



IMPERIAL EQUITIES INC.

Consolidated Financial Statements for the years ended
September 30, 2023 and 2022



KINGSTON
ROSS
PASNAK LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Suite 1500, 9888 Jasper Avenue NW
Edmonton, Alberta T5J 5C6
T. 780.424.3000 | F. 780.429.4817 | W. krpgroup.com

December 6, 2023
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Imperial Equities Inc.

Opinion

We have audited the consolidated financial statements of Imperial Equities Inc. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at September 30, 2023, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2023, and the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Matter

The consolidated financial statements for the year ended September 30, 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on December 7, 2022.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

Valuation of Investment Properties

We refer to the financial statement summary of significant accounting policies on investment properties recorded at fair value and related disclosure in Note 4.

At September 30, 2023, the Company held investment properties which are stated at a fair value of \$260,517,019. The investment properties were considered a key audit matter due to the key inputs used in the valuation techniques and the sensitivity of assumptions. These key inputs including capitalization rates are dependent on the class of each investment property and the prevailing market conditions.

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Independent Auditor's Report to the Shareholders of Imperial Equities Inc. *(continued)*

To address the risk for material misstatement on the investment properties, our audit procedures included, amongst other procedures:

- Reviewing management's process, control and methodology around valuation;
- Evaluating the appropriateness of the valuation methodology and value source information used by management to calculate the fair value of the investment properties;
- Physical property verification;
- Engaging an expert in valuation to act as an auditor's expert in evaluating managements analysis;
- Performing recalculation of the fair value of the investment properties at September 30, 2023; and
- Evaluating the adequacy and reasonableness of the disclosure included in the consolidated financial statements related to the fair value of the investment properties.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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Independent Auditor's Report to the Shareholders of Imperial Equities Inc. *(continued)*

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Kingston Ross Pasmak LLP
Kingston Ross Pasmak LLP
Chartered Professional Accountants

IMPERIAL EQUITIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	September 30, 2023	September 30, 2022
Assets			
Investment properties	4	\$ 260,517,019	\$ 253,596,382
Mortgage receivable	5	-	1,439,324
Right-of-use asset	10	362,598	512,639
Total non-current assets		260,879,617	255,548,345
Current portion of mortgage receivable	5	1,439,324	32,992
Receivables	6	237,344	434,538
Prepaid expenses and deposits	7	1,053,951	926,750
Cash		424,451	232,998
Total current assets		3,155,070	1,627,278
Total Assets		\$ 264,034,687	\$ 257,175,623
Liabilities			
Mortgages	8	\$ 78,886,257	\$ 89,072,503
Security deposits		745,791	763,276
Lease liability	10	245,776	409,195
Deferred taxes	13	16,721,444	15,410,921
Total non-current liabilities		96,599,268	105,655,895
Other financing	21	3,565,000	3,000,000
Income taxes payable		439,588	886,079
Current portion of lease liability	10	163,419	155,543
Current portion of mortgages	8	28,851,657	18,969,418
Bank operating facilities	9	19,873,766	18,883,408
Payables and accruals	11	2,614,324	3,754,446
Total current liabilities		55,507,754	45,648,894
Total Liabilities		152,107,022	151,304,789
Equity			
Issued share capital	15	5,947,346	5,947,346
Retained earnings		105,980,319	99,923,488
Total equity		111,927,665	105,870,834
Total Equity and Liabilities		\$ 264,034,687	\$ 257,175,623

Guarantees, contingencies and commitments (Note 18)

Post-reporting date events (Note 22)

Signed "Sine Chadi", Director

Signed "Kevin Lynch", Director

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years ended September 30,

	Notes	2023	2022
Rental revenue	17	\$ 19,736,765	\$ 19,067,094
Property operating expenses		6,111,279	5,608,308
Income from operations		13,625,486	13,458,786
Finance costs	12	5,074,700	4,376,974
Administrative expenses		1,480,949	1,476,540
Amortization of deferred leasing costs	4	483,042	352,258
Amortization of right-of-use asset		150,041	150,040
Gain on sale of investment property		-	(193,123)
Valuation gains from investment properties, net	4	(2,131,024)	(2,507,969)
Income before income tax		8,567,778	9,804,066
Income tax expense	13	1,754,848	1,950,395
Net income and comprehensive income		\$ 6,812,930	\$ 7,853,671
Earnings per share basic and diluted	16	\$ 0.72	\$ 0.83

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Number of shares	Capital stock	Retained earnings	Total
Balance, October 1, 2021	9,451,242	\$ 5,947,346	\$ 92,731,404	\$ 98,678,750
Dividends paid	-	-	(661,587)	(661,587)
Net income and comprehensive income	-	-	7,853,671	7,853,671
Balance, September 30, 2022	9,451,242	5,947,346	99,923,488	105,870,834
Dividends paid	-	-	(756,099)	(756,099)
Net income and comprehensive income	-	-	6,812,930	6,812,930
Balance, September 30, 2023	9,451,242	\$ 5,947,346	\$ 105,980,319	\$ 111,927,665

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended September 30,

	Notes	2023	2022
Operating activities			
Net income from operations		\$ 6,812,930	\$ 7,853,671
Finance costs		5,074,700	4,376,974
Items not affecting cash:			
Amortization of right-of-use asset		150,041	150,040
Amortization of tenant inducements		57,256	66,201
Amortization of deferred leasing commissions		483,042	352,258
Valuation gains on investment properties, net		(2,131,024)	(2,507,969)
(Gain) loss on sale of investment property		-	(193,123)
Straight-line rental revenue		(46,266)	174,164
Deferred income taxes	13	1,310,523	1,138,767
Leasing commissions		(405,558)	(319,964)
Net change in operating working capital	14	(66,195)	119,051
Cash provided by operating activities		11,239,449	11,210,070
Investing activities			
Purchase of investment properties		-	(2,345,333)
Improvements and additions to investment properties		(5,078,087)	(5,553,720)
Proceeds from mortgage receivable		32,992	2,500,000
Net cash proceeds on sale of investment property		-	202,684
Change in investing payables and accruals	14	(1,484,296)	2,181,529
Cash used in investing activities		(6,529,391)	(3,014,840)
Financing activities			
Proceeds from new mortgages		7,200,000	20,500,000
Repayment of mortgages on maturity		-	(11,195,362)
Repayment of mortgages through principal instalments		(7,572,089)	(9,798,326)
Amortization of deferred finance fees		89,682	107,016
Fees associated with new or renewed mortgages		(21,600)	(81,343)
Advances from other financing		3,285,000	3,000,000
Repayment of other financing		(2,720,000)	(3,800,000)
Lease payments		(180,000)	(180,000)
Finance costs		(4,833,857)	(4,571,660)
Dividends paid		(756,099)	(661,587)
Net advances (repayments) on bank operating facilities		990,358	(1,477,084)
Cash used in financing activities		(4,518,605)	(8,158,346)
Increase (decrease) in cash and cash equivalents		191,453	36,884
Cash and cash equivalents, beginning of year		232,998	196,114
Cash and cash equivalents, end of year		\$ 424,451	\$ 232,998

See accompanying notes to the consolidated financial statements.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

1. Description of the Company

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

2. Significant accounting policies

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

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

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

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

The consolidated financial statements for the year ending September 30, 2023 were authorized for issue by the Board of Directors on December 6, 2023.

(b) Investment properties

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

Investment properties

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

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

For the purposes of these consolidated financial statements, in order to avoid double counting, the investment property fair value reported includes the straight-line rent receivable, unamortized balance of tenant incentives, and unamortized balance of leasing commissions.

Investment properties are derecognized when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the investment property is recognized in profit or loss in the period of derecognition. In determining the amount of consideration to be included in the gain or loss arising from the derecognition of investment property, the Company considers the effects of variable consideration, the existence of a significant financing component, non-cash consideration and consideration payable to the buyer (if any) in accordance with the requirements for determining the transaction price in IFRS 15 *Revenue from contracts with customers*.

Transfers are made to (or from) investment property only when there is evidence of a change in use (such as commencement of development, or inception of an operating lease to another party). For a transfer out of investment properties, the deemed cost for subsequent accounting is the fair value at the date of the change in use. For a transfer into investment properties, the difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in profit or loss at the date of transfer.

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

Refer to the section "Non-current assets held for sale" for the accounting for investment property classified as held for sale.

Investment properties under development

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

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of investment properties that necessarily take a substantial period of time to get ready for their intended use or sale are capitalized as a part of the cost of the asset. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale, are complete.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

(d) Property acquisitions and business combinations

When a property is acquired, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of judgement is set out in Note 3. Where such acquisitions are not determined to be an acquisition of a business, they are not treated as business combinations, but as asset acquisitions where the costs to acquire the assets and liabilities are allocated between the identifiable assets or liabilities based on their relative values at the acquisition date.

In accordance with IFRS 3 – Business Combinations (“IFRS 3”), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired, and the liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest), or generating other income from ordinary activities. Building and other asset acquisitions, which meet the above definition of a business, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. There are no acquisitions that meet the definition of a business in the current or prior years.

(e) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that a non-financial asset (excluding investment property accounted for at fair value) may be impaired. Should any indication of impairment exist, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment, and some are tested at the cash-generating unit level. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined as the higher of an asset's fair value less costs of disposal or its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted. In determining fair value less costs of disposal, recent market transactions are taken into account, and if no such transactions can be identified an appropriate valuation model is used.

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statements of comprehensive income. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in profit or loss. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

(f) Non-current assets held for sale

The Company classifies non-current assets (principally investment property) and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale (except for investment property measured at fair value) are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. Investment property held for sale continues to be measured at fair value. Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

(g) Leases

The Company as a Lessee

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measure of the lease liability comprise:

- Fixed payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of an option in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or a rate change in expected payment under a guaranteed residual value, in which cases, the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, and any initial direct costs. The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses (for right-of-use assets which are considered property, plant, and equipment). Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Company applies IAS 36 to determine whether a right-of-use asset is impaired.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments and are included in operating expenses in the consolidated statements of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient on its contract for office space which contains both lease and non-lease components.

The Company as a Lessor

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

(h) Revenue recognition

Rental income

The Company earns revenue from acting as a lessor in operating leases. Rental income arising from operating leases on investment property is recognized on a straight-line basis over the lease term, and is included in revenue in the consolidated statement of comprehensive income due to its operating nature, except for contingent rental income which is recognized when it arises. A straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as deferred leasing costs, and expensed over the lease term on the same basis as lease income.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

Tenant incentives are inducements given to prospective tenants to move into the properties or to existing tenants to extend the lease term. Tenant incentives for lessees to enter into lease agreements are deducted from lease payments. Accordingly, tenant incentives are spread evenly over the lease term, even if the payment is not made on such basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at inception of the lease, the Company is reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases, or compensate for damages to property are recognized in the consolidated statement of comprehensive income when the right to receive them arises.

The Company receives rental income from recoveries of property taxes and insurance. As these recoveries do not involve a transfer of services, they are not a separate component of the lease, and they have been grouped with rental income as a lease component. Recoveries of property taxes and insurance are recognized into income on a straight-line basis, based on estimated costs until actual costs are known at which time they are adjusted to recognize the recovery of the actual cost. Some of the Company's leases allow the tenant to pay property taxes directly to the municipality. When the tenant chooses this option, the Company does not recognize any revenue recovery or expense related to those property taxes.

Revenue from services to tenants

For investment property held primarily to earn rental income, the Company is a lessor in lease agreements that fall within the Scope of IFRS 16 *Leases*. These agreements include certain services offered to tenants including maintenance services (such as security, buildings and grounds maintenance, and snow removal). The consideration charged to tenants for these services includes fees charged based on a percentage of the rental revenue and reimbursement of certain expenses incurred. These services are specified in the lease agreements. The Company has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15 *Revenue from contracts with customers*. The Company allocates the consideration in the contract to the separate lease, and revenue (non-lease) components on a relative stand-alone selling price basis.

Operating expense recoveries represent a series of daily services that are individually satisfied over time because the tenants simultaneously receive and consume the benefits provided by the Company. The Company applies the time elapsed method to measure progress and recognizes revenue over time for services in the period in which they are rendered. The consideration charged to tenants for these services is based on a percentage of rental income. The variable consideration only relates to the non-lease component and is allocated to each distinct period of services as it meets the variable consideration allocation exception criteria.

The Company arranges for third parties to provide certain of these services to its tenants. The Company concluded that it acts as a principal in relation to these services as it controls the specified services before transferring them to the customer. Therefore the Company records revenue on a gross basis.

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

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

(i) Income tax

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

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

Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced accordingly to the extent that it is no longer probable that they can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

(j) Provisions

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

(k) Fair value measurements

The Company measures its mortgage receivable and investment property at fair value at the end of each reporting period.

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

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

The Company must be able to access the principal or the most advantageous market at the measurement date.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

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

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

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

(I) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flow from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into one of the following categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- The entity's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial asset.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

All revenue and expenses related to financial assets that are recognized in profit or loss are recognized within finance costs, except for impairment of trade receivables which is recognized within administration expense.

Subsequent measurement of financial assets

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL);

- They are held within a business model whose objective is to hold the financial assets and collect the contractual cash flows, and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effective discounting is immaterial.

As the Company's financial assets of receivables, and cash meet these conditions, they are subsequently measured at amortized cost.

The Company's mortgage receivable is classified as FVTPL. The Company does not have any financial assets categorized as FVOCI.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all financial assets held at amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or any other credit enhancements that are integral to the contractual terms.

For rent and other trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track the changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company considers historical credit loss experience, adjusted for forward-looking factors specific to the debtors, and the economic environment.

The Company considers a financial asset in default when the contractual payments are 90 days past due. However, in certain circumstances, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Classification and measurement of financial liabilities

The Company's financial liabilities include payables and accruals, bank operating facilities, other financing, and mortgages. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

The Company does not have any financial liabilities designated at FVTPL, or any derivative financial instruments.

(m) Cash and cash equivalents

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

(n) Changes in accounting standards and disclosures

New and amended standards adopted

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

New and amended standards not yet adopted

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.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

2. Significant accounting policies (cont'd)

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 consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been revised to define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty.” The amendments also emphasize that a change in an accounting estimate that results from new information or development is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes are an input or measurement technique that are not the result of an error correction. The amendments are effective for annual periods beginning on or after January 1, 2024. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

3. Significant accounting judgements, estimates and assumptions

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.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

3. Significant accounting judgements, estimates and assumptions

Treatment of tenant incentives

Payments are sometimes made to, or on behalf of, tenants 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 *Leases*.

(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 evaluates 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.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

3. Significant accounting judgements, estimates and assumptions (cont'd)

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 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.

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 critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 4.

The determination of the fair value of investment property under lease that is valued using the income capitalization method requires the use of estimates such as future cash flows from the property and capitalization rates applicable to the property, as well as historical. 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.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

3. Significant accounting judgements, estimates and assumptions (cont'd)

Significant estimates used in determining the fair value of the investment property under lease valued using the income capitalization method 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 and certain investment property under lease is 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 and specific investment properties, 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.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

4. Investment properties

	Income producing properties	Properties under development	Land held for development	Total investment properties
Balance, October 1, 2021	\$ 232,421,152	\$ 120,751	\$ 12,401,992	\$ 244,943,895
<i>Additions:</i>				
Property improvements and additions	119,692	5,085,518	-	5,205,210
Capitalized property taxes and other	-	-	130,872	130,872
Tenant inducements	217,639	-	-	217,639
Leasing commissions	319,964	-	-	319,964
Property acquisitions	2,285,534	-	-	2,285,534
Property dispositions	(1,422,078)	-	-	(1,422,078)
Amortization of tenant inducements	(66,201)	-	-	(66,201)
Amortization of deferred leasing commissions	(352,258)	-	-	(352,258)
Change in straight-line rental revenue	(174,164)	-	-	(174,164)
Fair value gains (losses), net	2,324,868	313,973	(130,872)	2,507,969
Balance, September 30, 2022	\$ 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 of 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
Fair value gains (losses), net	1,193,825	1,541,303	(604,104)	2,131,024
Balance, September 30, 2023	\$ 247,539,383	\$ -	\$ 12,977,636	\$ 260,517,019

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

4. Investment properties (cont'd)

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

	September 30, 2023	September 30, 2022
Straight-line rent receivable	\$ 2,009,340	\$ 1,963,074
Tenant inducements	666,306	600,370
Leasing commissions	1,795,722	1,873,206
	\$ 4,471,368	\$ 4,436,650

The balance of tenant inducements is as follows:

	September 30, 2023	September 30, 2022
Tenant inducements	\$ 865,277	\$ 742,084
Amortization	(198,971)	(141,714)
Balance, end of year	\$ 666,306	\$ 600,370

The balance of deferred leasing costs is as follows:

	September 30, 2023	September 30, 2022
Deferred leasing costs	\$ 3,553,520	\$ 3,147,964
Amortization	(1,757,798)	(1,274,758)
Balance, end of year	\$ 1,795,722	\$ 1,873,206

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

Valuation methodology and processes

The fair value of investment properties at each reporting period is determined internally by management using assumptions and market information obtained from industry professionals and qualified external appraisers. Management uses inputs from external appraisers as additional sources of information when recording property-specific attributes. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, the investment properties are classified as Level 3 assets.

For all income producing properties, with the exception of two properties, and for properties under development held at fair value, the property is valued using the income capitalization method, where a property's fair value is based on the normalized net operating income generated by the property, which is divided by the capitalization (discount) rate. The Company determines the forecasted normalized net operating income using a one-year income forecast for each property based on current in-place leases, and assumptions about future renewals and occupancy, structural and vacancy reserves, less cash outflows expected to operate and manage each property within the portfolio. Capitalization rates used to estimate fair market value consider many factors including but not limited to; the location of the property, the size of the land parcel, site coverage, the quality and strength of tenants, whether lease rates are over or under current market rates, demand for the type and use of the property, the age of the building, any special use characteristics of the building or area, whether it is single-tenant or multi-tenanted and vacancy rates in the area.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

4. Investment properties (cont'd)

Market information related to the external sale of similar buildings within a similar geographic location is also taken into consideration in determining the appropriate capitalization rates. For the valuation of properties under development, management used the property's expected net operating income and a capitalization rate to prorate the fair value for the percentage complete throughout the period of construction.

Land held for development, and two of the income producing properties are valued based on sale data of comparable properties within the market area. Management considers various factors that would impact the comparable properties values including size, location, access, and availability of similar properties.

Each property is considered a separate asset class based on its unique nature, characteristics, and risks. For all investment property measured at fair value, the current use of the property is considered the highest and best use. For each property, the latest valuation is also compared to the valuation in the preceding quarters as well as the valuations of the two preceding annual periods. On the quarterly basis, management reviews the valuations with the audit committee.

The fair value of two of the income producing properties was previously determined based on the income capitalization approach. The Company believes the direct comparison approach provides better information about the fair value of the properties due to the unique nature of the properties and related assessment of the value to market participants interested in such properties, and has therefore decided to change the valuation method. This change in valuation method is applied prospectively as it is a change in estimate. Other than described above, there were no other changes in valuation techniques during the year.

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

	September 30, 2023	September 30, 2022
Income producing property		
Range of capitalization rates applied to investment properties	4.50% - 8.50%	4.50% - 8.50%
Fair values of properties where capitalization rates were applied	\$ 243,628,677	\$ 230,757,797
Weighted average capitalization rates	6.44%	6.38%
Weighted average net operating income	\$ 752,048	\$ 629,386
Fair value impact of increasing average capitalization rate by 0.25%	\$ (9,111,967)	\$ (8,700,399)
Fair value impact of a 1% decrease in net operating income	\$ (2,439,050)	\$ (2,310,365)
Land held for development		
Average price per acre of land	\$ 197,981	\$ 152,274
Number of acres held	68.55	64.55
Total fair value	\$ 12,977,635	\$ 10,152,036
Impact of a 10% decrease in the average price per acre	\$ (1,297,764)	\$ (1,015,204)
Land under lease agreements with tenants		
Number of acres leased	4.90	8.90
Average price per acre	\$ 495,027	\$ 804,574
Total fair values of leased land	\$ 3,910,710	\$ 7,160,710
Impact of a 10% decrease in average price per acre	\$ (391,071)	\$ (716,071)

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

5. Mortgage receivable

On August 1, 2022, the Company completed the sale of an investment property for total sale proceeds of \$1,675,000 and agreed to a vendor take back (“VTB”) mortgage in the amount of \$1,475,000. The VTB bears interest at an annual rate of 4.5% with monthly blended payments of principal and interest of \$8,164, and a maturity date of July 31, 2024. The VTB can be prepaid in whole or in part without penalty. The balance of the mortgage receivable at September 30, 2023 is \$1,439,324 (2022 - \$1,472,316).

During the year ended September 30, 2022, the Company received final payment on a VTB that was originally entered into as part of a sale of an investment property during the year ended September 30, 2020. The investment property sale included a VTB mortgage in the amount of \$8,000,000, which originally bore interest at 2.5% per annum with monthly interest only payments, and a maturity date of July 21, 2021. On May 7, 2021, the terms of the VTB were amended. The Company received a payment of \$5,500,000 and extended the VTB on the remaining balance of \$2,500,000 to be received on or before August 15, 2021. The interest rate on the amended VTB was set at 6% per annum, and if the VTB was not paid by the maturity date, the balance of principal and unpaid interest would be due on demand. The principal and accrued interest on the outstanding balance was received after the maturity date, but prior to demand being made.

6. Receivables

	September 30, 2023	September 30, 2022
Receivables from tenants	\$ 222,545	\$ 431,844
Interest receivables	5,348	-
Other receivables	9,451	2,694
Balance, end of year	\$ 237,344	\$ 434,538

Tenant receivables at September 30, 2023 and 2022, include occupancy costs which are reconciled at each year-end and subsequently collected after year-end.

7. Prepaid expenses and deposits

	September 30, 2023	September 30, 2022
Prepaid operating expenses	\$ 926,932	\$ 899,731
Security deposits with municipalities	27,019	27,019
Deposits held in trust	100,000	-
Total	\$ 1,053,951	\$ 926,750

Prepaid operating expenses include prepaid insurance and property taxes. The deposit held in trust is a refundable deposit for a purchase of land (Note 18).

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

8. Mortgages

Maturity	Monthly blended principal and interest payments	Rate	September 30, 2023	September 30, 2022
October 1, 2023	\$ 11,266	3.950%	\$ 11,229	\$ 143,163
* October 1, 2023	46,776	4.090%	4,639,139	5,004,237
** November 1, 2023	32,438	4.330%	3,202,558	3,448,623
*** December 1, 2023	39,285	4.648%	3,846,275	4,133,419
January 1, 2024	22,298	4.300%	1,682,599	1,874,009
January 1, 2024	17,696	4.300%	1,335,396	1,487,309
April 1, 2024	26,788	2.110%	3,551,844	3,796,429
July 1, 2024 (2022 - July 1, 2023)	22,084	6.91% (2022 - Prime +0.95%)	1,430,709	1,595,085
August 1, 2024	71,809	3.300%	7,899,062	8,491,306
November 1, 2024	63,681	3.555%	7,044,169	7,550,033
December 1, 2024 (2022 - December 1, 2022)	33,003	6.073% (2022 - 3.670%)	2,806,416	3,034,362
December 1, 2024 (2022 - December 1, 2022)	29,985	6.073% (2022 - 3.671%)	2,549,785	2,756,884
February 1, 2025 (2022 - February 1, 2023)	17,662	5.72% (2022 - 3.750%)	1,544,751	1,671,265
February 1, 2025	35,507	3.420%	4,027,712	4,311,765
February 1, 2025	47,279	3.310%	4,166,544	4,589,983
April 1, 2025	34,847	2.310%	4,248,881	4,565,410
April 1, 2025 (2022 - April 1, 2023)	27,830	5.29% (2022 - 1.860%)	3,073,687	3,269,384
August 1, 2025	27,279	2.837%	3,309,756	3,540,220
October 1, 2025	63,227	6.720%	7,200,000	-
April 1, 2026	23,715	2.675%	2,181,648	2,404,956
July 1, 2026	39,884	2.710%	5,187,713	5,522,655
July 1, 2026	76,219	2.710%	9,913,807	10,553,887
October 1, 2026	65,250	2.940%	8,504,926	9,031,037
November 1, 2026	75,501	2.930%	9,898,484	10,506,586
June 11, 2029	42,759	3.480%	4,613,752	4,960,923
<i>Total mortgages</i>			\$ 107,870,842	\$ 108,242,930
<i>Less: current portion of principal payments</i>			(28,851,657)	(18,969,418)
<i>Less: balance of unamortized finance fees</i>			(132,928)	(201,009)
			\$ 78,886,257	\$ 89,072,503
Weighted average rate			3.73%	3.23%

* This mortgage was renewed prior to the end of its term, for a term of 2 years, with a maturity date of October 1, 2025, bearing interest at 6.99%, with monthly principal and interest payments of \$52,967.

**This mortgage was renewed subsequent to year-end for a term of 2 years, with a maturity date of November 1, 2025, bearing interest at 6.94% per annum, with monthly blended principal and interest payments of \$36,438.

***This mortgage was renewed subsequent to year-end for a term of 2 years, with a maturity date of December 1, 2025, bearing interest at 6.763% per annum, with monthly blended principal and interest payments of \$43,161.

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

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

8. Mortgages (cont'd)

Vendor take back loan payable

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

9. Bank operating facilities

	September 30, 2023	September 30, 2022
Bank operating facilities	\$ 19,873,766	\$ 18,883,408

The Company has two credit facilities set out as follows:

- 1) One operating Line of Credit (LOC) with a limit of \$15,500,000 (September 30, 2022 - \$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 (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% (September 30, 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.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

9. Bank operating facilities (cont'd)

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; 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 1st mortgage and 60% for the secured properties over which the Lender holds a 2nd mortgage, less the prior debt on the properties. For these secured properties, the loan to value is set at 70%, unchanged from the prior year.

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 has waived the breach as at September 30, 2022 as it was remediated as of the fiscal year end.

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

The balance on this 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 for 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 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 were extended to September 21, 2023 at which time, the Company received funding on a new mortgage. In accordance with the terms of the agreements, the proceeds of the new mortgage was 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.

10. Leases

The Company as a lessee

The Company's lease liability and right-of-use asset relate to the Company's office lease.

Below is the carrying amount of the right-of-use asset recognized and the movements during the year:

	September 30, 2023		September 30, 2022	
Balance, beginning of year	\$	512,639	\$	662,679
Amortization		(150,041)		(150,040)
Balance, end of year	\$	362,598	\$	512,639

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

10. Leases (cont'd)

Below are the carrying amounts of the lease liability and the movements during the year:

	September 30, 2023	September 30, 2022
Balance, beginning of year	\$ 564,738	\$ 712,784
Lease payments	(180,000)	(180,000)
Accretion of interest	24,457	31,954
Total	409,195	564,738
Less: Current portion	(163,419)	(155,543)
Long-term portion	\$ 245,776	\$ 409,195

The remaining lease term is 29 months and includes an option to extend the lease. There are no variable lease payments linked to an index and no termination options or options to purchase.

Future lease payments are as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
September 30, 2023					
Lease payments	\$ 180,000	\$ 180,000	\$ 75,000	\$ -	\$ 435,000
Finance charges	(16,581)	(8,305)	(919)	-	(25,805)
Net present values	\$ 163,419	\$ 171,695	\$ 74,081	\$ -	\$ 409,195
September 30, 2022					
Lease payments	\$ 180,000	\$ 180,000	\$ 180,000	\$ 75,000	\$ 615,000
Finance charges	(24,457)	(16,581)	(8,305)	(919)	(50,262)
Net present values	\$ 155,543	\$ 163,419	\$ 171,695	\$ 74,081	\$ 564,738

The Company as a lessor

The Company has entered into leases on its investment properties. Refer to Note 17 for further information.

11. Payables and accruals

	September 30, 2023	September 30, 2022
Trade payables	\$ 1,417,824	\$ 2,712,226
Accrued liabilities	298,209	242,807
Accrued loan interest	542,731	326,345
Current portion of tenant security deposits	57,344	40,810
Tenant inducement payable	-	200,000
Prepaid rent	298,216	232,258
Total	\$ 2,614,324	\$ 3,754,446

Trade payables include commissions payable on acquisitions and leasing fees, as well amounts payable for progress billings relating to properties under development. Accrued liabilities include occupancy costs due to tenants, accruals for work done but not yet billed on investment properties, and accrued vacation balances. Tenant inducements payable relate to a lease agreement with a tenant signed during the prior year. Prepaid rents from tenants relate to rents due on the first of the following month, and the balance represents rents paid in advance which are recognized in revenue over the applicable months.

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

12. Finance costs

The components of finance costs are as follows:

	2023		2022	
Interest on mortgages	\$	3,541,154	\$	3,546,287
Interest on bank operating facilities		1,205,258		666,330
Interest on other unsecured financing		281,830		40,425
Interest on lease obligations		24,457		31,954
Amortization of deferred financing fees		89,682		107,016
Interest income		(67,681)		(15,038)
Total	\$	5,074,700	\$	4,376,974

13. Income taxes

a) Provision for income taxes

Components of income tax expense (recovery)

	2023		2022	
Current tax expense	\$	439,590	\$	885,990
Prior period adjustments		4,735		(74,362)
Deferred tax expense		1,310,523		1,138,767
	\$	1,754,848	\$	1,950,395

The actual income tax provision differs from the expected amount calculated by applying Canadian combined federal and provincial corporate tax rates to income before tax of 23.00%. These differences result from the following:

	2023		2022	
Income before income taxes	\$	8,567,778	\$	9,804,067
Expected income tax expense at 23.00% (2022 - 23.00%)		1,970,589		2,254,935
Increase (decrease) resulting from:				
Non-taxable items		(217,383)		(238,708)
Prior period adjustments		(4,965)		(74,632)
Tax rate differentials and tax rate changes		7,107		8,800
Other		(500)		-
	\$	1,754,848	\$	1,950,395

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

13. Income taxes (cont'd)

b) Deferred taxes

	September 30, 2023	September 30, 2022
Deferred tax assets are attributable to the following:		
Lease liability	\$ 94,115	\$ 129,890
Capital losses	-	2,889
Total deferred tax assets	94,115	132,779
Offset of deferred tax liabilities	(94,115)	(132,779)
Net deferred tax assets	\$ -	\$ -

Deferred tax liabilities are attributable to the following:

Straight-line rent receivable	\$ 462,148	\$ 451,507
Investment properties	15,842,858	14,512,133
Finance fees	3,479	13,551
Deferred leasing	413,016	430,835
Right-of-use-asset	83,398	117,907
Capital gain reserve	10,660	17,767
Total deferred tax liabilities	16,815,559	15,543,700
Offset of deferred tax assets	(94,115)	(132,779)
Net deferred tax liabilities	\$ 16,721,444	\$ 15,410,921

\$30,273,649 (September 30, 2022 - \$30,273,649) related to investments in certain subsidiaries was not recognized because it was not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized.

14. Supplemental consolidated cash flow information

	2023	2022
Change in operating working capital:		
Receivables	\$ 197,194	\$ (154,788)
Prepaid expenses and deposits	(127,201)	(21,251)
Security deposits	(17,485)	14,668
Payables and accruals	327,788	98,277
Income taxes payable	(446,491)	182,145
Net change in operating working capital	\$ (66,195)	\$ 119,051
Interest paid	\$ 5,921,775	\$ 3,994,548
Income taxes paid	\$ 890,816	\$ 641,831

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

14. Supplemental consolidated cash flow information (cont'd)

Non-cash transactions		2023		2022
Tenant inducement payable reversed	\$	200,000	\$	-
Mortgage receivable	\$	-	\$	1,475,000

15. Share capital

The Company has unlimited authorized common share capital.

	September 30, 2023		September 30, 2022	
	#	\$	#	\$
Shares issued, beginning of year and end of year	9,451,242	5,947,346	9,451,242	5,947,364

During the year ended September 30, 2023, the Company paid dividends of \$0.08 per shares for a total of \$756,099 (2022 - \$0.07 per share for a total of \$661,587).

16. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income and comprehensive income for the year attributable to shareholders by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by dividing the net income and comprehensive income for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of dilutive potential common shares into common shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

		2023		2022
Net income and comprehensive income attributable to shareholders	\$	6,812,930	\$	7,853,671
Weighted average number of shares		9,451,242		9,451,242
Basic and diluted earnings per share	\$	0.72	\$	0.83

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

17. Rental revenue

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

	2023	2022
Rental revenue, contractual amount	\$ 14,708,303	\$ 14,716,654
Property tax and insurance recoveries	3,125,588	2,823,511
Amortization of tenant inducements	(57,256)	(66,201)
Straight-line rental revenue	46,266	(174,164)
Lease income	17,822,901	17,299,800
Operating expense recoveries	1,696,644	1,767,294
Other	217,220	-
Total Rental Revenue	\$ 19,736,765	\$ 19,067,094

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

	2023	2022
One year	\$ 14,075,725	\$ 14,154,551
One to two years	12,711,787	12,273,128
Two to three years	11,404,436	10,909,394
Three to four years	10,217,969	9,816,562
Four to five years	8,688,244	8,694,726
Thereafter	34,448,835	26,442,372
	\$ 91,546,996	\$ 82,290,733

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

18. Guarantees, contingencies, and commitments

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

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

18. Guarantees, contingencies, and commitments (cont'd)

- c) The Company has contracts in place with related parties to provide property management and asset management. Both contracts have been in place since 1999 and have been renewed on an annual basis with no changes to the terms. Further information can be found in the Related Party Transactions in Note 21.
- d) During the year ended September 30, 2022, the Company entered into a construction contract to build an additional 33,200 ft² of industrial space on one of its investment properties in Fort McMurray, Alberta. The total contract price was \$8,600,000. As of September 30, 2023 construction was completed. Payables and accruals at September 30, 2023 include \$905,800 related to holdbacks payable that will be released on final approval of the construction (2022 - \$2,390,132 in payables for construction and holdbacks payable).
- e) 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. 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 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.

19. Capital risk management

The Company defines capital that it manages as the aggregate of its equity. The Company's objectives when managing capital are to ensure that the Company will continue as a going concern so that it can sustain daily operations and provide adequate returns to its shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended September 30, 2023 and 2022.

The Company monitors capital primarily using a loan to value ratio, which is calculated as the amount of outstanding debt divided by the valuation of the investment property portfolio. The Company policy is to keep the average loan to value ratio below 70%. The Company is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced, or may not be refinanced on as favorable terms or with interest rates as favorable as those of the existing debt. The Company mitigates these risks by its continued efforts to stagger the maturity profile of its long-term debt, enhance the value of its real estate properties, maintain high occupancy levels, and ensure compliance with any debt covenants. The Company is only subject to debt covenants on its bank operating facilities and is in compliance with its covenants at September 30, 2023.

	September 30, 2023	September 30, 2022
Investment properties	\$ 260,517,019	\$ 253,596,382
Mortgages	107,737,914	108,041,921
Bank operating facilities	19,873,766	18,883,408
Other financing	3,565,000	3,000,000
Total Loans	\$ 131,176,680	\$ 129,925,329
Loan to value ratio	50%	51%

IMPERIAL EQUITIES INC.

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Years ended September 30, 2023 and 2022

20. Financial instruments

	September 30, 2023	September 30, 2022
Financial assets		
Cash and cash equivalents	\$ 424,451	\$ 232,998
Receivables	237,344	434,538
Mortgage receivable	1,439,324	1,472,316
	2,101,119	2,139,852
Financial liabilities		
Bank operating facilities	\$ 19,873,766	\$ 18,883,408
Payables and accruals	2,614,324	3,754,446
Other financing	3,565,000	3,000,000
Lease liability	409,195	564,738
Security deposits	745,791	763,276
Mortgages	107,737,914	108,041,921
	\$ 134,945,990	\$ 135,007,789

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 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 decrease 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 general approach to recognize expected credit losses ("ECL") in the next twelve months. Management uses historical credit losses adjusted for current and forward-looking information which may affect the ability of the customers to settle receivables. Historically the Company has very little credit losses as most tenants have been able to meet their financial obligations. At September 30, 2023 there is no loss provision for tenant receivables (September 30, 2022 - \$nil).

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

20. Financial instruments (cont'd)

Accounts receivable are written off when there is no reasonable expectation of recovery. During the year, \$129,608 (September 30, 2022 - \$nil) of receivables were written off and included in administrative expenses.

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 of 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 (Note 9).

Liquidity risk

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

During the current year, the Company renewed five mortgages. Three mortgages were renewed for a further 1-3 years at fixed rates. The Company also entered into a new mortgage with proceeds of \$7,200,000 and a fixed interest rate.

Contractual obligations at September 30, 2023

	1 year	2-3 years	3-4 years	4-5 years	5-6 years	Thereafter	Total
Gross mortgage payments	\$32,644,681	\$ 36,039,265	\$27,995,503	\$15,399,435	\$ 513,106	\$ 2,759,105	\$115,351,095
Payables and accruals	2,614,324	-	-	-	-	-	2,478,324
Gross lease liability payments	180,000	180,000	75,000	-	-	-	435,000
Security deposits	57,344	25,445	-	75,816	116,914	527,614	803,133
	35,496,349	36,244,710	28,070,503	15,475,251	630,020	3,286,719	119,067,552
Other financing	3,565,000	-	-	-	-	-	3,565,000
Operating facilities	19,873,766	-	-	-	-	-	19,873,766
	\$58,935,115	\$36,244,710	\$ 28,070,503	\$15,475,251	\$ 630,020	\$ 3,286,719	\$ 142,506,318

IMPERIAL EQUITIES INC.

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Years ended September 30, 2023 and 2022

20. Financial instruments (cont'd)

Contractual obligations at September 30, 2022

	1 year	2-3 years	3-4 years	4-5 years	5-6 years	Thereafter	Total
Gross mortgage payments	\$22,032,456	\$33,026,027	\$25,182,729	\$17,337,588	\$15,399,435	\$3,272,211	\$116,250,446
Payables and accruals	3,754,446	-	-	-	-	-	3,754,446
Gross lease liability payments	180,000	180,000	180,000	75,000	-	-	615,000
Security deposits	40,810	55,894	25,445	-	79,321	602,614	804,084
	26,007,712	33,261,921	25,388,174	17,412,588	15,478,756	3,874,825	121,423,976
Other financing	3,000,000	-	-	-	-	-	3,000,000
Operating facilities	18,883,408	-	-	-	-	-	18,883,408
	\$47,891,120	\$33,261,921	\$25,388,174	\$17,412,588	\$15,478,756	\$3,874,825	\$143,307,384

21. Related party transactions

The following are the related party transactions of the Company.

a) *Management agreements*

Sable Realty & Management Ltd. ("Sable") provides property management services to the Company. Sable is controlled by the President and CEO of the Company. Transactions with Sable include payment of a property management fee calculated as 4% of gross rents paid plus a flat fee for ground maintenance on certain properties and payment of property maintenance fees for labour, travel, and equipment usage. Project fees may also be charged by Sable to the Company for large scale tenant improvements, which are negotiated on a project by project basis.

North American Realty Corp. ("NARC") provides asset management services to the Company, and is also controlled by the President and CEO of the Company. Transactions with NARC include leasing, acquisition, and disposition fees.

Transactions with related parties are as follows:

	September 30, 2023	September 30, 2022
Property management and maintenance fees paid to Sable	\$ 1,436,959	\$ 1,272,355
Acquisition fees paid to NARC	-	22,500
Disposition fees paid to NARC	-	50,250
Leasing fees paid to NARC	120,806	229,797
Total payments	\$ 1,557,765	\$ 1,574,902

At September 30, 2023 the Company has \$35,023 in outstanding payables to Sable (2022 – \$9,159 to Sable, and \$208,818 to NARC).

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

21. Related party transactions (cont'd)

b) Other related party transactions

- i) Payments made to (received from) Sable Realty & Management Ltd. in the normal course of business are as follows:

	September 30, 2023	September 30, 2022
Leased office space and parking	\$ 180,000	\$ 180,000
Fees for accounting/consulting services	-	1,800
Rent at Sable Centre	(94,923)	(94,923)
Net payments for the year	\$ 85,077	\$ 86,877

- ii) Directors are paid a fee for attending directors' meetings. The fees are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations. Total fees paid for the year were \$45,000 (2022 – \$45,000).

- iii) Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The amount disclosed in the table are recognized as an expense during the year. There were no other transactions with key management personnel.

	September 30, 2023	September 30, 2022
Salaries and wages	\$ 544,570	\$ 625,900
Short-term employee benefits	12,731	21,457
Total	\$ 557,301	\$ 647,357

- iv) Other financing, unsecured

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

Related Parties	Balance			September 30, 2022
	October 1, 2021	Advances	Repayments	
Jamel Chadi, Shareholder ¹	\$ 2,100,000	\$ 1,200,000	\$ (2,100,000)	\$ 1,200,000
Sine Chadi, Shareholder ¹	700,000	750,000	(700,000)	750,000
NAMC ²	-	350,000	-	350,000
Diane Buchanan, Shareholder ¹	1,000,000	700,000	(1,000,000)	700,000
Total	\$ 3,800,000	\$ 3,000,000	\$ (3,800,000)	\$ 3,000,000

IMPERIAL EQUITIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

21. Related party transactions (cont'd)

1. Loans received from shareholders bears interest at an annual rate of 6%. Total interest expense during the year ended September 30, 2023 was \$254,341 (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.

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

22. Post-reporting date events

On October 5, 2023, the Company declared a quarterly dividend of \$0.02 per share totalling \$189,025 which was paid on October 31, 2023, to shareholders of record effective October 20, 2023.