

# Imperial Equities Inc.

## Year ending September 30, 2023

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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For as long as I can remember, I've loved to travel. In truth, I love it most when I get the chance to take the wheel. It doesn't matter if I'm on the highway or if I have that all too rare opportunity to get onto a sailboat or into a pilot's seat, I love being on my way and moving forward. And while always focused on a destination, I've never resented the time, planning and unpredictability of the journey itself.

I have no less enthusiasm for the business journey we've been on at Imperial Equities. Whether planning a voyage or steering a business: the work we do to set a course, check environmental conditions, and choose a path makes all the difference. As much as we try to predict outcomes, experience teaches us that we may not get as much wind in our sails as we might hope. So we manage, measure progress and despite the myriad of things that bring unpredictability onto our paths, keep the focus on the journey ahead, continuing undaunted, and prepared to ride out any storms.

For 26 years, annual report to shareholders has been a means of checking our progress. Our 2023 year-end shows us that despite the challenges of inflation, slow supply chains and a higher interest rate environment that appears to have settled in for the long-term, our overall position is one of steady performance, incremental progress and positive returns.

Our 2023 was another year for cautious but steady operations. In this higher cost environment, we approach new investments with care. Our focus has centred on creating the most value from within our portfolio even as we retain our sights on overall market trends and opportunities. Our key performance indicators provide us ongoing assurance in the wisdom of this approach.

Growth in 2023 was earned from within our portfolio. Property expansion and renewal and ongoing strong occupancy levels have all contributed to our growth and increased valuation overall.

Prior to year-end, we completed a major addition to one of our Fort McMurray properties, with the tenant fully occupying their expanded premises prior to year-end. The 8,000 square foot addition to the original building and the new construction of a 25,200 square foot secondary building on the same site amounts to approximately 33,200 in new square footage at this property, fully leased and earning additional revenue. The completed project has achieved an overall lease extension, and the self financing through cash flows and short-term instruments during the construction period has been replaced with long-term conventional financing. This now frees up additional cash flows for new projects.

In addition to this major project, we also invested more than \$1,500,000 in renovations to one of our oldest properties. Significant upgrades have repositioned Core Industrial Building, with upgraded mechanical systems, welcoming new interiors and a new tenant, Big Box Outlet Stores, which is a very busy going concern. Again, all property upgrades were managed through existing cash flows within the Company.

We completed 2023 with a continued high occupancy rate of 94.1% which is down slightly from near full occupancy status in Q4-2022. At year-end there is one new vacancy which occurred due to the tenant consolidating its business into a much larger location. The 58,000 square foot single tenant industrial and office building in southeast Edmonton became redundant to their needs. The property, which was originally constructed by Imperial in 2008 has been extremely well maintained and remains highly marketable.

Beyond this, leasing activity has remained strong with more than 160,000 square feet of lease renewals and new leases achieved prior to year-end, demonstrating the Company's ongoing diligence in ensuring it maintains a competitive portfolio. We continue to attain renewal and new lease rates that are at or above market averages, notwithstanding tenants having to absorb growing operating costs due to significant year over year property tax increases in our major locations.

Looking to 2024, we will again prioritize leveraging our internal strengths with a potential new construction project coming forward. Prior to year-end, we secured land to build a new Edmonton location for one of our strongest tenants. The new property is in the Edmonton region's fastest expanding industrial districts in the city's northwest. Work has commenced on design and we expect to be able to finalize and announce more details on this exciting project in early 2024.

We have strong confidence in this opportunity and in the ongoing economic prospects for our key regions, especially the Edmonton Capital Region, which continues to have a healthy industrial base and diversifying economy. Market reports show ongoing demand for space remains strong and that tenants are managing increases in operating costs. Success in this region is strongly tied to asset quality, however even B and C class properties are continuing to attract tenants, especially those seeking better value for money<sup>1</sup>.

In a challenging environment, we continue to value our strong track record with our institutional partners, on whom we have been able to depend on to fund our growth and ongoing development. We have maintained a 50% debt to asset ratio which we feel is competitive, but we are mindful that in a continued high interest environment the overall weighted average interest rates on our outstanding mortgages has been rising incrementally, reaching 3.73% at year-end, up half a percentage point from our 2022 year end, a larger increase than was felt in 2022. This increase is visible in our financial statements with our overall financing costs up significantly this year.

The increased cost environment has caused us to be conservative as we approach growth and evaluate new transactions. We remain focused first on maintaining lean operations, prioritizing shareholder returns through dividends and on optimizing the value of our portfolio. This year, we successfully on-boarded a highly experienced interim CFO who has previous experience with our Company and the industry and is adding additional value in managing our tax and cost environment. Her understanding of our Company and extensive experience with public companies is proving extremely valuable to us in this more conservative environment. We have also on-boarded a new audit firm, Kingston Ross Parnak, for the first time during this audit cycle to allow for fresh perspectives and to support the strong governance focus of the Board.

Overall, cash flows and revenues remain healthy and positive, our Company has had sufficient funds in place to cover property improvements and larger internal investments, and the overall value of our portfolio continues to show positive gains, now valued in excess of \$260 million. We've continued to pay regular dividends to our shareholders at \$0.08/share annually. This consistent return to our shareholders is an important indicator of stable growth, and an important barometer of the overall financial health of our Company.

Our overall strategic position has not shifted significantly at this stage of our journey. We have always been focused on the entire path, seeking to achieve sustainable growth and stability, and investing only in assets we can maintain, over the long term. We seek to gain the most out of our portfolio and maximize our investments and relationships to support our strategic goals. We are prudent managers because it's good strategy and it best positions us to manage through virtually any environment.

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<sup>1</sup> Cushman and Wakefield, Q3 2023

Our Company has also always been diligent about investing in its portfolio through a robust asset management program that seeks to not defer maintenance and implements improvements that improve overall building performance with energy efficient systems and fixture to improve property performance in terms of energy efficiency, reduced emissions and reduced operating costs which accrue to tenants.

We anticipate that moving into 2024 the impact of new ESG requirements will be clearer for our industry and Company. With the finalization of the International Sustainability Standards Board (ISSB) of two key standards in June 2023: general requirements for disclosure of sustainability-related financial information and climate-related disclosures, we know that adjustments in our operations, market and regulatory environment are on the horizon, and are awaiting indication from the Canadian Securities Administrators on the timing of these requirements in Canada.

The ISSB requirements will be broad and require more detailed disclosure of our Scope 1, 2, and 3 greenhouse gas emissions. In addition, real estate metrics, such as energy and water consumption at both the corporate and asset levels are also included. The requirement to monitor supply chains and report on impacts will have additional impact for our Company as we pursue new construction projects and source supplies and materials. We will continue to update our shareholders as we anticipate the impacts of these changes take shape.

Still as much as there will be challenges in adapting to new reporting standards, there are also key opportunities ahead and we will more aggressively assess opportunities to improve our properties in a manner which balances costs and business value of transitioning to a greener economy. We have already seen significant benefits in the changes we have made and will monitor our market for tools and techniques to continue to build a more sustainable portfolio.

As always, I am looking forward to having the chance to discuss our Company at our Annual General Meeting to be held on March 14, 2024. 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.



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 audited consolidated financial statements for the years ended September 30, 2023 and 2022, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

Unless otherwise noted, all amounts in this MD&A are reported in Canadian dollars, which is the Company's presentation and functional currency. The information contained in this MD&A, including forward-looking statements, is based on information available to management as at December 6, 2023, except as otherwise noted.

Throughout the MD&A, Management will use measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar calculations presented by other issuers. These measures include operating expense recoveries, funds available for property improvements and growth, debt, debt to asset ratios, and unencumbered properties. A description of these measures and their limitations are discussed under "Non-IFRS financial Measures".

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).

The Company's Board of Directors, at the recommendation of the Audit Committee have reviewed and approved this MD&A and the accompanying consolidated financial statements.

## FORWARD-LOOKING INFORMATION

Some of the information that the Company provides in this document is forward-looking and therefore could change over time to reflect changes in the environment in which the Company operates and competes. This forward-looking information reflects the Company's intentions, plans, expectations, and beliefs, and is based on management's experience and assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances.

Forward-looking statements may involve but are not limited to, comments with respect to our initiatives for 2024 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results or outlook for our operations. By their nature, forward looking statements are subject to numerous risks and uncertainties including those discussed under Business Risks in this MD&A. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise, and as such, undue reliance should not be place on forward- looking statements.

Actual results, performance or achievements could differ materially from those expressed in or implied by these forward-looking statements. Except as may be required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, made by the Company or on its behalf.

## OUR BUSINESS

Based in Edmonton, Alberta, Imperial Equities is a publicly-traded company that invests in and manages industrial, agricultural, and commercial properties in its targeted markets throughout Western Canada. Since operations started in 1998, the Company has continuously increased revenues, and the fair value of its portfolio of investment properties through growth via acquisitions, the construction of build-to-suit projects, proactive maintenance of its properties, and responsive property management to build strong relationships with tenants.

The Company's business model is to:

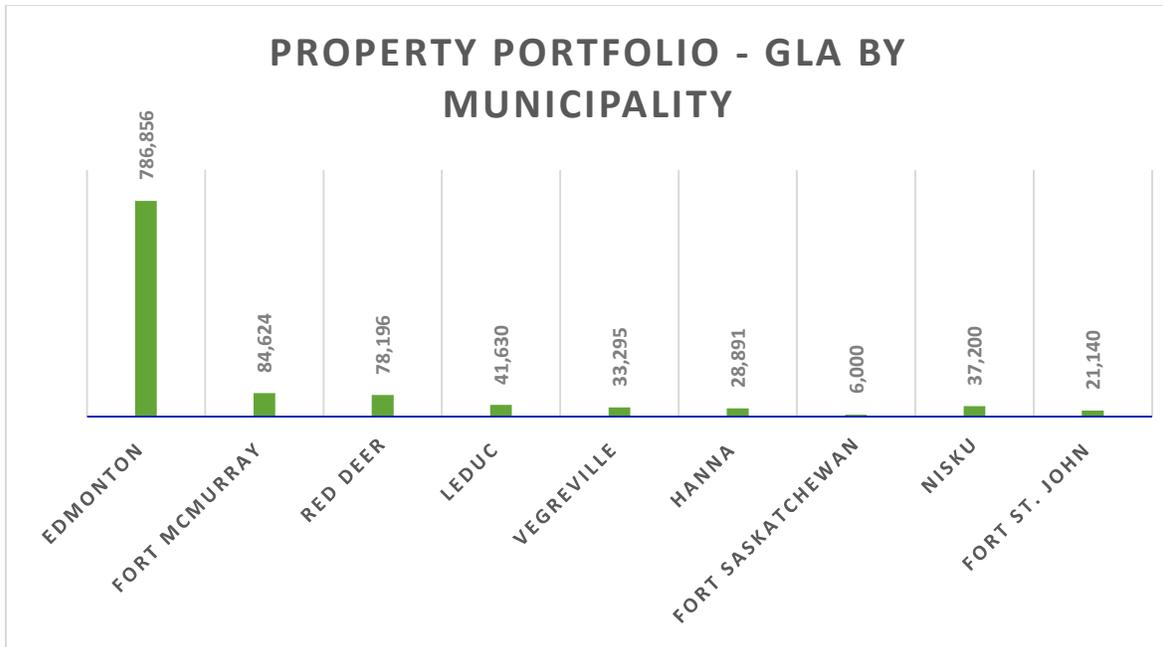
- Acquire industrial, agricultural, and commercial properties in strategic locations in Western Canada for capital appreciation
- Acquire fully occupied, single-tenant or multi-tenant industrial properties with long-term lease agreements and rental rates commensurate with the location
- Finance acquisitions 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

Management and the Board monitor specific key performance indicators in four critical areas of the business: investment properties, leasing activities, property operations and financing, and the overall performance of the Company in governance, and environmental social and governance (ESG) impact.

### *Our Investment Properties*

<b>Investment Properties</b>	<b>Year ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Total number of investment properties</b>	<b>42</b>	<b>42</b>
<b>Property acquisitions during the period</b>	<b>-</b>	<b>2</b>
<b>Property dispositions during the period</b>	<b>-</b>	<b>1</b>
<b>Raw land properties held for future development</b>	<b>9</b>	<b>9</b>
<b>Raw land properties under lease with tenants</b>	<b>5</b>	<b>4</b>
<b>Gross leasable area ("GLA") in square feet</b>	<b>1,117,832</b>	<b>1,084,003</b>

At September 30, 2023, the Company has 42 investment properties in 9 cities in Western Canada with a total gross leasable area of 1,117,832 ft<sup>2</sup>. Gross leasable area is the square footage of space in the Company's investment properties that is leased or available to be leased to tenants.



During the year ended September 30, 2023, the Company completed a significant construction project in Fort McMurray for a tenant, resulting in the addition of 33,200 ft<sup>2</sup> to the investment properties portfolio. This project encompassed a phase 1 expansion of an existing building totalling 8,000 ft<sup>2</sup> which was completed in December 2022, and a phase 2 construction of a new building totalling 25,200 ft<sup>2</sup> which was completed in September 2023. As a result, there was a total increase of available gross leasable area of 33,200 ft<sup>2</sup> (3.1%) at September 30, 2023 compared to the year ended September 30, 2022. In addition, there was a 629 ft<sup>2</sup> modification to the gross leasable area during the year ended September 30, 2023 to agree with previously completed certifications of square footage.

The Company also holds raw land parcels for future development or sale, and where possible, leases land to generate returns. The Company's raw land includes the following:

#### 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
- 0.91 Acres in NW Edmonton, AB

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

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

Subsequent to year-end, the Company leased the 0.91 acres in NW Edmonton, AB under a land lease.

## Our Leasing Activities

Leasing Activities by Gross Leasable Area ("GLA") in square feet	Year ended September 30,	
	2023	2022
Lease retention	70,679	56,519
New tenant leases	100,901	98,316
GLA of leases expiring within twelve months	118,018	105,504
Space available for lease	65,512	23,267
Average lease term to maturity in years	4.95	4.83
Building occupancy	94.1%	97.9%

### Tenant base

The Company's tenant base consists primarily of National or Multi-National tenants, with over 77% of the gross leasable area being leased to these tenants and 80% of the total annual rental revenue received from them. The Company's focus on leasing to larger organizations is part of its strategic efforts to reduce the risks of tenant defaults, and mitigate risks related to economic headwinds that might occur in local markets where these tenants are located.

At September 30, 2023						
Mix of Tenant Base	Multi-National	National	Regional Large	Regional Medium	Local Small	Totals
% of Occupied GLA	32%	44%	15%	2%	7%	100%
% of Annual Rental Revenue	39%	40%	16%	1%	4%	100%

### Lease retention

Performance drivers of the Company include ensuring a low turnover of tenants through lease retentions and maintaining high occupancy. The Company enters into leases with tenants after completing a robust due diligence assessment. 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.

<b>Leases retained for the year ended September 30, 2023</b>					
<b>Location</b>	<b>GLA</b>	<b>Expiring Rate PSF*</b>	<b>Renewal Rate PSF*</b>	<b>Renewal Term (months)</b>	
Edmonton, AB	3,000	\$ 12.00	\$ 12.00	60	
Edmonton, AB	24,855	\$ 9.00	\$ 9.00	60	
Fort Saskatchewan, AB	6,000	\$ 38.32	\$ 42.15	60	
Edmonton, AB	3,127	\$ 14.25	\$ 12.15	60	
Edmonton, AB	22,939	\$ 13.65	\$ 14.50	60	
Edmonton, AB	10,758	\$ 11.25	\$ 11.25	60	
<b>70,679</b>					
<i>*per square foot</i>					

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.

During the current year, the Company renewed leases with six tenants with a total gross leasable area of 70,679 ft<sup>2</sup>.

The weighted average rate for renewals increased slightly to \$14.21 PSF compared with the rate on expiry of the same leases which was \$13.70 PSF. In the current year, management prioritized occupancy of buildings over significant rate increases, with a goal to minimize vacant space given the market uncertainty, and ongoing concerns of a possible recession in the face of interest rate increases and increased inflation.

#### **New tenant leases**

<b>New leases for the year ended September 30, 2023</b>				
<b>Location</b>	<b>GLA</b>	<b>Rate/PSF*</b>	<b>Lease Term (months)</b>	
Fort McMurray, AB	33,200	\$ 31.88	186	
Edmonton, AB	63,541	\$ 8.25	60	
Edmonton, AB	4,160	\$ 6.00	83	
<b>100,901</b>				
<i>*per square foot</i>				

During the year, the Company had two tenants commence leasing in two locations. In Fort McMurray, the new lease is a result of additional building space that was constructed at the request of the tenant, a portion of which was occupied in June, and the remainder in September of the fiscal year. The Company also welcomed a new tenant in Edmonton, whose lease was signed in the prior fiscal year, into their newly renovated premises in June of 2022, occupying 51,553 ft<sup>2</sup> of space. This tenant subsequently leased an additional 11,988 ft<sup>2</sup> in the same building. Another existing tenant in Edmonton also entered into a new agreement to lease an additional 4,160 ft<sup>2</sup> of previously leased space.

### Lease expiries and vacant space

The Company monitors upcoming lease expiries and looks to stagger lease renewals wherever possible to reduce the risks related to significant vacancies arising in one time period. The gross leasable area in square feet and its lease terms over the next sixteen years is as follows:

Single-tenant buildings		Multi-tenant buildings	
Square Feet	Maturity Year	Square Feet	Maturity Year
	Month to month		
3,097		21,127	2024
96,891	2024	48,419	2025
59,695	2026	14,484	2026
81,111	2027	19,649	2027
261,026	2028	16,885	2028
22,939	2029	16,104	2030
78,254	2030	38,015	2031
118,305	2031	<b>174,683</b>	
34,404	2033		
34,800	2034		
58,224	2038		
28,891	2039		
<b>877,637</b>			
Total GLA of in-place leases		1,052,320	
GLA available for lease		65,512	
<b>Total GLA at September 30, 2023</b>		<b>1,117,832</b>	

Total average lease term to maturity = 4.95 years

Company had one tenant vacate their location in Q4 2023, resulting in an additional 58,393 ft<sup>2</sup> of vacant space at September 30, 2023.

At September 30, 2023, the occupancy rate for the Company's properties is 94.1% (September 30, 2022 – 97.9%). The decrease in the occupancy rate is as a result of the vacancy of one 58,393 ft<sup>2</sup> single-tenant building in its entirety which occurred in Q4 of 2023 when the lease term expired. The Company is actively looking for a new tenant for this location and believes the location will be fully leased within the next 12 months. During the current year, the Company successfully leased previously vacant space in two buildings totalling 16,148 ft<sup>2</sup> to two existing tenants who wished to expand their space.

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

As at September 30, 2023, there are five leases that are expiring within the next 12 months with a combined total of 118,018 ft<sup>2</sup>. Management anticipates renewing these leases during the coming year based on preliminary conversations with tenants, and past renewal history. If any leases are not renewed, management expects that the Company will be able to find new tenants for the spaces during the year.

### Space available for lease as at September 30, 2023

- 7,119 ft<sup>2</sup> in a single-tenant building
- 58,393 ft<sup>2</sup> in a single-tenant building

### Lease rates

Average annual lease rates (by City) per square foot at September 30		
	2023	2022
Edmonton, Alberta	\$ 11.03	\$ 9.93
Red Deer, Alberta*	\$ 22.43	\$ 22.75
Fort Saskatchewan, Alberta*	\$ 42.15	\$ 38.32
Fort McMurray, Alberta**	\$ 34.34	\$ 44.31
Leduc, Alberta	\$ 17.66	\$ 17.66
Hanna, Alberta	\$ 19.75	\$ 19.55
Nisku, Alberta	\$ 13.39	\$ 13.26
Vegreville, Alberta	\$ 7.18	\$ 7.18
Fort St. John, British Columbia	\$ 14.75	\$ 14.75
<p><i>*Leases include a large land component which impacts the average rate per square foot.</i></p> <p><i>** An additional 25,200 ft<sup>2</sup> was available for occupancy in September 2023, however the rental revenue related to this building did not commence until subsequent to year-end in October 2023. If the lease rate were adjusted to include the additional rent the rate would be \$39.80.</i></p>		

The Company also monitors its lease rates. As leases renew, or new tenants occupy a space, the lease rates negotiated will reflect the impact of market conditions at that time. Lease rates can be impacted by a number of 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. Additionally, the Company actively maintains its properties such that it can command a higher lease rate.

## Our Operations

Property operations	Year ended September 30,	
	2023	2022
% operating expense recoveries	79%	82%
Funds available for property improvement and growth	\$ 870,791	\$ (592,582)
Investment property improvements	\$ 4,575,147	\$ 5,205,210

### Operating expense recoveries

The percentage of operating expense recoveries provides an indication of the amount of non-recoverable expenses that has to be covered by minimum rental revenue.

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 recovery of the expenditures over a period consistent 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 Company does invest in its structural assets and non-recoverable upgrades, 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%. Recovery percentages may vary year depending on property taxes, utilities, snow removal, lawn care, and other seasonal expenditures, the timing and extent of vacant space, where the Company is not able to recover costs from a tenant, but is required to still maintain the property, and the timing of large maintenance items that are expensed as incurred, but management has determined will be recovered from tenants over multiple years.

The recovery percentage of 79% in the current year (82% in the year ended September 30, 2022) included non recoverable costs related to improving two locations prior to commencement of tenant leases, as well as increased unrecoverable costs related to the increased vacant space in the last quarter of the year.

### Funds available for property improvements and growth.

Funds available for property improvements and growth is a measure that indicates the available cash flow from property operations after payments of debt. For the year ending September 30, 2023, funds available for property improvements and growth increased to positive \$870,791 compared to a shortfall of funds of \$592,582 for the year ended September 30, 2022. The increase is related to lower principal repayments on mortgages for the year ended September 30, 2023, as a result of lower refinancing activity in comparison to the prior year.

Additionally, income from operations increased slightly due to increased straight line rental revenue due to new leases that commenced during the year. Offsetting the rental revenue increase was additional non-recoverable repairs and maintenance expenses as a result of significant renovations readying a property for a new tenant, and non-recoverable costs incurred on spaces that were vacant during the year.

### Investment in property improvements

During the current year, the Company was focused on the completion of two large projects. The Company completed the building of an additional 33,200 ft<sup>2</sup> of industrial space for one of its investment properties in Fort McMurray. The total cost of this construction was estimated to be \$9,200,000. The total capital additions for this expansion were \$9,154,000, of which \$3,947,000 were incurred in the current year (2022 - \$5,086,000), and which include \$155,000 in capitalized interest costs. A total of 8,000 ft<sup>2</sup> was completed in December 2022, and 33,200 ft<sup>2</sup> in September, 2023.

The Company also completed significant renovations of its CORE Distribution building. The building was vacated by the previous tenant in fiscal 2022, and a new lease was signed in fiscal 2022. Significant improvements and tenant inducements were undertaken to ready the building for occupancy. Total building improvements of \$590,000 (2022 - \$nil) were completed in fiscal 2023 and included in the building value. Total tenant inducements of \$323,000 (2022 - \$217,000) were also completed by the Company in connection to the lease of this building.

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.).

During the year, as part of regular repairs & maintenance, 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 continue to be 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.

### Our Financing

Financing	Year ended September 30,	
	2023	2022
Debt to total assets ratio	50%	51%
Weighted average interest rates on mortgages	3.73%	3.23%

Management considers the ratio of debt to assets to be useful for evaluating the leverage the Company may have on its investment properties, including its ability to consider additional financing opportunities as needed for future growth. The debt to assets ratio has remained at around 50%, which is consistent with prior periods.

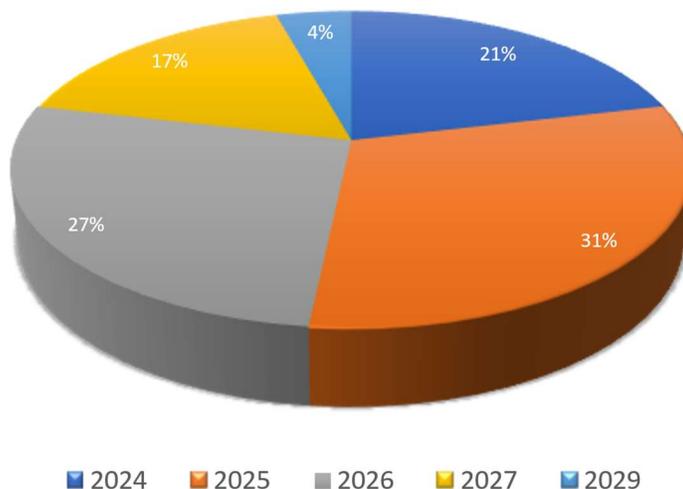
The Company monitors its interest rate on mortgages, as interest rates related to the financing of the properties are a key external factor that impacts the Company's overall profitability. Investment properties are financed with conventional fixed term mortgages and benefit the Company when mortgages are originated in a low interest environment. In the current environment of rising interest rates, mortgages are being renewed at significantly higher rates, resulting in increased cash outflows for debt service.

The weighted average interest rates on the mortgages have continued to increase to 3.73% at September 30, 2023 up from 3.23% at September 30, 2022. During the year ended September 30, 2023, five mortgages with balances at September 30, 2023 totalling \$11,405,348 were renewed during the year at interest rates ranging between 5.290% and 6.910%, which is higher than the average interest rates for mortgages renewed during fiscal 2022. In fiscal 2022, four mortgages with balances totalling \$17,998,957 were renewed at rates between 2.930% and 5.450%, which increased the weighted average interest rate from 3.15% at September 30, 2021.

Management took steps in prior years to lock in mortgages at lower rates for longer periods, however as these mortgages come due, the Company anticipates that the weighted average interest rate on mortgages will continue to increase. Where possible, the Company is choosing to renew for shorter time periods at the current higher rates, with the hope that rates will stabilize and potentially become lower prior to renewal.

### Mortgage Maturities

(Fiscal Years)



## ***Our Governance***

Imperial Equities continues to engage a dedicated team of professionals to manage and oversee business activities. The Board of Directors oversees the activities of the Company and includes individuals with significant real estate and governance experience to guide and assess the Company's strategy and investment decisions. Management monitors the success of Imperial by measuring how well the Company delivers on its strategies and executes due diligence.

### ***Strategic Objectives***

- 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

## ***Our Environmental, Social and Governance ("ESG") impact***

The Company is moving to ensure it can meet its ESG reporting requirements as well as to set goals to ensure its environmental risks are managed, mitigated and its environmental footprint is reduced over time. The Company has set a goal of achieving Net Zero impact and continues to assess what steps are required to meet this goal.

The International Sustainability Standards Board (ISSB) issued the first two of its disclosure standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2 *Climate-related disclosures* on June 26, 2023. These disclosures are not yet mandatory in Canada, and the Company will continue to monitor developments from the Canadian Securities Administrators (CSA), and the Canadian Sustainability Standards Board (CSSB).

In the meantime, the Company has chosen the Global Reporting Initiative (GRI) as a framework with which to begin to account for its environmental, social, and governance-related measures. The first report based on the GRI General Disclosures was the Annual Report for the year ended September 30, 2022.

Starting in fiscal 2024 and pending further guidance on the requirements for sustainability reporting from the Canadian Securities Administrators, the Company also intends to report using the GRI's Construction and Real Estate Disclosures. If new requirements for reporting are mandated in Canada, the Company will assess its current reporting and ensure that it meets required disclosures.

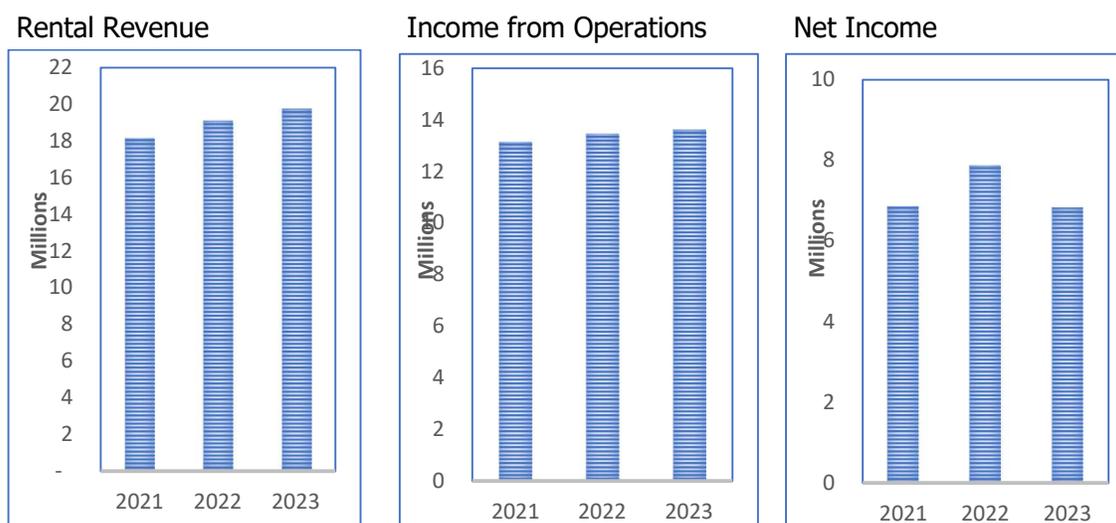
The Company is focused on managing its environmental impacts in three ways:

- 1) All 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) Ongoing maintenance includes an assessment of ways of improving energy efficiency. When the Company renovates an existing site, it looks for opportunities to upgrade existing systems, especially in older properties. Roof maintenance, upgraded windows, new energy efficient mechanical equipment and components, 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.

## FINANCIAL PERFORMANCE

(in thousands)	Year ended September 30,			
	2023	2022	Variance	2021
<b>Rental revenue</b>	\$ <b>19,737</b>	\$ 19,067	\$ 670	\$ 18,110
Property operating expenses	<b>6,111</b>	5,608	503	4,971
<b>Income from operations</b>	<b>13,626</b>	13,459	167	13,139
Finance costs	<b>5,075</b>	4,377	698	4,259
Administrative expenses	<b>1,481</b>	1,477	4	1,582
Amortization of deferred leasing	<b>483</b>	352	131	307
Amortization of right-of-use asset	<b>150</b>	150	-	150
Gain on sale of investment property	-	(193)	193	-
Valuation net gains from investment property	<b>(2,131)</b>	(2,508)	377	(1,686)
<b>Income before income tax</b>	<b>8,568</b>	9,804	(1,236)	8,527
Income tax expense	<b>1,755</b>	1,950	(195)	1,685
<b>Net income and comprehensive income</b>	\$ <b>6,813</b>	\$ 7,854	\$ (1,041)	\$ 6,842
<b>Earnings per share basic and diluted (in dollars)</b>	\$ <b>0.72</b>	\$ 0.83	\$ (0.11)	\$ 0.72
<b>Dividends per share (in dollars)</b>	\$ <b>0.08</b>	\$ 0.07	\$ 0.01	\$ 0.05

The following charts compare the years ended September 30, 2023, 2022 and 2021.



**Rental revenue** includes minimum rent, which is recorded on a straight-line basis over the terms of the related leases, as well as property tax, insurance and occupancy cost recovery revenue. Rental revenue also includes adjustments for amortization of tenant inducements, as well as any settlement revenue received from tenants for payments for the early termination of leases, or for damages when a tenant is vacating a property.

For the year ended September 30, 2023, rental revenue was \$19,736,765 compared to \$19,067,094 for the year ended September 30, 2022. The increase in rental revenue is due to increased property tax, insurance and operating expense recovery revenues, as the related costs have increased over the prior year. Additionally, straight line rental revenue has increased due to the leasing of two properties during the year, that were vacant for part of the prior year, offset by the vacancy of one property starting in July 2023. Rental revenue also includes settlement revenue related to a settlement reached with a former tenant for damages to a building, and a payment received from a vacating tenant to compensate the Company for potential disposal costs related to furniture and fixtures that were not removed from the leased premises at the end of the lease. These two items amounted to an additional \$217,220 of revenue that is not expected to reoccur in subsequent years. The increase in rental revenue for the year ended September 30, 2022 compared to September 30, 2021 was the result of a full year of rental revenue being recorded in fiscal 2022 on properties purchased in fiscal 2021, rental revenue for one property purchased in 2022, as well as increased rent from properties that were previously vacant.

**Income from operations** is \$13,625,486 for the year ended September 30, 2023 compared to \$13,458,786 for the year ended September 30, 2022. The overall increase between 2023 and 2022 and 2022 and 2021 is due to the increases in rental revenue as noted above. The percentage of property operating expenses that were recovered from occupancy recoveries revenue declined slightly in fiscal 2023 compared to fiscal 2022 and 2021 due to higher non-recoverable expenses for renovations and vacant space.

**Net income** for the year ended September 30, 2023 is \$6,812,930 compared to \$7,853,671 for the year ended September 30, 2022. The decrease in net income is directly related to the decrease in net valuation gains from investment properties, and to the increase in financing costs in the year as a result of increased debt balances and increased interest rates during the year. For the year ended September 30, 2022, net income was higher than the year ended September 30, 2021 as a result of higher net valuation gains on investment properties as well as higher rental revenue.

### Property operating expenses

	Year ended September 30,		Variance
	2023	2022	
Property taxes	\$ 3,135,290	\$ 2,982,204	\$ 153,086
Insurance	245,729	223,509	22,220
Repairs and maintenance	2,262,915	2,007,740	255,175
Utilities	467,345	394,855	72,490
	<b>\$ 6,111,279</b>	<b>\$ 5,608,308</b>	<b>\$ 502,971</b>

The increase in property operating expenses is primarily related to increased repairs and maintenance expenses and increased property taxes. The property taxes increased during the year in part due to the change in usage for a property that was previously tax exempt, and in the year became taxable, resulting in an additional \$135,000 in property taxes. The Company completed significant renovations on the CORE Distribution building, converting it from a warehouse with office space, to a warehouse and retail space.

The Company took the opportunity to repair and upgrade the building including new LED lighting, interior and exterior painting, flooring and roofing repairs, and upgrading electrical, plumbing and HVAC systems. As a result, the Company incurred approximately \$440,000 in additional repairs and maintenance expenses in the current year related to this project specifically. This increase was offset by a reduction in repairs and maintenance expense as a result of the completion of significant deferred maintenance project during the year ended September 30, 2022 on a property acquired in fiscal 2021, which accounted for \$175,000 of expenses in fiscal 2022. The Company also had increased utilities expenses in the year ended September 30, 2023 as a result of having additional vacant space where the Company was required to pay for utilities that were not recoverable from a tenant.

### Finance costs

	Year ended September 30,		
	2023	2022	Variance
Interest on mortgages	\$ 3,514,154	\$ 3,546,287	\$ (32,133)
Interest on bank operating facilities	1,205,258	666,330	538,928
Interest on other unsecured financing	281,830	40,425	241,405
Interest on lease obligations	24,457	31,954	(7,497)
Amortization of deferred financing fees	89,682	107,016	(17,334)
Interest income	(67,681)	(15,038)	(52,643)
	<b>\$ 5,047,700</b>	<b>\$ 4,376,974</b>	<b>\$ 670,726</b>

Finance costs have increased from the prior year because of increases in outstanding bank operating facilities combined with increases in the floating rates on the bank operating facilities due to the overall increases in the bank prime rate during the year ended September 30, 2023. Additionally, the Company utilized higher levels of related party financing during the year, which incurred additional interest. Finance costs related to the project in Fort McMurray were capitalized until the project was complete and ready for occupancy and were included in additions to investment property. Total costs capitalized to the project in the year were \$154,366 (2022 - \$nil). The higher overall interest on mortgages is related to increased interest rates on mortgages that were renewed in the current and prior year compared to the interest rates prior to renewal.

### Administrative expenses

	Year ended September 30,		
	2023	2022	Variance
Salaries and benefits	\$ 727,375	\$ 917,118	\$ (189,743)
Public company costs	93,049	110,822	(17,773)
Professional fees	95,221	120,304	(25,083)
Office and other	435,695	328,296	109,398
Bad debts	129,609	-	129,608
	<b>\$ 1,480,949</b>	<b>\$ 1,476,540</b>	<b>\$ 4,409</b>

Administrative expenses remained consistent on an overall basis in comparison to the prior year.

Salaries and benefits were lower than the prior year due to the departure of the Chief Operating Officer during the year ended September 30, 2022, with the position not being replaced during the year ended September 30, 2023. Additionally, there was a vacancy in the CFO position for a period of 6 months during the year ended September 30, 2023, resulting in reduced expenses. This was offset by increased use of contract support for financial reporting, which is included in office expenses, and accounts for the majority of the cost increase in office and other expenses during the year ended September 30, 2023. The decrease in public company costs and professional fees related to management's focus on reducing administrative expenses where possible.

**Amortization of deferred leasing and right-of-use asset** are related to the accounting for deferred leasing costs and right-of-use asset. Deferred leasing costs are costs incurred when a lease is entered into or renewed and consist primarily of commissions. For accounting purposes these are deferred and amortized against rental revenue over the term of the related lease. Amortization is recorded on the right-of-use asset on a straight-line basis over the term of the lease which generated the asset.

**Gain on sale of investment property** in the prior year related to the sale of an investment property in the prior year. No such investment property sales occurred in the current year.

**Valuation gains from investment properties, net** are the result of adjusting the investment properties to fair value at the end of each reporting period. For the year ended September 30, 2023, the net valuation gains from investment properties were \$2,131,024 compared to \$2,507,969 for the year ended September 30, 2022. The change in investment property fair value is discussed below in "Investment properties".

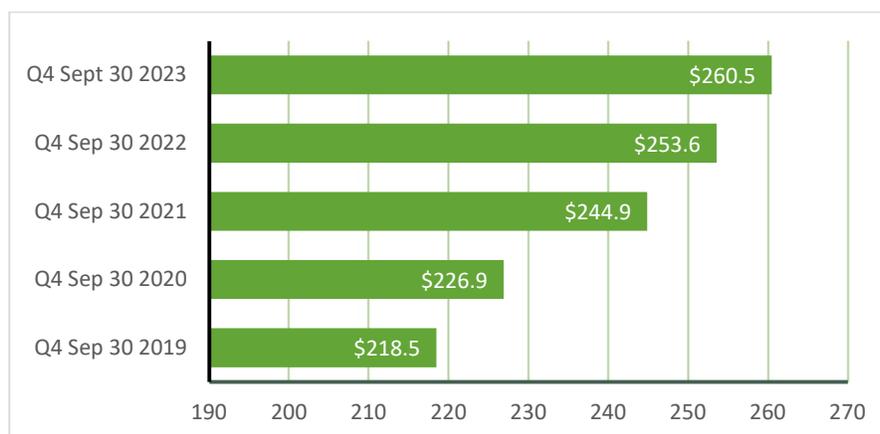
## Selected balance sheet information

	Year ended September 30,			
	2023	2022	Variance	2021
Investment properties	\$ 260,517	\$ 253,596	\$ 6,921	\$ 244,944
Mortgage receivable	-	1,439	(1,439)	-
Right-of use asset	363	513	(150)	662
<b>Total non-current assets</b>	<b>260,880</b>	255,548	5,332	245,606
Current portion mortgage receivable	1,439	32	1,407	2,500
<b>Current assets</b>	<b>1,716</b>	1,595	121	1,382
<b>Total assets</b>	<b>\$ 264,035</b>	\$ 257,175	\$ 6,860	\$ 249,488
Mortgages	\$ 78,886	\$ 89,073	\$ (10,187)	\$ 82,293
Lease liability	246	409	(163)	565
Security deposits	746	763	(17)	749
Deferred taxes	16,721	15,411	1,310	14,272
<b>Total non-current liabilities</b>	<b>96,599</b>	105,656	(9,057)	97,879
Bank operating facilities	19,874	18,883	991	20,360
Current portion of mortgages	28,852	18,969	9,883	26,216
Other financing	3,565	3,000	565	3,800
Other current liabilities	3,217	4,796	(1,579)	2,554
<b>Total current liabilities</b>	<b>55,508</b>	45,648	9,860	52,930
<b>Total liabilities</b>	<b>152,107</b>	151,304	803	150,809
<b>Equity</b>	<b>111,928</b>	105,871	6,057	98,679
<b>Total equity and liabilities</b>	<b>\$ 264,035</b>	\$ 257,175	\$ 6,860	\$ 249,488

## Investment properties

Investment properties are carried at fair value, which is determined by management using valuation methodologies at the end of each reporting period.

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



Investment property fair values are determined by Management using either an income approach, or a direct comparison approach. For the income approach, net operating income is estimated based on the actual annual contracted minimum rental revenue, less a vacancy and structural reserve allowance, and a capitalization rate is applied to this normalized operating income to derive 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 applies these factors to each property in determining a capitalization rate.

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 two income producing properties and vacant land and land under lease. Vacant land held for development, land under lease, and the two income producing properties are valued using Management's research of similar properties that have been sold recently or are available for sale.

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 contractual revenue streams which would otherwise drive the value upwards.

During the year ended September 30, 2023, increases in the fair value of properties reflect income generated by properties that were previously vacant, income from new leases, the completion of the building in Fort McMurray, and the completion of significant upgrades to the CORE Distribution building.

There has been no significant change in the cap rates.

INVESTMENT PROPERTY CAP RATES	September 30, 2023		Rate Change	September 30, 2022	
	Total GLA sf	Range Cap Rates		Total GLA sf	Range Cap Rates
Edmonton, Alberta	721,344	4.50% - 7.00%*	↔	762,960	4.50% - 7.00%
Fort McMurray, Alberta	84,624	6.50% - 6.75%	↑	51,424	6.23% - 6.70%
Red Deer, Alberta	78,196	6.10% - 6.65%	↔	78,196	6.10% - 6.63%
Leduc, Alberta	41,630	7.00%	↑	41,630	6.50%
Vegreville, Alberta	33,295	8.00%	↔	33,295	8.00%
Hanna, Alberta	28,891	7.00%	↔	28,891	7.00%
Fort Saskatchewan, Alberta	6,000	6.75%	↑	6,000	6.51%
Nisku, Alberta	37,200	6.50%	↔	37,200	6.50%
Fort St. John, British Columbia	21,140	8.50%	↔	21,140	8.50%
Available for lease Edmonton, Alberta	1,052,320 65,512			1,060,736 23,267	
Total GLA square feet	1,117,832			1,084,003	

\* Lower cap rates on certain buildings are reflective of management's use of the direct comparison approach to fair value on those properties, instead of the income capitalization approach.

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 increases in rent. Cap rates in Fort McMurray were increased as a result of uncertainty related to market slowdowns, and to maintain property values. Cap rates continue to be evaluated on a property-by-property basis to ensure values reflect current market conditions.

Changes in investment properties since the fiscal year-end of September 30, 2022, are detailed below.

	<b>Income producing properties</b>	<b>Properties under development</b>	<b>Held for development</b>	<b>Total investment properties</b>
<b>Balance, September 30, 2022</b>	\$ 235,674,148	\$ 5,520,242	\$ 12,401,992	\$ 253,596,382
Reclassification of land held for development	(1,000,000)	-	1,000,000	-
<i>Additions:</i>				
Property improvements and additions	627,706	3,947,441	-	4,575,147
Capitalized property taxes and other	-	-	179,748	179,748
Tenant inducements	323,192	-	-	323,192
Leasing commissions	405,558	-	-	405,558
Reclassification from properties under development to income producing properties	11,008,986	(11,008,986)	-	-
Amortization of tenant inducements	(257,256)	-	-	(257,256)
Amortization of deferred leasing commissions	(483,042)	-	-	(483,042)
Change in straight-line rental revenue	46,266	-	-	46,266
Revaluation gains (losses), net	1,193,825	1,541,303	(604,104)	2,131,024
<b>Balance, September 30, 2023</b>	<b>\$ 247,539,383</b>	<b>\$ -</b>	<b>\$12,977,636</b>	<b>\$ 260,517,019</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.

The Fair value of investment properties increased by \$6,920,637 from \$253,596,382 at September 30, 2022 to \$260,517,019 at September 30, 2023 as a result of the following:

- The project in Fort McMurray was completed in the year. Additions to the building during the year ended September 30, 2023 totalled \$3,947,000, and the building fair value increased by \$2,015,000 as a result of the increased rental revenue under the lease commencing subsequent to year-end, as well as the adjustment for the completion of construction, with prior period fair value being prorated based on the percentage completion of construction on the whole project.
- Two previously vacant buildings were occupied during the year. One of the buildings had substantial property improvement additions of \$590,000. Both buildings had increases in fair value of \$2,526,013 as a result of increased lease rates.
- Several buildings had increased rental revenue as a result of lease steps ups, and two tenants leased additional space that increased the rental revenue by tenant. This was offset by increases in capitalization rates on some properties, to maintain a fair value that was consistent with overall market values. The net of these changes was an increase in fair value of \$901,000.
- There were losses on fair value on two buildings in the year. One building was vacated during the year, and the projected rental revenue from a new tenant is expected to be lower than previous lease rates. The capitalization rate was also increased to account for the market risk related to vacancy and current economic uncertainty. The other building has a lease which expires during fiscal 2024, where the parties are currently negotiating a renewal agreement.

The expected rental rate from the renewal is lower than prior years, and management increased the capitalization rate to account for market uncertainty, and the fact that the renewal remains unsigned. The loss in fair value on these two properties totalled \$2,672,000.

- There was a loss in fair value on vacant land held for development of \$600,000 as a result of the overall market changes.

During the prior year, the fair value of the investment properties increased by \$8,652,487 from \$244,943,895 at September 30, 2021 to \$253,596,382 at September 30, 2022. The increase related to the following:

- Increases related to increased 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 \$1,805,000 of the fair value gains.
- The Company acquired a bulk purchase of 2 separate contiguous parcels of land. One parcel was sold during the year, and the second parcel was included in vacant land held for development. The land held for development had a cost of \$850,000 and recorded a fair value increase of \$150,000 as a result of revaluation based on market comparables.
- The expansion project in Fort McMurray had property additions of \$5,086,000, and a fair value gain of \$439,000 based on the expected fair value adjusted for the percentage of completion of construction at September 30, 2022.
- 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 \$321,000.

**Mortgage receivable** at September 30, 2023 and 2022 is a vendor take back loan to the Company on the sale of a property that occurred during the year ended September 30, 2022. The loan bears interest at 4.5% and has monthly blended payments of principal and interest of \$8,164. The balance of the mortgage receivable is due on July 31, 2024 and has been reclassified as a current asset for the year ended September 30, 2023. At September 30, 2021 the Company had a different vendor take back loan on another sale that was repaid in full during the year ended September 30, 2022.

**Right-of-use asset and lease liability** are for the Company's office lease and have been recorded in accordance with the requirements of IFRS 16 *Leases*. The asset and liability were initially recorded at the present value of the lease payments to the term of the lease on October 1, 2019. The asset is amortized on a straight-line basis over the term of the lease. The effective interest rate on the liability was set at 4.95% at inception. Lease payments are \$180,000 per year and remain unchanged from prior years.

**Current assets** include receivables from tenants, prepaid expenses and deposits and cash balances with banks. The balance has increased as a result of higher prepaids and deposits, which includes a deposit of \$100,000 towards the purchase of land. The deposit is refundable if certain conditions are not met, including board approval of the transaction. See "Planned Expenditures" for further information.

**Mortgages** including both current and long-term portions have a balance of \$107,737,914 at September 30, 2023 (September 30, 2022 - \$108,041,921). The decrease in mortgages is as a result of paying down mortgages through monthly principal payments, which is offset by a new mortgage of \$7,200,000 that the Company entered into at the end of the year, that was secured by the investment property in Fort McMurray that was expanded. The proceeds of the new mortgage was used to reduce the outstanding balances on the Company's bank operating facilities and other financing.

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

Maturity Date	Rate	Principal Balance September 30, 2022	Mortgages Advanced	Y-T-D Principal Payments	Principal Balance September 30, 2023
October 1, 2023	3.950%	\$ 143,163	\$ -	\$ 131,934	\$ 11,229
November 1, 2023	4.330%	3,448,623	-	246,065	3,202,558
December 1, 2023	4.648%	4,133,419	-	287,144	3,846,275
January 1, 2024	4.300%	1,874,009	-	191,410	1,682,599
January 1, 2024	4.300%	1,487,309	-	151,913	1,335,396
April 1, 2024	2.110%	3,796,429	-	244,585	3,551,844
* July 1, 2024	6.910%	1,595,085	-	164,376	1,430,709
August 1, 2024	3.300%	8,491,306	-	592,244	7,899,062
November 1, 2024	3.555%	7,550,033	-	505,864	7,044,169
* December 1, 2024	6.073%	3,034,362	-	227,946	2,806,416
* December 1, 2024	6.073%	2,756,884	-	207,099	2,549,785
February 1, 2025	3.420%	4,311,765	-	284,053	4,027,712
February 1, 2025	3.310%	4,589,983	-	423,439	4,166,544
* February 1, 2025	5.720%	1,671,265	-	126,514	1,544,751
* April 1, 2025	5.290%	3,269,384	-	195,697	3,073,687
April 1, 2025	2.310%	4,565,410	-	316,529	4,248,881
August 1, 2025	2.837%	3,540,220	-	230,464	3,309,756
* October 1, 2023	4.090%	5,004,237	-	365,098	4,639,139
October 1, 2025	6.720%	-	7,200,000	-	7,200,000
April 1, 2026	2.675%	2,404,956	-	223,308	2,181,648
July 1, 2026	2.710%	10,553,887	-	640,080	9,913,807
July 1, 2026	2.710%	5,522,655	-	334,942	5,187,713
October 1, 2026	2.940%	9,031,037	-	526,111	8,504,926
November 1, 2026	2.930%	10,506,586	-	608,102	9,898,484
June 11, 2029	3.480%	4,960,923	-	347,171	4,613,752
		<b>\$ 108,242,930</b>	<b>\$ 7,200,000</b>	<b>\$ 7,572,089</b>	<b>\$ 107,870,843</b>

\* Mortgages that were renewed during the year ended September 30, 2023

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.

**Security deposits** are amounts received from certain tenants under the terms of the leases as security on the building and future rental revenue, and are refundable to the tenant upon the conclusion, if certain conditions are met, including the return of the lease premises in an appropriate state of repair. As the majority of the Company's leases are long term in nature and security deposits are held for the duration of the lease, they are classified as long-term liabilities. Any security deposits that relate to leases with a term that expires in the next twelve months are reclassified to payables and accruals. The current portion of security deposits for the year ended September 30, 2023 was \$57,344 (2022 - \$40,810).

**Deferred taxes** are recorded on the difference between the accounting and tax bases of assets and liabilities. The difference between the fair value of investment properties recorded for accounting purposes, and the cost basis used for tax purposes generates the largest deferred tax liability at \$15,842,856 (2022 - \$14,512,133). The increase in deferred tax is primarily related to the increased fair value of the investment property compared to the tax basis of the property at September 30, 2023.

**Bank operating facilities** at September 30, 2023 have a balance of \$19,873,766 with two of the Company's major lenders (September 30, 2022 - \$18,883,403). The increase for the year ended September 30, 2023 reflects the property improvement expenditures incurred on the Fort McMurray expansion project in excess of the amount of the new mortgage that was used to finance the completed project.

The details of the Company's two credit facilities are as follows:

- 1) One operating Line of Credit (LOC) with a limit of \$15,500,000 (September 30, 2022 - 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, 2023, of \$15,104,226 (September 30, 2022 - \$13,047,268). The credit facility has a fixed rate fixed term ("FRFT") component to a maximum of \$8,000,000, which bears interest at 3.36% per annum with a three-year term ending February 1, 2024. The balance of the FRFT component at September 30, 2023 is \$7,663,656 (September 30, 2022 - \$7,875,620). The remaining balance of the facility is revolving, and bears interest at prime plus 1% per annum. The LOC is secured by specific revenue-producing properties with combined fair values of \$37,157,449 (September 30, 2022- \$36,469,039). Prime rate at September 30, 2023 was 7.2% (September 30, 2022 - 5.45%).

On November 8, 2022, the Company entered into an amending agreement which increased the operating line from \$13,500,000 to \$15,500,000 while maintaining the \$8,000,000 FRFT component, and with the remaining balance as an interest only revolver. The lender may, on demand, require immediate payment of all amounts outstanding or accrued in connection with the facility as a whole.

Specific covenants of this credit facility include the following:

- Minimum Occupancy Level: The Company is required to have a minimum of 90% occupancy of the secured buildings. Should a secured property fall below the Minimum Occupancy level, a 6-month grace period will commence subject to a reduced Loan to Value Test of 50%, and the existing Debt Service Test.
- Debt Service Coverage Ratio ("DSCR"): The DSCR is calculated as the net operating income divided by the debt service. The debt service is defined as the annual principal and interest payments based on a 25-year amortization and an interest rate that is the greater of 4.5% (2022 – 4.5%) or the Government of Canada Benchmark Bond Yields plus 225 basis points. The net operating income is defined as 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"): The LTV must be maintained at less than 70%. The LTV is defined as the total debt on the secured properties divided by the current market value of the secured properties.

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, 2022); 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, 2022). For these secured properties, the loan to value is set at 70%.

The Company was in compliance with all of the covenants as at, and during the year ending September 30, 2023. During the year ended September 30, 2022, 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 year and waived the breach as at September 30, 2022 as it was remediated as of the fiscal year end.

- 1) A second operating LOC with a limit of \$6,000,000 (September 30, 2022 – a limit of \$6,000,000).

The balance on the credit facility at September 30, 2023, is \$4,769,539 (September 30, 2022 - \$5,836,140). This credit facility bears interest at prime plus 0.95% per annum and is secured by specific revenue-producing properties with combined fair values at September 30, 2023, of \$32,209,073 (September 30, 2022 - \$32,052,336).

On March 24, 2023, the Company entered into an agreement to receive a \$2,000,000 temporary increase in the operating line of credit, creating a new limit of \$8,000,000. On June 22, 2023, an additional temporary increase of \$2,000,000 was approved temporarily increasing the credit limit to \$10,000,000.

The temporary agreements included a general security agreement covering a first position on all present and after acquired property and was extended to September 21, 2023 at which time, the Company received funding on a new mortgage of \$7,200,000. In accordance with the terms of the agreements, the proceeds of the new mortgage were used to reduce the outstanding balance on the line of credit. Additionally, at the expiration date of the extensions, the security agreement was discharged and the limit on the LOC reverted back to \$6,000,000.

There are no specific covenants or margin formulas for this line of credit.

**Other financing** at September 30, 2023 of \$3,565,000 (September 30, 2022 – \$3,000,000) is due to related parties. The loans are unsecured and bear interest at an annual rate of 6%. The Company received advances of \$3,065,000 (2022 - \$3,000,000) during the year ended September 30, 2023, and repaid \$2,500,000 (2022 - \$3,800,000). The other financing was used for operating cash flows and to fund the expansion project in Fort McMurray during the year. Proceeds from the new mortgage on the Fort McMurray property were used to repay a portion of the related party financing in the current year.

**Other current liabilities** include payables and accruals, income taxes payable and the current portion of the lease liability. Payables and accruals decreased \$1,140,122 from \$3,754,446 at September 30, 2022 to \$2,614,324 at September 30, 2023. This decrease is primarily due to the completion of construction on the investment property in Fort McMurray, as the prior year included higher balances payable on the project compared to the current year. The remaining decrease is primarily due to a lower corporate tax payable for the year ended September 30, 2023 compared to the year ended September 30, 2022 due to lower taxable income.

## SELECTED CASH FLOW INFORMATION

(in thousands)	Year ended September 30,			
	2023	2022	Variance	2021
Cash provided by operating activities	\$ 11,239	\$ 11,210	\$ 29	\$ 10,445
Cash used in investing activities	(6,529)	(3,015)	(3,514)	(7,997)
Cash used in financing activities	(4,519)	(8,158)	3,639	(2,376)
Increase in cash and cash equivalents	191	37	154	72
Cash and cash equivalents, beginning of year	233	196	37	124
Cash and cash equivalents, end of year	\$ 424	\$ 233	\$ 191	\$ 196

**Cash provided by operating activities** for the year ended September 30, 2023 was \$11,239,449 (2022 - \$11,210,070). The Company continues to generate positive cash flows from operations which cover operating expenses, additions to investment properties, and payments on financing. The increase in the cash provided by operating activities was primarily driven by an increase in net income from operations after non-cash addbacks, which was higher than the prior year due to increased rental revenue.

**Cash used in investing activities** for the year ended September 30, 2023 was \$6,529,391 (2022 - \$3,014,840). Changes in cash used in investing activities is primarily driven by the timing of cash payments for property improvements, including property under development, which can fluctuate period to period depending on projects that are undertaken. The current year was impacted by a reduction in the amount of accounts payable at September 30, 2023 compared to September 30, 2022 related to construction undertaken for the Fort McMurray expansion project which was completed during the current fiscal year.

**Cash used in financing activities** for the year ended September 30, 2023 was \$4,518,605 (2022 - \$8,158,346). Changes in cash used in financing activities are driven by the timing of funds received from mortgages, and other financing, as well as the timing of draws or repayments on the bank operating facilities. For the year ended September 30, 2023 the Company had net advances under bank operating facilities of \$990,358, while in the year ended September 30, 2022, the Company paid net repayments on its bank operating facilities of \$1,477,084. This cash inflow of \$2,476,442 was the result of the Company utilizing its bank operating facilities to fund its investment property additions in the year. The Company also had increased other financing, with a net inflow of other financing of \$565,000 for the year ended September 30, 2023 compared to a net outflow of \$800,000 for the year ended September 30, 2022. The Company had higher finance costs during the year ended September 30, 2023 of \$4,833,857 compared to \$4,571,660 for the year ended September 30, 2022, which resulted in increased cash outflows of \$262,197. These were the result of a combination of the higher average bank operating facilities balance and other financing balance for the year ended September 30, 2023 compared to the year ended September 30, 2022, and the higher overall interest rates charged on the bank operating facility.

At September 30, 2023, there was a **net increase in cash** of \$191,453 (2022 - \$36,884).

## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(in thousands)	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
<b>REVENUE</b>	\$ 5,226	\$ 5,196	\$ 4,651	\$ 4,664	\$ 4,772	\$ 4,758	\$ 4,654	\$ 4,883
<b>TOTAL COMPREHENSIVE INCOME</b>	\$ 1,126	\$ 1,289	\$ 1,321	\$ 3,077	\$ 1,648	\$ 2,299	\$ 1,910	\$ 1,997
<i>(in dollars)</i>								
<b>EPS-Basic</b>	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.33	\$ 0.17	\$ 0.24	\$ 0.20	\$ 0.15
<b>EPS-Diluted</b>	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.33	\$ 0.17	\$ 0.24	\$ 0.20	\$ 0.15

The Company is not significantly impacted by seasonality in its operations. Minimum rental revenue is recorded on a straight-line basis over the term of the lease, and property operating recoveries are recorded at estimated amounts throughout the year, with a reconciliation to actual recoveries completed at Q4 each year.

As a result, the revenue in Q4 may increase in comparison to prior quarters, as amounts receivable from tenants over the budgeted recoveries are accrued. Overall, the increase in revenue in Q3 and Q4 in fiscal 2023 relates to increased rental revenue from new tenant leases that commenced during the quarters. In the prior year, the Company had vacancies that arose in Q3 and Q4 and were not filled until fiscal 2023.

Changes in comprehensive income relate primarily to fluctuations in the net valuation gain (loss) from investment properties and increases in finance costs. During fiscal 2023, the Company had increased finance costs due to higher balances on the bank operating facilities, and higher interest rates.

The fluctuations in the valuation net gains (losses) from investment properties is summarized below:

(in thousands)	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
<b>Valuation gains (losses) from investment properties, net</b>	\$ 86	\$ (357)	\$ 205	\$ 2,197	\$ 668	\$ 866	\$ 380	\$ 594

Fluctuations in the net valuation gains (losses) from investment properties quarter over quarter primarily reflect adjustments to the fair value of investment properties related to the completion of new or renewed leases, and completion or progress on redevelopment projects that improve the overall value of the buildings. During Q1 2023, the Company completed two large redevelopment projects with tenants taking occupancy in Q2 2023, as well as renewing 3 leases and signing an amended lease with a tenant to increase square footage. In Q3 2023, the Company recognized a loss in fair value on a property that was vacated, which was offset in part due to a gain on the Fort McMurray expansion as it moved closer to completion.

In Q4 2023, the Company's recorded a gain on the Fort McMurray project which was completed in the quarter, as well as on the CORE distribution building where improvements were substantially completed, and gains for previously vacant space which was leased, was offset by declines on a building with a lease expiry subsequent to year end, where the new terms are expected to be at a lower lease rate.

Increases in the fair values of investment properties during fiscal 2022 reflected income generated by properties that were previously vacant. One property that was acquired in Q4 of 2021 with extensive deferred maintenance was improved during fiscal 2022 and resulted in a gain in valuation. Additionally, in Q3 2022 the Company acquired two parcels of land, which were revaluated resulting in a gain. In Q3 and Q4 of 2022, the Company gained 3 leases with tenants at higher rates, and a portion of the project in Fort McMurray was completed, resulting in additional fair value gains.

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

## LIQUIDITY AND CAPITAL RESOURCES

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 and improvements. The Company has not breached any debt covenants and maintains a healthy relationship with its current lenders.

The Company has the following available room under its bank operating facilities:

	September 30, 2023	September 30, 2022
Available bank credit facilities	\$ 21,500,000	\$ 19,500,000
Bank facilities outstanding	19,873,766	18,883,408
Available credit facilities	\$ 1,626,234	\$ 616,592

The Company considers its sources of financing to be mortgages, bank operating facilities, and cash generated from operating activities.

The Company primarily relies on its lenders to finance the majority of the cost of property acquisitions through conventional mortgage financing. Any further cash shortfalls are covered through related-party financing, or operating 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 to grow and to satisfy short-term borrowing needs and obligations.

At September 30, 2023, seven (2022 – five) mortgages are due in the next twelve months with combined principal balances of \$22,948,441 (2022 - \$12,326,981) and are shown as current liabilities. Two of the mortgages with a total principal balance of \$4,885,157 at September 30, 2023 were renewed subsequent to year-end.

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 payments may change.

Investment properties unencumbered with debt are valued at \$22,714,118 at September 30, 2023 (September 30, 2022 - \$22,138,517). Overall, the ratio of debt to total assets is 50% at September 30, 2023 (September 30, 2022 - 51%), providing possible leverage opportunities in the future.

During the year ended September 30, 2023 the Company completed a significant expansion project for an existing tenant in Fort McMurray. The total cost of the project was \$9,200,000 and the Company financed the construction through operating cash flows, bank operating facilities and other financing during the construction period which started during the year ended September 30, 2022. When the project was completed construction and occupancy permits were granted, the Company obtained a conventional mortgage of \$7,200,000. The proceeds of the mortgage were used to reduce the outstanding balance on the bank operating facilities and other financing.

Included in accounts payable at September 30, 2023, is a final progress billing and a holdback payable totalling \$1,254,777 (2022 -progress billings of \$2,390,132) related to the Fort McMurray project construction. The Company will pay the outstanding balance using operating cash flows and available credit.

During the year ended September 30, 2023, the Company entered into a purchase agreement to acquire land for a total purchase price of \$8,000,000. The purchase agreement was entered into as part of a potential build-to-suit agreement with a tenant, with a total anticipated project cost of \$30,000,000. If this project is undertaken by the Company, construction is expected to commence during the year ending September 30, 2024. Financing for the project is planned to be from a combination of operating cash flows, internal equity through refinancing of existing properties, and new construction financing. The Company has entered into preliminary discussions with its lenders regarding obtaining financing for this potential project.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## RELATED PARTY TRANSACTIONS

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

**Property management and maintenance fees** of \$1,436,959 (2021 - \$1,272,355) 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 compensate Sable for the management and maintenance of the Company's properties for a fee of 4% of rents collected by the Company. 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 \$120,806 (2022 – \$302,547) were paid to North American Realty Corp. ("NARC"), a company controlled by Sine Chadi. These fees are paid pursuant to a contract with the Company for asset management services. The contract provides for fees to be paid by the Company as follows:

- Leasing fees of 6% of the value of minimum rent on new leases for the first five years, and 3% of the value of minimum rent for years six to ten, to a maximum of ten years;
- Acquisition fees based on 1% of the purchase price of the property; and
- Disposition fees based on 3% of the sale price of the property.

**Leased office space and parking** were paid to Sable in the aggregate amount of \$180,000 (2022 - \$180,000). Imperial Equities shares its head office space with the Sable head office. There was no change in lease rates in the current year. The lease term expires on February 28, 2026.

**Consulting fees** during 2023 were \$nil (Q3 2022 – \$1,800) and were paid to Sable for the services provided by the Company's financial advisor (formerly the CFO) who was not paid directly by the Company in prior years. In the current year, consulting fees to the Company's financial advisor were included in office and other expenses.

**Rent collected from** Sable for commercial lease space was \$94,923 (2022 – \$94,923). 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 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 to independent directors for attending directors' meetings during the year were \$45,000 (2022- \$45,000). Fees per director per meeting are \$2,500, unchanged from the prior year. The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

### Compensation to Key Management personnel

Compensation of key management personnel is as follows:

	Salaries and wages	Short-term benefits	Total 2023	Total 2022
Sine Chadi, President & CEO	\$ 374,400	\$ 7,972	\$ <b>382,372</b>	\$ 307,013
Azza Osman, CFO*	35,962	4,759	<b>40,721</b>	188,396
Meghan DeRoo McConnan, Interim CFO *	65,675	-	<b>65,675</b>	-
Ajay Juneja, VP of Corporate Services **	68,533	-	<b>68,533</b>	-
Patricial Misutka, COO ***	-	-	-	151,948
<b>Total</b>	<b>\$ 544,570</b>	<b>\$ 12,731</b>	<b>\$ 557,301</b>	<b>\$ 647,357</b>

\* The CFO is on leave commencing December 9, 2022; the Interim CFO joined the Company May 23, 2023.

\*\* The Vice President Corporate Services joined the Company effective May 1, 2023 and departed August 31, 2023.

\*\*\* The COO departed the Company effective July 15, 2022.

### Unsecured financing

At September 30, 2023, the Company had unsecured financing outstanding as follow:

Related Parties	October 1, 2022	Advances	Repayments	September 30, 2023
Jamel Chadi, Shareholder <sup>1</sup>	\$ 1,200,000	\$ 1,350,000	\$ (585,000)	\$ <b>1,965,000</b>
Sine Chadi, Shareholder <sup>1</sup>	750,000	1,050,000	(200,000)	<b>1,600,000</b>
NAMC <sup>2</sup>	350,000	885,000	(1,235,000)	-
Diane Buchanan, Shareholder <sup>1</sup>	700,000	-	(700,000)	-
<b>Total</b>	<b>\$ 3,000,000</b>	<b>\$ 3,285,000</b>	<b>\$ (2,720,000)</b>	<b>\$ 3,565,000</b>

1) Loans received from shareholders bear interest at an annual rate of 6%. Total interest expense during the year ended September 30, 2023 was \$254,489 (2022 - \$34,597). Accrued interest on the loans at September 30, 2023 is \$233,755 (2022 - \$33,646) and is included in payables and accruals.

2) Loans from North American Mortgage Corp. ("NAMC"), a company controlled by the President and shareholder of the Company, bear interest at 6% per annum. Total interest expense for the year ended September 30, 2023 was \$27,341 (2022 - \$5,828). Accrued interest on the loan at September 30, 2023 is \$nil (2022 - \$2,933) and is included in payables and accruals.

## FOURTH QUARTER RESULTS

	Three months ended September 30,	
	2023	2022
Rental revenue	\$ 5,225,825	\$ 4,772,001
Income from operations	\$ 3,591,032	\$ 3,395,813
Net income and comprehensive income	\$ 1,125,790	\$ 1,648,262

For quarter four of 2023, the Company had increased rental revenue compared to the prior year as a result of increased minimum rent, and increased occupancy cost recovery revenue due to increased costs compared to the prior year. Additionally, the Company recorded \$169,600 in revenue from a tenant whose lease ended in the quarter, as compensation for not returning the leased premises to its original state. Net income and comprehensive income for Q4 2023 compared to Q4 2022 was impacted by increased finance costs, and a lower net valuation gain from investment property than the prior year.

## PLANNED EXPENDITURES

During the year ended September 30, 2023, the Company entered into a purchase agreement to acquire land for a total purchase price of \$8,000,000. The agreement required an initial deposit of \$100,000 which was paid by the Company and is included in prepaids and deposits at September 30, 2023. The initial deposit is refundable if certain conditions related to completing a build-to-suit agreement with a third party, as well as receipt of and review of environmental and real property reports and approval by the Board of Directors of the Company, are not met. Within 30 days of the Company waiving the conditions, an additional \$600,000 deposit is required, and the balance of the purchase price is due upon closing and transfer of the title of the land.

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.

## RISKS AND RISK MANAGEMENT

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. The more significant risks and the action taken to manage them, are as follows:

### **Enterprise risk management**

The impact on markets of recent inflation, and rising interest rates, and the resulting effect on the available income of tenants, may adversely impact the Company's operations. Risks include, but are not limited to, increasing credit risk associated with receivables, limitations on the Company's ability to quickly respond to changes in credit risk, and increased pressure on lease rates within the Company's target market.

There is also increased risk as to the extent of the impact of a possible economic recession on leasing, occupancy, tenant inducements, market rents, and capital expenditures. The potential impact of this moderate economic uncertainty on the Company's future financial results and valuation of assets is difficult to reliably measure.

Lease rates will likely adjust downward if the demand for comparable lease space decreases, which is expected in any economic downturn. As demand for leased space increases, so does the lease rate. The Company 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.

Management continues to proactively monitor the economic environment, and the health of tenants to manage the impact of economic risks.

### **Tenant and real property risks**

All real property investments are subject to elements of risk. The value of the Company's investment properties depend on the credit and financial stability of tenants, and upon the vacancy rates of the properties. In addition, certain expenditures, including property taxes, mortgage payments, insurance costs and other related costs must be paid regardless of whether a property is leased and producing income. Cash available for growth, and payments to shareholders will be adversely affected if a significant number of tenants are unable to meet their obligations under their lease, or if a significant amount of space in the investment properties becomes vacant and cannot be leased on economically viable terms. Upon expiry of any lease, there is no assurance that the lease will be renewed or that the tenant replaced. The terms of any new lease may be less favourable than those of the existing leases. The ability to rent vacant space is affected by many factors including general economic conditions, local real estate markets and availability of similar properties.

Management addresses this risk by ensuring the quality of its tenant base is strong. The Company's real estate portfolio is predominately comprised of large single-tenant industrial buildings that are leased to multi-national and national tenants who are very likely to manage their operations sustainably during any economic turbulence.

The Company continuously carries out risk assessment activities with all its tenants to assess potential exposure associated with the tenant's performance. Most tenants have been with the Company for many years and the Company conducts due diligence on all prospective tenants. The Company also monitors its cash flows and ensures that there is sufficient cash flow available from operations to pay for carrying costs on properties that might be vacant for periods of time.

The Company's portfolio of properties consists of industrial properties. Consequently, changes in the industrial environment could adversely impact the Company's financial condition. The Company's portfolio of properties is concentrated in Alberta and Western Canada. As a result, there is a risk that a downturn in the region in which the Company operates could have an adverse impact on the Company's financial position.

The Company has one large tenant occupying five properties in five different locations being Edmonton, Nisku, Red Deer, Fort McMurray in Alberta and Fort St. John in British Columbia. The revenue from this tenant now accounts for approximately 18.5% of the Company's total revenue. This tenant has been assessed to have strong financial performance and management believes that there is very low risk of default.

### **Financing risks**

Market values of the investment properties can decrease if the demand for industrial 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.

The total fair value of the investment properties at September 30, 2023 is \$260,517,019 which includes \$22,714,118 of properties unencumbered with debt. The mortgages and bank operating facilities secured against specific properties total \$127,744,608 or 49% 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.

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.

### **Capitalization rate risk**

The Company values most of its investment properties using the capitalized net operating income method. Under this method, capitalization rates are applied to net operating income (minimum rent less a vacancy and structural reserve). The key assumptions are the capitalization rates for each specific property and net operating income.

The Company is responsible for the reasonableness of the assumptions and for the accuracy of inputs that are used to determine valuation disclosures. Management selects the capitalization rate for each property that management believes is most appropriate in its judgment. The Company uses available market information, including capitalization rate reports that are publicly available and makes relevant adjustments to our input assumptions. If these input assumptions are not correct, the valuation disclosures may not accurately describe the fair value of the Company's properties.

### **Reliance on key personnel**

The Company depends on the services of certain key personnel. The loss of the services of any key personnel could have an adverse effect on the Company and adversely impact the Company's financial condition.

### **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. The risk to the Company of a cybersecurity breach include the potential loss of data, inability to access key systems, and reputation risks if confidential data is exposed. While the Company is aware it cannot protect against all types of attacks and human error, the Company believes it 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;
- automatic software updates to ensure software and operating system 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.

### **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 over time. The Company has set a goal of achieving Net Zero impact in the coming years and is actively taking steps towards this goal through proactive property improvements and working towards more precise measurement of its greenhouse gas emissions.

## CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

### Future Accounting Standards

The IASB has published several new, but not yet effective, standards, amendments to existing standards, and interpretations. None of these standards, amendments to existing standards, or interpretations have been early adopted by the Company, and management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

Amendments to IAS 1 Presentation of Financial Statements, and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments will have an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition, or presentation of any items in the Company's financial statements.

Amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The effective date of these amendments is for annual periods beginning on or after January 1, 2023 and it is to be applied retrospectively. No material change as a result of this amendment is expected to the Company's financial statements.

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. The effective date for the new guidance is for annual reporting periods beginning on or after January 1, 2024, and is to be applied retrospectively. The Company has not assessed the impact of this amendments on its 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, 2024.

The Company has not yet determined the impact of these amendments on its consolidated financial statements.

### **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 applied the following judgements that significantly affect the determination of the amount and timing of income from lease contracts:

*Determination of the lease term*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

As a lessor, the Company enters into lease agreements that contain options to terminate or extend the lease. At the commencement date of the lease, the Company determines whether a lessee is reasonably certain to extend the lease term or not to terminate the lease. To make this analysis, the Company considers any difference between the contract terms and the market terms, any significant investments made by the lessee in the property, costs relating to the termination of the lease, and the importance of the underlying asset in the lease's operations. In most cases, the Company does not identify sufficient evidence to meet the required level of certainty.

*Property lease classification – the Company as lessor*

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease terms not constituting a major portion of the economic life of the commercial property, and the present value of minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the significant risks and rewards of ownership of these properties and so accounts for the contracts with tenants as operating leases.

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.

#### *Treatment of tenant incentives*

Payments are sometimes made to, or on behalf of, tenants of our commercial properties when new leases are signed. There is judgement in determining the treatment of these payments. 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.

#### (ii) Revenue from contracts with customers

The Company applies the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

#### *Determination of performance obligations*

In relation to the services provided to tenants of investment property (such as repairs and maintenance and landscaping) as part of the lease agreements into which the Company enters as a lessor, the Company has determined that the promise is the overall property management service and that the service performed each day is distinct and substantially the same. Although the individual activities that comprise the performance obligation vary significantly throughout the day and from day to day, the nature of the overall promise to provide management service is the same from day to day. Therefore, the Company has concluded that the services to tenants represent a series of daily services that are individually satisfied over time, using a time-elapsed measure of progress, because tenants simultaneously receive and consumes the benefits provided by the Company.

#### *Principal versus agent considerations – services to tenants*

The Company arranges for certain services provided to tenants of investment property included in the contract the Company enters into as a lessor, to be provided by third parties. The Company has determined that it controls the services before they are transferred to tenants, because it has the ability to direct the use of these services and obtain the benefits from them. In making this determination, the Company has considered that it is primarily responsible for fulfilling the promise to provide these specified services because it directly deals with tenants' complaints, and it is primarily responsible for the quality or suitability of the services. In addition, the Company has discretion in establishing the price that it charges to the tenants for the specified services.

Therefore, the Company has concluded that it is the principal in these contracts. In addition, the Company has concluded that it transfers control of these services over time, as services are rendered by the third-party service providers, because this is when tenants receive and, at the same time, consume the benefits from these services.

#### *Determining the timing of revenue recognition on the sale of property*

The Company has evaluated the timing of revenue recognition on the sale of property based on a careful analysis of the rights and obligations under the terms of the contract.

The Company has generally concluded that contracts relating to the sale of investment property are recognised at a point in time when control transfers. For unconditional exchanges of contracts, control is generally expected to transfer to the customer together with the legal title. For conditional exchanges, this is expected to take place when all the significant conditions are satisfied.

#### *Consideration of significant financing component in a contract*

For some contracts involving the sale of property, the Company is entitled to receive an initial deposit. The Company concluded that this is not considered a significant financing component because it is for reasons other than the provision of financing to the Company. The initial deposits are used to protect the Company from the other party failing to adequately complete some or all of its obligations under the contract where customers do not have an established credit history or have a history of late payments.

#### (ii) Investment properties

##### *Additions to investment properties*

There is 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 when the directly attributable borrowing costs are included in the carrying value of the development property. Capitalization of expenses, and borrowing costs ceases 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.

##### *Asset acquisition versus business combinations*

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 the acquisition of an asset. The Company accounts for an acquisition as a business combination where an integrated set of activities and assets, including property, is acquired. More specifically, consideration is given to the extent to which substantive processes are acquired (e.g., maintenance, cleaning, security etc.). To date, all acquisitions of investment properties acquired to date by the Company have been determined to be asset acquisitions.

## 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 are described below.

### (i) Valuation of investment properties

The fair value of investment property is determined by management, using recognized valuation techniques and the principles of IFRS 13 Fair Value Measurement.

The determination of the fair value of most of the investment properties under lease requires the use of estimates such as future cash flows from the property and capitalization rates applicable to the property. 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 uses their market knowledge and professional judgment. Significant estimates used in determining the fair value of the investment property under lease 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.

Land held for development, land under lease and two of the income producing properties are valued with reference to historical and current market comparable values for similar properties. In determining which comparable properties were most comparable to the land held for development, management considered factors such as the relative location, size, and access of the properties in comparison to the available market values.

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

### (ii) 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.

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.

## FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the estimated amount that the Company would receive to sell a financial asset or pay to transfer a financial liability in an orderly transaction between market participants at the measurement date.

Fair value determination is classified within a three-level hierarchy, based on the observability of significant inputs, as follows:

- 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.

There was no transfer between the levels of fair value hierarchy during the year ended September 30, 2023.

The carrying value of cash and cash equivalents, receivables, bank operating facilities, other financing, payables and accruals, and security deposits approximate their fair value because of the short-term and demand nature of those instruments.

The fair value of the mortgage receivable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar debt with similar terms and conditions. If the interest rate used to discount the fair value were to increase by 1%, the fair value of the mortgage receivable would decrease by \$12,000.

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, 2023 is \$102,248,000 (September 30, 2022 - \$100,675,995). 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 6.84% (September 30, 2022 – 6.40%).

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 \$222,545 at September 30, 2023 (September 30, 2022 - \$431,844), and cash and cash equivalents of \$424,451 (September 30, 2022 - \$232,998). 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 simplified 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, 2023 there is no loss provision for tenant receivables (September 30, 2022 - \$nil).

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 the portion of bank operating facilities that are not fixed rate fixed term. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the floating rate portion of the bank operating facilities at September 30, 2023 is \$12,210,110 (September 30, 2022 - \$11,007,788). Under the assumption any balance of the floating rate 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 \$122,101 (September 30, 2022 - \$110,078). The Company minimizes its exposure to interest rate risk to the extent that all mortgages (2022 – all mortgages with the exception of one) have fixed rates with terms of 2-5 years, and a portion of the bank operating facility is at a fixed rate.

## **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 continues to be 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 by implementing review and approval processes and segregating duties to the extent possible.

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.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at December 6, 2023 is 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.

Subsequent to the year ending September 30, 2023, the Company issued a press release on October 5, 2023 announcing the declaration of a quarterly dividend of \$0.02 per share payable on October 31, 2023 (Q4 2023) to shareholders of record effective October 20, 2023.

## NON-IFRS FINANCIAL MEASURES

Operating expense recoveries, funds available for property improvements and growth, debt, debt to asset ratios and unencumbered properties are not measures recognized by IFRS, and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that these measures should not replace net income or loss (as determined in accordance with IFRS) as an indicator of the Company's performance, of its cash flows from its operating, investing and financing activities or as a measure of its liquidity and cash flows. Furthermore, the Company's method of calculating these measures may differ from the methods used by other issuers. Therefore, the Company's calculation of these measures may not be comparable to similar measure presented by other issuers.

Operating expense recoveries and percentage of property operating expense recoveries: Total operating expense recoveries is a non-IFRS financial measure which is calculated below. The percentage of property operating expense recoveries is calculated as the total property operating expenses divided by total operating expense recoveries.

Management believes that this measure is important as it indicates how much of property operating expenses are required to be recovered from other sources of revenue.

	Year ended September 30,	
	2023	2022
Property tax and insurance recoveries	\$ 3,125,589	\$ 2,823,511
Operating expense recoveries	1,696,644	1,767,294
<b>Total recoveries</b>	<b>\$ 4,822,233</b>	<b>\$ 4,590,805</b>
<b>Total property operating expenses</b>	<b>\$ 6,111,279</b>	<b>\$ 5,608,308</b>

<b>% of property operating expense recoveries</b>	<b>79%</b>	<b>82%</b>
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Funds available for property improvements and growth: Funds available for property improvements and future growth is a non-IFRS financial measure and is defined as income from operations, less interest on financing adjusted for interest income, interest on lease liabilities, amortization of deferred financing fees and capitalized interest, and principal repayments on mortgages. Management believes that this measure provides information about the funds available to the Company to use for reinvestment in properties or growth.

The calculation is as follows:

	Year ended September 30,	
	2023	2022
Income from operations	\$ 13,625,486	\$ 13,458,786
Less: Interest on financing		
Finance costs	5,074,700	4,376,974
Add: interest income	67,680	15,038
Less: interest on lease liability	(24,457)	(31,954)
Less: amortization of deferred financing	(89,682)	(107,016)
Capitalized interest	154,366	-
	5,182,607	4,253,042
Less: Principal instalments on mortgages	7,572,088	9,798,326
<b>Funds available for property improvements and growth</b>	<b>\$ 870,791</b>	<b>\$ (592,582)</b>

Debt: Debt is a non IFRS financial measure and is calculated below. The debt to asset ratio is calculated as total assets divided by total debt. Management uses this measure to monitor the Company's current leverage, and the ability to obtain additional financing if needed.

	As At September 30,	
	2023	2022
<b>Total Assets</b>	<b>\$ 264,034,687</b>	<b>\$ 257,175,623</b>
Mortgages excluding deferred financing fees	107,870,842	108,242,930
Other financing	3,565,000	3,000,000
Bank operating facilities	19,873,766	18,883,408
<b>Debt</b>	<b>\$ 131,309,608</b>	<b>\$ 130,126,338</b>

**Ratio of debt to assets**

**50%**

**51%**

Unencumbered properties: Unencumbered properties is a non-IFRS measure and is calculated as the fair value of properties which are not security for mortgages or bank operating facilities. Management uses this measure to evaluate the ability of the Company to obtain additional leverage through the ability to mortgage properties that currently are not security for debt.