4	(150,040)	(150,040)
Gain on sale of investment property	3	193,123	-
Valuation net gains from investment property	3	2,507,969	1,685,903
<b>Income before income tax</b>		<b>\$ 9,804,066</b>	<b>\$ 8,526,988</b>
Income tax expense	12 (a)	(1,950,395)	(1,684,668)
<b>Net income and comprehensive income</b>		<b>\$ 7,853,671</b>	<b>\$ 6,842,320</b>
<b>Earnings per share basic and diluted</b>	16	<b>0.83</b>	<b>0.72</b>

*See accompanying notes to the consolidated financial statements.*

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

	Number of shares	Capital stock	Retained earnings	Total
<b>October 1, 2021</b>	9,451,242	\$ 5,947,346	\$ 92,731,404	\$ 98,678,750
Dividends paid	-	-	(661,587)	(661,587)
Net earnings	-	-	7,853,671	7,853,671
<b>Balance September 30, 2022</b>	9,451,242	\$ 5,947,346	\$ 99,923,488	\$105,870,834

	Number of shares	Capital stock	Retained earnings	Total
<b>October 1, 2020</b>	9,460,442	\$ 5,925,098	\$ 86,336,638	\$ 92,261,736
Shares held in treasury-	28,044	-	28,044	
Shares cancelled during the year	(9,200)	(5,796)	(22,248)	(28,044)
Dividends paid	-	-	(425,306)	(425,306)
Net earnings	-	-	6,842,320	6,842,320
<b>Balance September 30, 2021</b>	9,451,242	\$ 5,947,346	\$ 92,731,404	\$ 98,678,750

*See accompanying notes to the consolidated financial statements.*

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

	Notes	2022	2021
<b>Operating activities</b>			
Net income from operations		\$ 7,853,671	\$ 6,842,320
Finance costs		4,376,974	4,258,511
Items not affecting cash:			
Amortization of right-of-use asset		150,040	150,040
Amortization of tenant inducements		66,201	43,414
Amortization of deferred leasing commissions		352,258	307,109
Fair value gains on investment properties		(2,507,969)	(1,685,903)
Gain on sale of investment property		(193,123)	-
Straight-line rental revenue		174,164	248,646
Deferred income taxes		1,138,767	926,073
Leasing commissions		(319,964)	(764,652)
Net change in operating working capital	13	119,051	120,148
<b>Cash provided by operating activities</b>		<b>\$ 11,210,070</b>	<b>\$ 10,445,706</b>
<b>Investing activities</b>			
Purchase of investment properties		(2,345,333)	(11,143,005)
Improvements and additions to investment properties		(5,553,720)	(2,505,036)
Proceeds on mortgage receivable		2,500,000	5,500,000
Net cash proceeds on sale of investment property		202,684	-
Net change in investing working capital	13	2,181,529	150,973
<b>Cash used investing activities</b>		<b>\$ (3,014,840)</b>	<b>\$ (7,997,068)</b>
<b>Financing activities</b>			
Proceeds from new mortgages		20,500,000	30,332,722
Repayment of mortgages on maturity		(11,195,362)	(13,940,180)
Repayment of mortgages through principal instalments		(9,798,326)	(6,976,104)
Amortization of deferred finance fees		107,016	94,104
Fees associated with new or renewed mortgages		(81,343)	(84,229)
Advances from other financing		3,000,000	2,175,000
Repayment of other financing		(3,800,000)	(3,425,000)
Finance costs		(4,376,974)	(4,258,511)
Principal repayments on lease liability		(148,046)	(148,538)
Dividends paid		(661,587)	(425,306)
Net repayments on bank operating facilities		(1,477,084)	(5,915,395)
Net change in financing working capital	13	(226,640)	195,294
<b>Cash used in financing activities</b>		<b>\$ (8,158,346)</b>	<b>\$ (2,376,143)</b>
<b>Increase in cash and cash equivalents</b>		<b>36,884</b>	<b>72,495</b>
Cash and cash equivalents, beginning of fiscal year		196,114	123,619
<b>Cash and cash equivalents, end of fiscal year</b>		<b>\$ 232,998</b>	<b>\$ 196,114</b>

See accompanying notes to the consolidated financial statements

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

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

## **2. Significant accounting policies**

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

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

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

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

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

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

#### *Investment properties*

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

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

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

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

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

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

#### *Investment properties under development*

The cost of properties under development includes direct development costs, realty taxes, and borrowing costs directly attributable to the development. Investment properties under development are measured at fair value at each reporting date and any gains or losses are recognized in the consolidated statements of comprehensive income. If the fair value of investment properties under development is not reliably determinable, 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 Company as a 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 effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 an 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 a rate 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 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 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.

#### **The Company as a Lessor**

The Company enters into lease agreements as a lessor with respect to its investment properties. Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As the Company has retained substantially all of the risks and benefits of ownership of its investment properties, it accounts for leases with its tenants as operating leases. As operating leases, lease payments are recognized as revenue when the tenant has a right to use the leased asset. The leased asset is recognized in the consolidated statement of financial position according to the nature of the underlying asset.

#### **(g) 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 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.

**(h) 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.

**(i) Revenue recognition**

Contracted rental revenue is recognized and measured in accordance with IFRS 16 *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.

**(j) 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.

**(k) 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.

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, cancelled, 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
Tenant receivables	Amortized cost
Mortgage 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.

**(l) Cash and cash equivalents**

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

**(m) 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 cancelled, the transaction value, including costs, reduces capital stock.

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

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

**(i) Leases**

The Company has commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts with tenants as operating leases. In applying this policy, the Company makes judgments 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.

**(ii) Investment properties**

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

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

**(iii) Classification of tenant incentives**

Payments are sometimes made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have

stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16.

**(iv) Income tax**

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

**(o) 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.

## **Future accounting standards**

### **New and amended standards not yet adopted**

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 provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. The amendments specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months; provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and clarify when a liability is considered settled. On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023, and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been revised to define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty." The amendments also emphasize that a change in an accounting estimate that results from new information or development is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes are an input or measurement technique that are not the result of an error correction. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* amendments were made to IAS 37, in order to clarify (i) the meaning of "costs of fulfill a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. IAS 37 is required to be applied for annual periods beginning on or after January 1, 2022. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

### 3. Investment properties

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

	Income Producing Properties	Properties Under Development	Held For Development	Total Investment Properties
<b>Opening balance at October 1, 2020</b>	\$ 214,542,476	\$ -	\$ 12,401,992	\$ 226,944,468
<i>Additions:</i>				
Property improvements and additions	1,852,799	120,751	-	1,973,550
Capitalized property taxes and other	-	-	144,605	144,605
Tenant inducements	386,881	-	-	386,881
Leasing commissions	764,652	-	-	764,652
Property acquisitions	13,643,005	-	-	13,643,005
Amortization of tenant inducements	(43,414)	-	-	(43,414)
Change in straight-line rental revenue	(248,646)	-	-	(248,646)
Revaluation gains (losses), net	1,830,508	-	(144,605)	1,685,903
Amortization of deferred leasing commissions	(307,109)	-	-	(307,109)
<b>Ending balance at September 30, 2021</b>	<b>\$ 232,421,152</b>	<b>\$ 120,751</b>	<b>\$ 12,401,992</b>	<b>\$ 244,943,895</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.

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. This method was applied in the valuation of properties under development, where management used the property's expected net operating income and a capitalization rate to prorate the fair value for the percentage complete as of the year end date.

Land held for development, consisting of land, 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>September 30, 2022</b>	<b>September 30, 2021</b>
Range of capitalization rates applied to investment properties	4.50% - 8.50%	4.27% - 9.35%
Fair values of properties where cap rates were applied	\$ 230,757,797	\$ 228,631,148
Weighted average cap rates	6.38%	6.35%
Fair value impact of increasing average cap rate by 0.25%	\$ (8,700,399)	\$ (8,664,623)
Fair value impact of a 1% decrease in net operating income	\$ (2,310,365)	\$ (2,289,113)
<b>Land held for development</b>		
Average price per acre of land	\$ 157,274	\$ 157,274
Number of acres	64.55	64.55
Total fair values	\$ 10,152,036	\$ 10,152,036
Impact of a 10% change in average price per acre	\$ 1,015,204	\$ 1,015,204
<b>Land under lease agreements with tenants</b>		
Number of acres leased	8.90	7.90
Average price per acre	\$ 804,574	\$ 799,837
Total fair values of leased land	\$ 7,160,710	\$ 6,160,710
Impact of a 10% change in average price per acre	\$ 716,071	\$ 616,071

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

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Straight line rent receivable	\$ 1,963,074	\$ 2,137,238
Tenant inducements	600,370	448,934
Leasing commissions	1,873,206	1,905,499
	<u>\$ 4,436,650</u>	<u>\$ 4,491,671</u>

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

#### **Mortgage receivable**

During the year ended September 30, 2020, the Company completed the sale of an investment property for total sale proceeds of \$9,350,000 and agreed to a vendor take back ("VTB") mortgage in the amount of \$8,000,000. The VTB bore interest at an annual rate of 2.5% with monthly interest payments, and a maturity date of July 21, 2021.

The VTB can be prepaid in whole or in part without penalty. The purchaser had an option to extend the mortgage for a further year.

On May 7, 2021, the Company agreed to amend the terms of the VTB and received \$5,500,000 with the balance of \$2,500,000 to be received on or before August 15, 2021 (the "Maturity Date"). The balance of the VTB bears interest at an annual rate of 6%. If payment of the principal amount and accrued interest does not occur by the maturity date, then the whole of the principal amount plus accrued interest shall become immediately due and payable upon demand. The VTB is carried at amortized cost.

The principal amount and accrued interest were received after the maturity date but prior to demand being made. The full balance was received during the current year ending September 30, 2022.

On August 1, 2022, the Company completed the sale of an investment property for total sale proceeds of \$1,675,000 and agreed to a VTB mortgage in the amount of \$1,475,000. The VTB bore interest at an annual rate of 4.5% with monthly blended payments of principal and interest amounting to \$8,164, and a maturity date of July 31, 2024. The VTB can be prepaid in whole or in part without penalty.

#### 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:

	September 30, 2022	September 30, 2021
Opening balance	\$ 662,679	\$ 812,719
Amortization expense	(150,040)	(150,040)
<b>Balance, end of year</b>	<b>\$ 512,639</b>	<b>\$ 662,679</b>

#### 5. Receivables

	September 30, 2022	September 30, 2021
Receivables	\$ 431,844	\$ 219,214
Accrued interest	2,694	60,536
<b>Balance, end of year</b>	<b>\$ 434,538</b>	<b>\$ 279,750</b>

Tenant receivables at September 30, 2022, and 2021, include occupancy costs which are reconciled at each year-end and subsequently collected.

#### 6. Prepaid expenses and deposits

	September 30, 2022	September 30, 2021
Prepaid operating expenses	\$ 899,731	\$ 878,480
Security deposits with municipalities	27,019	27,019
<b>Total prepaid expenses and deposits</b>	<b>\$ 926,750</b>	<b>\$ 905,499</b>

Prepaid operating expenses are insurance and property taxes.

## 7. Mortgages

Maturity	Rate	September 30, 2022	September 30, 2021
* On Demand	3.000%	\$ -	\$ 2,500,000
* December 1, 2022	3.670%	3,034,362	3,274,254
* December 1, 2022	3.671%	2,756,884	2,974,825
* February 1, 2023	3.750%	1,671,265	1,800,247
* April 1, 2023	1.860%	3,269,384	3,478,861
* July 1, 2023	5.450%	1,595,085	1,802,612
October 1, 2023	3.950%	143,163	270,036
October 1, 2023	4.090%	5,004,237	5,354,849
November 1, 2023	4.330%	3,448,623	3,684,371
December 1, 2023	4.648%	4,133,419	4,407,669
January 1, 2024	4.300%	1,874,009	2,057,447
January 1, 2024	4.300%	1,487,309	1,632,895
April 1, 2024	2.110%	3,796,429	4,035,050
August 1, 2024	3.300%	8,491,306	9,064,479
November 1, 2024	3.555%	7,550,033	8,038,382
February 1, 2025	3.420%	4,311,765	4,586,347
February 1, 2025	3.310%	4,589,983	5,000,983
April 1, 2025	2.310%	4,565,410	4,874,751
August 1, 2025	2.837%	3,540,220	3,764,283
July 1, 2026	2.710%	5,522,655	5,846,820
July 1, 2026	2.710%	10,553,887	11,173,373
April 1, 2026	2.675%	2,404,956	2,622,407
November 1, 2026	2.930%	10,506,586	4,860,030
October 1, 2026	2.940%	9,031,037	6,335,332
June 11, 2029	3.480%	4,960,922	5,296,315
<i>Total mortgages</i>		\$ 108,242,930	\$ 108,736,618
<i>Less: current portion of principal payments</i>		(18,969,418)	(26,216,379)
<i>Less: balance of unamortized finance fees</i>		(201,009)	(226,681)
		<b>\$ 89,072,503</b>	<b>\$ 82,293,558</b>
Weighted average rate		<b>3.23%</b>	<b>3.15%</b>

\*Mortgages due in the next twelve months

During the year ended September 30, 2021, the Company acquired a property in Red Deer, Alberta in the amount of \$9,300,000. As part of the consideration, the Company entered into a Vendor Take Back ("VTB") agreement in the amount of \$2,500,000 bearing an interest rate of 3% per annum; due on demand by the seller of the property. The VTB is secured by the related investment property. During the current year ended September 30, 2022, the full balance of the VTB along with accrued interest owing were paid in full.

All the remaining mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property. All mortgages have a fixed rate with the exception of one with an outstanding balance of \$1,595,085 as of September 30, 2022 and a variable interest rate of 5.450%.

## 8. Bank operating facilities

	September 30, 2022	September 30, 2021
Bank operating facilities	\$ 18,883,408	\$ 20,360,492

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 as it was remediated as of the fiscal year end.

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).

## 9. Lease liability

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

	September 30, 2022	September 30, 2021
Opening balance	\$ 712,784	\$ 861,322
Lease payments	(180,000)	(181,675)
Interest	31,954	33,137
<b>Balance, end of year</b>	<b>\$ 564,738</b>	<b>\$ 712,784</b>
Current portion	\$ 155,543	\$ 148,046
Non-current portion	409,195	564,738
	<b>\$ 564,738</b>	<b>\$ 712,784</b>

Incremental borrowing rate 4.95%

Estimated future principal payments required to meet the lease liability as at September 30, 2022, are as follows:

12 months ending September 30, 2023	\$ 155,543
12 months ending September 30, 2024	163,419
12 months ending September 30, 2025	171,645
12 months ending September 30, 2026	74,131
<b>Total</b>	<b>\$ 409,195</b>

## 10. Payables and accruals

	September 30, 2022	September 30, 2021
Trade payables	\$ 2,712,226	\$ 409,090
Accrued loan interest	326,345	552,985
Current portion of tenant security deposits	40,810	151,973
Accrued liabilities	242,807	190,322
Tenant inducement payable	200,000	200,000
Prepaid rents	232,258	196,908
<b>Total payables and accruals</b>	<b>\$ 3,754,446</b>	<b>\$ 1,701,278</b>

Trade payables include commissions payable on acquisitions and leasing fees, as well amounts payable for progress billings relating to properties under development. Accrued liabilities include occupancy costs due to tenants,

accruals for work done but not yet billed on investment properties, government remittances due, and accrued vacation balances. Tenant inducements payable relate to a lease agreement with a tenant signed during the fiscal ended 2021. Prepaid rents from tenants relate to rents due on the first of the following month, and the balance represents rents paid in advance which are recognized in revenue over the applicable months. The carrying value of payables and accruals approximates fair value due to their short-term maturity.

#### 11. Finance costs

The components of finance costs are as follows:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Interest on mortgages	\$ 3,546,287	\$ 3,259,784
Interest on bank operating facilities	666,330	800,236
Interest on other unsecured financing	40,425	251,839
Interest on lease obligations	31,954	33,137
Amortization of deferred finance fees	107,016	94,104
Interest income	(15,038)	(180,589)
	<b>\$ 4,376,974</b>	<b>\$ 4,258,511</b>

#### 12. Income taxes

##### a) Provision for income taxes

Components of income tax expense (recovery)

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Current tax expense	\$ 885,990	\$ 973,357
Prior period adjustments	(74,362)	(214,852)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	1,138,767	847,573
Prior period adjustments	-	78,590
	<b>\$ 1,950,395</b>	<b>\$ 1,684,668</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 of 23.00%. These differences result from the following:

	<b>2022</b>	<b>2021</b>
Income before income taxes	\$ 9,804,067	\$ 8,526,988
Expected income tax expense at 23.00% (2021 – 23.00%)	\$ 2,254,935	\$ 1,961,207
<i>Increase (decrease) resulting from:</i>		
Non-taxable items	(238,708)	(467,612)
Prior period adjustments	(74,362)	(136,293)
Tax rate differentials and tax rate changes	8,800	327,366
	<b>\$ 1,950,395</b>	<b>\$ 1,684,668</b>

##### b) Deferred taxes

Deferred tax assets are attributable to the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Lease liability	\$ 129,890	\$ 163,940
Capital losses	2,889	4,774

Deferred tax assets	132,779	168,714
Offset of tax	(132,779)	(168,714)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax liabilities are attributable to the following:	September 30, 2022	September 30, 2021
Straight-line rent receivable	\$ 451,507	\$ 491,565
Investment properties	14,512,133	13,106,031
Finance fees	13,551	7,932
Deferred leasing	430,835	438,263
Right-of-use asset	117,907	152,416
Capital gain reserve	17,767	244,661
Deferred tax liabilities	15,543,700	14,440,868
Offset of tax	(132,779)	(168,714)
<b>Net tax liabilities</b>	<b>\$ 15,410,921</b>	<b>\$ 14,272,154</b>

\$30,273,649 (September 30, 2021 - \$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.

### 13. Supplemental consolidated cash flow information

	September 30, 2022	September 30, 2021
<b><i>Net change in operating working capital</i></b>		
(Increase) decrease in receivables	\$ (154,788)	\$ (14,875)
Decrease in loans receivable	-	-
Increase in prepaid expenses and deposits	(21,251)	(156,765)
Increase in payables and accruals	98,279	29,145
Increase (decrease) in income taxes payable	(178,829)	151,542
Increase in security deposits	14,668	111,101
	<b>\$ (241,921)</b>	<b>\$ 120,148</b>

<b><i>Net change in investing working capital</i></b>		
Decrease (increase) in deposits in trust for property acquisitions	\$ -	\$ 9,360
Increase in payables and accruals	2,181,529	141,613
	<b>\$ 2,181,529</b>	<b>\$ 150,973</b>

<b><i>Net change in financing working capital</i></b>		
Increase in accrued interest payable	\$ (226,640)	\$ 195,294
Interest paid	\$ 3,994,548	\$ 3,886,115
Income taxes paid	\$ 641,837	\$ 818,137

	September 30, 2022	September 30, 2021
<b><i>Non-cash transactions</i></b>		
Vendor take back financing on purchase of investment property	\$ -	\$ 2,500,000
Mortgage receivable	\$ 1,475,000	\$ -

#### 14. Segmented information

During the current year, the Company has reassessed the existence of operating segments as it has determined that its growth strategy will be assessed on its investment properties as whole as opposed to the industry that each investment property operates in. The Company has concluded there is one operating segment in the current year. The Company has not restated the prior year segments, as the prior period disclosure includes the comparatives figures within the consolidated amounts disclosed.

#### 15. Share capital

a) The Company has unlimited authorized common share capital.

	September 30, 2022	September 30, 2021
<b>Number of shares issued</b>		
Balance beginning of year	9,451,242	9,460,442
Shares cancelled	-	(9,200)
<b>Ending number of shares</b>	<b>9,451,242</b>	<b>9,451,242</b>
<b>Capital stock</b>		
Balance beginning of year	\$ 5,947,346	\$ 5,925,098
Shares held in treasury	-	28,044
Shares cancelled during the period	-	(5,796)
<b>Ending capital stock</b>	<b>\$ 5,947,346</b>	<b>\$ 5,947,346</b>

#### 16. Earnings per share

The following are the weighted average number of shares outstanding:

	September 30, 2022	September 30, 2021
Net income and comprehensive income	\$ 8,211,756	\$ 6,842,320
Weighted average shares outstanding – basic and diluted	9,451,242	9,452,628
<b>Earnings per share – basic and diluted</b>	<b>\$ .87</b>	<b>\$ .72</b>

#### 17. Rental revenue

The Company leases its commercial properties under operating leases with current terms ranging between 1 and 16 years. Some leases have options to extend for further five-year terms and several leases are month to month.

a) **Rental revenue**

	September 30, 2022	September 30, 2021
Rental revenue, contractual amount	\$ 14,716,654	\$ 14,326,825
Property tax and insurance recoveries	2,823,511	2,728,491
Operating expense recoveries	1,767,294	1,346,245
Amortization of tenant inducements	(66,201)	(43,414)
Straight-line rental revenue	(174,164)	(248,646)
<b>Rental revenue on statements of comprehensive income</b>	<b>\$ 19,067,094</b>	<b>\$ 18,109,501</b>

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

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
No later than one year	\$ 14,154,551	\$ 14,537,415
2 – 5 years	50,121,861	41,071,181
Over 5 years	18,014,322	30,606,384
	<b>\$ 82,290,734</b>	<b>\$ 86,214,980</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 being 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.

#### **18. 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 21.

d) 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 September 30, 2022 construction is 51% and the work done amounts to \$4,836,672.

#### **19. Capital risk management**

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

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Mortgages	\$ 108,041,921	\$ 108,509,937
Lease liability	564,738	712,784
Bank operating facilities	18,883,408	20,360,492
Other financing	3,000,000	3,800,000
Total debt financing	130,490,067	133,383,213
Equity	106,228,919	98,678,750
<b>Total capital</b>	<b>\$ 236,718,986</b>	<b>\$ 232,061,963</b>

## 20. Financial instruments

	September 30, 2022	September 30, 2021
<b>Financial assets</b>		
Cash and cash equivalents	\$ 232,998	\$ 196,114
Receivables, net of provisions	434,538	279,750
Mortgage receivable	1,472,316	2,500,000
	<b>\$ 2,139,852</b>	<b>\$ 2,975,864</b>
<b>Financial liabilities</b>		
Bank operating facilities	\$ 18,883,408	\$ 20,360,492
Payables and accruals	3,754,446	1,701,278
Other financing	3,000,000	3,800,000
Lease liability	564,738	712,784
Security deposits	763,276	896,654
Mortgages	108,041,921	896,654
	<b>\$ 135,007,789</b>	<b>\$ 135,981,145</b>

The carrying value of cash and cash equivalents, receivables, mortgage 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 mortgages payable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable as at September 30, 2022 is \$100,675,995 (September 30, 2021 - \$109,317,430). 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 6.40% (September 30, 2021 – 2.94%).

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

### Credit risk

The Company is exposed to credit risk equivalent to the balance of its tenant receivables of \$434,538 at September 30, 2022 (September 30, 2021 - \$297,750), and cash and cash equivalents of \$232,998 (September 30, 2021 - \$196,114). Credit risk on tenant 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. For tenant accounts receivable, the Company applies the general approach to recognize expected credit losses ("ECL") 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. At September 30, 2022 there is no loss provision for tenant receivables (September 30, 2021 - \$nil).

Accounts receivable are written off when there is no reasonable expectation of recovery. During the year, no revenue was written off (September 30, 2021 - \$90,949).

Credit risk associated with cash and cash equivalents is mitigated through the Company holding cash and cash equivalents with reputable financial institutions.

### Interest rate risk

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities at September 30, 2022 is \$18,883,408 (September 30, 2021 - \$20,360,492).

Under the assumption any balance of the 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 \$188,834 (September 30, 2021 - \$203,605). The Company minimizes its exposure to interest rate risk to the extent that all mortgages with the exception of one have fixed rates with terms of 2-5 years.

### 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 year, the Company renewed four mortgages. Three mortgages were renewed for a further 2-5 years at fixed rates. One mortgage was renewed for a further one year with a variable interest rate. Upon renewal, the Company received \$9,304,638 in cash proceeds and assumed additional debt.

### Contractual obligations at September 30, 2022

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 22,111,557	\$ 58,082,537	\$ 32,682,601	\$ 4,633,766	\$ 117,510,461
Payables and accruals	3,754,446	-	-	-	3,754,446
Lease liability	155,543	335,064	74,131	-	564,738
Security deposits	40,810	81,340	99,856	582,079	804,085
	<u>26,623,356</u>	<u>58,498,941</u>	<u>32,856,588</u>	<u>5,215,845</u>	<u>\$ 123,194,730</u>
Other financing	\$ 3,000,000	-	-	-	\$ 3,000,000
Operating facilities	18,833,408	-	-	-	18,883,408
	<u>\$ 48,506,764</u>	<u>\$ 58,498,941</u>	<u>\$ 32,856,588</u>	<u>\$ 5,215,845</u>	<u>\$ 145,078,138</u>

### Contractual obligations at September 30, 2021

	1 year	2-3 years	4-5 years	> 5 years	Total
Gross mortgage payments	\$ 29,147,767	\$ 48,884,829	\$35,291,074	\$ 4,587,053	\$ 117,910,723
Payables and accruals	1,701,278	-	-	-	1,701,278
Lease liability	148,046	318,961	245,777	-	712,784
Security deposits	151,973	38,410	107,583	602,614	900,580
	<u>31,149,064</u>	<u>49,242,200</u>	<u>35,644,434</u>	<u>5,189,667</u>	<u>\$ 121,225,365</u>
Other financing	3,800,000	-	-	-	3,800,000
Operating facilities	20,360,492	-	-	-	20,360,492
	<u>\$ 55,309,556</u>	<u>\$ 49,242,200</u>	<u>\$ 35,644,434</u>	<u>\$ 5,189,667</u>	<u>\$ 145,385,857</u>

## 21. Related party transactions

The following are the related party transactions of the Company.

### a) *Management agreements*

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

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

---

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

Property management	4% of gross rents paid plus a flat fee for ground maintenance on certain properties
Property maintenance	\$85/hour (Prior year \$85/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><i>Payments for the year ending September 30,</i></b>	<b>2022</b>	<b>2021</b>
Property management and maintenance fees	\$ 1,454,155	\$ 1,240,524
Project fees	-	504,254
Acquisition fees	22,500	134,000
Disposition fees	50,250	-
Leasing fees	229,797	540,774
<b>Total payments</b>	<b>\$ 1,756,662</b>	<b>\$ 2,419,552</b>
<b>Amounts payable at September 30,</b>	<b>\$ 217,977</b>	<b>\$ 227,728</b>

### b) *Other related party transactions*

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

	<b>2022</b>	<b>2021</b>
Leased office space and parking	\$ 180,000	\$ 181,675
Fees for Accounting/Consulting Services	1,800	49,802
Rent at Sable Centre	(94,923)	(90,242)
<b>Net payments for the year</b>	<b>\$ 86,877</b>	<b>\$ 141,235</b>

#### ii) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the year were \$45,000 (2021 – \$52,500).

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

<b>Year ending September 30,</b>	<b>2022</b>	<b>2021</b>
Sine Chadi	\$ 300,000	\$ 300,000
Patricia Misutka	145,909	180,000
Azza Osman	180,000	155,000
	<b>\$ 625,909</b>	<b>\$ 635,000</b>

The Company's former Chief Operating Officer, Patricia Misutka, resigned from her role effective July 15, 2022.

- vi) Other financing, unsecured

<b>Related Parties</b>	<b>Balance 1-Oct-21</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 30-Sep-22</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ 2,100,000	\$ 1,200,000	\$ (2,100,000)	\$ 1,200,000
Sine Chadi, Shareholder <sup>1</sup>	\$ 700,000	750,000	(700,000)	750,000
NAMC <sup>2</sup>	\$ -	350,000	-	350,000
Diane Buchanan, Shareholder <sup>1</sup>	\$ 1,000,000	700,000	(1,000,000)	\$ 700,000
<b>Total</b>	<b>\$ 3,800,000</b>	<b>\$ 3,000,000</b>	<b>\$ (3,800,000)</b>	<b>\$ 3,000,000</b>

<b>Related Parties</b>	<b>Balance 1-Oct-20</b>	<b>Advances</b>	<b>Repayments</b>	<b>Balance 30-Sep-21</b>
Jamel Chadi, Shareholder <sup>1</sup>	\$ 2,000,000	\$ 1,200,000	\$ (1,100,000)	\$ 2,100,000
Sine Chadi, Shareholder <sup>1</sup>	\$ 1,550,000	750,000	(1,600,000)	700,000
NAMC <sup>2</sup>	\$ -	225,000	(225,000)	-
Diane Buchanan, Shareholder <sup>1</sup>	\$ 1,500,000	-	(500,000)	1,000,000
<b>Total</b>	<b>\$ 5,050,000</b>	<b>\$ 2,175,000</b>	<b>\$ (3,425,000)</b>	<b>\$ 3,800,000</b>

- Loans received from shareholders bear interest at an annual rate of 6%. Total interest expense during the year was \$34,597. In the prior year, loans repaid to shareholders totaling \$3,425,000 were repaid with interest at an annual rate of 6%. Total interest expense at September 30, 2021, was \$251,838.
- North American Mortgage Corp. ("NAMC") is controlled by Mr. Sine Chadi, President of the Company. Total interest expense in the current year at an annual rate of 6% is \$5,828 (September 30, 2021- \$628).

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.

**22. Post-reporting date events**

Subsequent to the year ending, the Company has declared a quarterly dividend of \$0.02 per share totalling \$189,025 paid on October 31, 2021 to shareholders of record effective October 24, 2021.

Subsequent to the year ending, one of the Company's lenders has increased the Company's credit limit on one of its operating facilities from \$13,500,000 to \$15,500,000 effective November 10, 2022.

**23. Authorization of the consolidated financial statements**

The consolidated financial statements for the year ending September 30, 2022 (including comparatives) were authorized for issue by the Board of Directors on December 7, 2022.

*Signed "Sine Chadi", Director*

*Signed "Kevin Lynch", Director*