

# Imperial Equities Inc.

## Three and Nine months ended June 30, 2023

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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From the beginning of this fiscal year and throughout this third quarter our team has been active across all areas to ensure our portfolio retained its robust performance, to bring some major internal investing activity to a conclusion and begin to look outward again for new investment opportunities.

All of our fundamentals remain strong with our occupancy rate maintained at 97.9% and leasing activities keeping pace with anticipated renewals and turnover. Close to 100,000 square feet have been renewed or remarketed so far this year, with industry competitive rates maintained across all assets. Our ability to continue to attract and retain tenants and maintain high occupancy reflects the strength of our assets and an ongoing show of trust from our tenants. As always, this is a major measure of our success.

Our financial performance for the quarter continues to be strong, even as we have held steady on outward investing activity. Total revenue and funds from operations have been stable, and excess capital has supported our internal expansion and renewal. The value of assets under management has increased to almost \$264 million as of Q3 2023, across all income-producing properties - all providing stable cash flow to support debt repayment, ensure consistent quarterly dividends and generate funds for long-term growth.

Our major investment activity this quarter remains with our Fort McMurray Wajax property which is nearing completion on a major, onsite expansion, expected to be completed prior to the end of Q4 2023. The tenant is already occupying the first phase of the expansion with the secondary building nearing completion. We have chosen to self-finance this expansion while we assess our new interest rate environment, and our fixed price contract helped constrain costs at a time in which our industry is still feeling significant inflationary pressure. Once completed and an occupancy certificate is issued by the municipality, we will be in a position to place conventional financing in order to pay down short-term financing and begin to free up excess capital for investment.

Our other major investment for the year is the modernization of the systems in one of our older properties to support its long-term viability. Incorporating energy efficient components and contending with supply chain issues in addition to excess demands from the municipality have caused some delays on this work. However, early on in this quarter we were able to comply with all municipal requirements and our new tenant was able to obtain occupancy.

We also continue to invest to lower our ESG impacts, implementing measures across all properties to reflect our ongoing commitment to sustainability and giving back in the communities that support our Company.

Like all of our industry, we are adapting to the new interest rate environment as our weighted average interest rate continues to increase as debt is refinanced. We continue to benefit from the financial decisions we made in the low rate environment that preceded this new era, but we do see the impact to our bottom line as cash required for debt repayment has increased each quarter this year.

Still, we maintain a healthy average of 50% debt to total assets, and our overall income from operations is slightly ahead of Q3 2022 even as we absorb new costs and self-finance internal expansions. An overall lower net income is attributable to higher financing costs as well as the impact of changes in valuations of investment properties.

As we move towards our year end, we are looking to successfully bring priority projects to completion and to explore opportunities for new investment.

I offer my sincere thanks to our Management, Partners, Directors and our Shareholders who continue to support our efforts to pursue greater shareholder value. As always, I can be reached with any questions about our Company at [sine@imperialequities.com](mailto:sine@imperialequities.com).

A handwritten signature in black ink, appearing to read 'Sine Chadi', is centered within a light gray rectangular box.

Sine Chadi

President & CEO

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. ("Imperial" or "Imperial Equities" or the "Company") and its subsidiaries. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 2023, and the related notes, as well as the audited consolidated financial statements and MD&A for the years ended September 30, 2022 and 2021. Unless otherwise noted, all amounts in this MD&A are reported in Canadian dollars. Imperial Equities Inc. trades on the TSX Venture Exchange under the symbol "IEI". Additional information on the Company may be obtained by visiting [www.sedar.com](http://www.sedar.com).

## RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

## FORWARD-LOOKING INFORMATION

In this MD&A, Management may talk about the current economy and express opinions on future market conditions. This forward-looking information is based on Management's current assessments based on internal expertise as well as the opinions of other professionals in this industry. While Management may consider these statements to be reasonably optimistic and favourable, the opinions and estimates of future trends are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in the MD&A for the fiscal year ended September 30, 2022. Any forward-looking statements in this MD&A should not be relied upon as facts, as actual results may differ from estimates.

## NON-IFRS FINANCIAL MEASURES

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

## BUSINESS OVERVIEW

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

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

## STRATEGIC DIRECTION

Imperial's team of professionals is dedicated and motivated to grow its real estate portfolio and earn value for its shareholders. The Company is focused on the real estate market throughout western Canada and is committed to continue building a strong portfolio of investment properties, through careful, strategic movement. The Company is diligent in working towards meeting its strategic goals and objectives. For details about the Company's strategic goals and objectives, refer to the MD&A for the fiscal year ended September 30, 2022.

## KEY PERFORMANCE DRIVERS

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

Management monitors the success of Imperial by measuring how well the Company delivers on its strategies and executes due diligence. This assessment includes the size of the tenant, the length of time they have been in business, their operations, and exposure to the industry in which they operate. All the performance drivers used by the Company are consistent with those outlined in MD&A for the year ended September 30, 2022.

## KEY PERFORMANCE INDICATORS

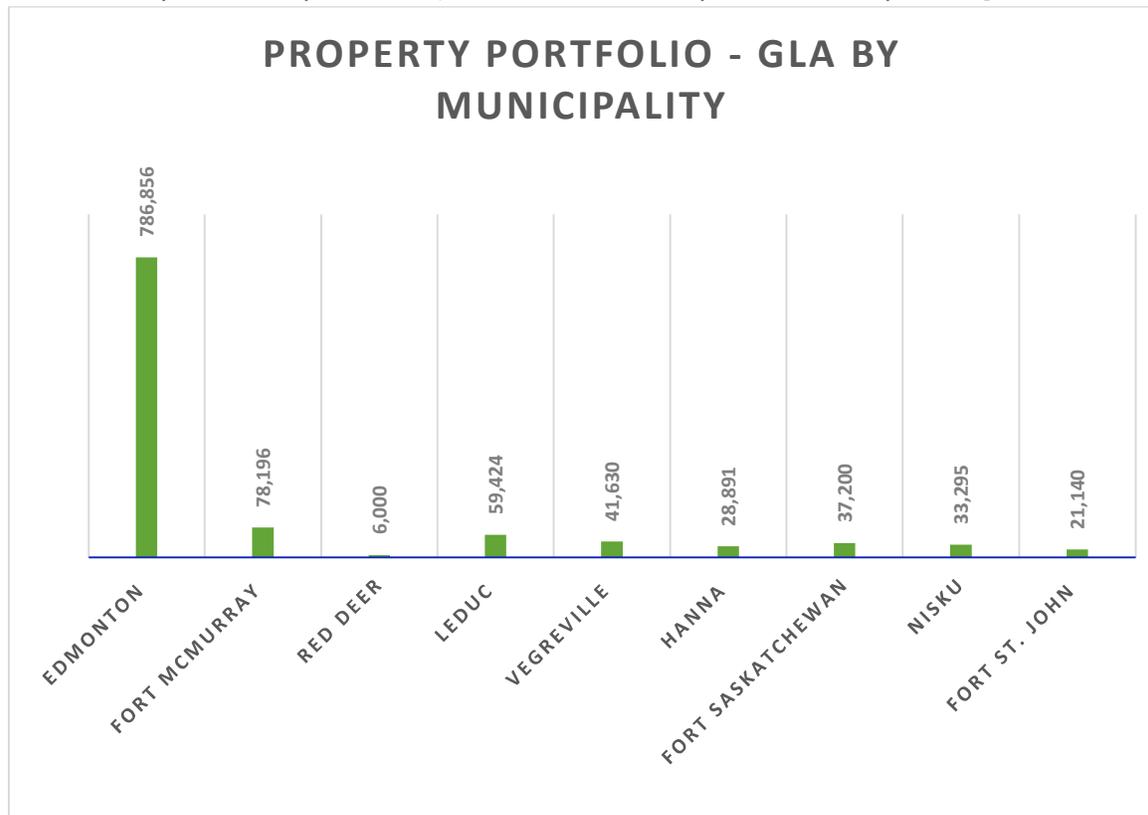
	Nine months ended	Year ended
	June 30, 2023	September 30, 2022
<b>Investment Properties</b>		
Total number of investment properties	42	42
Property acquisitions during the period	-	2
Property dispositions during the period	-	1
Raw land properties held for future development	9	9
Raw land properties under lease with tenants	5	4
Gross leaseable area (GLA) in square feet	1,092,632	1,084,003
Property under development nearing completion	25,200	-
<b>Leasing Activities by Gross Leaseable Area (GLA)</b>		
Lease retention	36,982	56,519
New tenant leases	59,553	98,316
GLA of leases expiring within twelve months	153,669	105,504
Space available for lease	23,267	23,267
Average lease term to maturity in years	4.85	4.83
Building occupancy	97.9%	97.9%
<b>Property Operations</b>		
% operating expense recoveries	79%	82%
Income from operations	\$ 10,034,454	\$ 13,458,786
Investment property improvements	\$ 3,819,336	\$ 5,205,210
<b>Financing</b>		
Debt to total assets ratio	50%	51%
Weighted average interest rates on mortgages	3.41%	3.23%

## Investment Properties

### RAW LAND in Alberta

Available for development		Under lease with tenants	
12.9 acres	Strathcona County	1.49 acres	SE Edmonton
2.24 acres	NW Edmonton	2.00 acres	NW Edmonton
49.42 acres	Hanna	3.00 acres	NW Edmonton
0.91 acres	NW Edmonton	1.70 acres	SE Edmonton
		1.71 acres	SE Edmonton

**Gross leasable area (GLA)** at June 30, 2023 is 1,092,632 ft<sup>2</sup> which includes 8,000 ft<sup>2</sup> of property under development at September 30, 2022 which was completed and occupied in Q2 2023.



## Leasing Activities

Performance drivers of the Company include ensuring a low turnover of tenants through lease retentions and maintaining high occupancy.

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

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

### LEASE RETENTION for the nine months ended June 30, 2023

<b>Location</b>	<b>GLA</b>	<b>Expiring Rate PSF*</b>	<b>Renewal Rate PSF*</b>	<b>Renewal Term (months)</b>
Edmonton, AB	3,000	\$ 12.00	\$ 12.00	60
Edmonton, AB	24,855	\$ 9.00	\$ 9.00	60
Fort Saskatchewan, AB	6,000	\$ 38.32	\$ 42.15	60
Edmonton, AB	3,127	\$ 14.25	\$ 12.15	60
	<b>36,982</b>			

### NEW TENANT LEASES for the nine months ended June 30, 2023

<b>Location</b>	<b>GLA</b>	<b>Rate/PSF*</b>	<b>Lease Term (months)</b>
Fort McMurray, AB	8,000	\$ 31.88	186
Edmonton, AB	51,553	\$ 8.25	60
	<b>59,553</b>		

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

In the twelve months subsequent to June 30, 2023, there are an additional 153,669 ft<sup>2</sup> of leases expiring. Subsequent to Q3 2023, the Company renewed leases for 10,758 ft<sup>2</sup> and is in the final stages of negotiating renewals and new leases on an additional 43,396ft<sup>2</sup>. The Company will work with the existing tenants to renew the leases as they come up for renewal.

### Space available for lease at June 30, 2023, unchanged from September 30, 2022

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

Subsequent to Q3 2023, the Company finalized a new lease for 11,988 ft<sup>2</sup> of the available space for lease.

**LEASE TERMS at June 30, 2023**  
**(Maturity year by fiscal year ended September 30)**

<b>Single-tenant buildings</b>		<b>Multi-tenant buildings</b>	
<b>Square Feet</b>	<b>Maturity Year</b>	<b>Square Feet</b>	<b>Maturity Year</b>
3,097	Month to month	10,758	2023
58,393	2023	21,127	2024
119,830	2024	48,419	2025
59,695	2026	14,484	2026
81,111	2027	19,649	2027
249,038	2028	6,127	2028
78,254	2030	11,944	2030
118,305	2031	38,015	2031
34,404	2033	<b>170,523</b>	
34,800	2034		
33,024	2038		
28,891	2039		
<b>898,842</b>			

Total GLA of in-place leases	1,069,365
GLA available for lease	23,267
<b>Total GLA at June 30, 2023</b>	<b>1,092,632</b>

**Average lease term to maturity = 4.85 years**

**AVERAGE ANNUAL LEASE RATES by City, per square foot**  
**At June 30**

	<b>2023</b>	<b>2022</b>
Edmonton, Alberta	\$ 11.31	\$ 9.93
Red Deer, Alberta*	\$ 22.43	\$ 22.75
Fort Saskatchewan, Alberta*	\$ 38.32	\$ 38.32
Fort McMurray, Alberta	\$ 42.34	\$ 44.31
Leduc, Alberta	\$ 17.66	\$ 17.66
Hanna, Alberta	\$ 19.75	\$ 19.55
Nisku, Alberta	\$ 13.39	\$ 13.26
Vegreville, Alberta	\$ 7.18	\$ 7.18
Fort St. John, British Columbia	\$ 14.75	\$ 14.75

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

## Property Operations

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Property tax and insurance recoveries	\$ 902,307	\$ 714,684	\$ 2,357,943	\$ 2,146,691
Operating expense recoveries	280,793	492,612	1,180,044	1,161,064
<b>Total recoveries</b>	<b>\$ 1,183,100</b>	<b>\$ 1,207,296</b>	<b>\$ 3,537,987</b>	<b>\$ 3,307,755</b>
Total property operating expenses	\$ 1,522,645	\$ 1,402,726	\$ 4,476,486	\$ 4,232,120

### % of property operating expense recoveries

**78%                      86%                      79%                      78%**

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

The recovery percentage at the fiscal year end of September 30, 2022, was 82%. In the nine months ended June 30, 2023 there were additional costs to bring two single-tenant buildings to leasable condition subsequent to their lease expiries. This also occurred in the comparative nine-month period ended June 30, 2022 resulting in similar recovery percentages in the current and prior nine-month periods. In the three months ended June 30, 2022, a mid-year reconciliation between budgeted and actual operating costs resulted in additional billings being recorded in the three-month period compared to the current year. Additionally, in the three-month period ended June 30, 2023, recoveries were adjusted to reverse an accrual related to a large tenant expense as an agreement was reached with the tenant to amortize the recovery of the expense over the remaining term of the lease.

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

**Income from operations** is a measure of funds available to service the debt repayments on financing, provide cash for capital expenditures on the properties, and fund further growth.

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Income from operations	\$ 3,672,994	\$ 3,355,832	\$ 10,034,454	\$ 10,062,973
Less: Interest on financing *	1,306,861	1,081,776	3,802,897	3,143,652
Less: Principal instalments on mortgages	1,901,114	1,867,162	5,667,800	5,420,437
Funds available for property improvements and growth	\$ 465,019	\$ 406,894	\$ 563,757	\$ 1,498,884

*\*Interest on financing includes capitalized interest if any and excludes interest income, interest on the lease liability and amortization of deferred finance fees. Increased interest expense this year is a result of a higher balance of debt relating to other financing and bank operating facilities.*

The Company continues to generate funds available for capital projects as well as future growth. In the three and nine months ended June 30, 2023, the Company incurred higher interest costs related to increased financing used for property construction undertaken in the period. The Company, working closely with third-party contractors, continues to ensure all properties are well-maintained in terms of maintenance, electrical, mechanical, structural, and cosmetic (which includes exterior maintenance of the buildings through painting, landscaping, parking lot striping, etc.). In addition, the Company undertook several upgrade projects in the last twelve months that will improve the energy efficiency of some of the properties.

#### **Investment in property improvements**

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Total property improvements	\$ 775,779	\$ 1,490,723	\$ 3,819,336	\$ 2,014,253

During the year ended September 30, 2022 the Company entered into a construction contract to build an additional 33,200 ft<sup>2</sup> of industrial space for one of its investment properties in Fort McMurray, Alberta. The total budgeted cost is \$8,600,000. At December 31, 2022 Phase 1 of the project totalling 8,000 ft<sup>2</sup> was completed and occupied by the tenant. At June 30, 2023, the remaining 25,200 ft<sup>2</sup> is approximately 91% complete and scheduled to be occupied in Q4 2023. The fluctuations in property improvement costs compared to prior periods relate primarily to the timing of construction and related billings on this project.

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

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

## Financing

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

The Company continues to enjoy a good relationship with its lenders and has been able to renew mortgages as they come due and place new conventional financing on acquisitions. Unencumbered properties at June 30, 2023 have fair values of \$23,038,518 (September 30, 2022 - \$23,138,518).

As at	June 30, 2023	September 30, 2022
<b>Total Assets</b>	<b>\$ 263,916,518</b>	<b>\$ 257,175,623</b>
Mortgages excluding transaction fees	102,575,130	108,242,930
Other financing	5,025,000	3,000,000
Bank operating facilities	25,337,105	18,883,408
<b>Debt</b>	<b>\$ 132,937,235</b>	<b>\$ 130,126,338</b>

**Ratio of debt to assets**

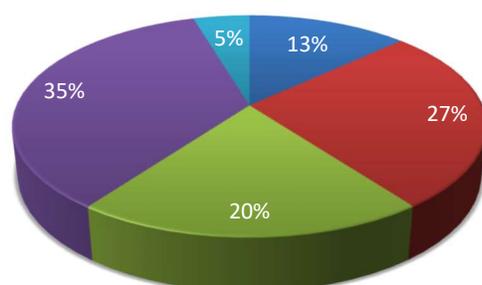
**50%**

**51%**

**Weighted average interest rates on the mortgages** is 3.41% at June 30, 2023. During the twelve months subsequent to June 30, 2023, there are eight mortgages up for renewal.

## Mortgage Maturities

(Calendar Years)



■ 2023 ■ 2024 ■ 2025 ■ 2026 ■ 2029

The following table details the mortgage activity during the nine months ended June 30, 2023.

Maturity Date	Rate	Principal Balance September 30, 2022	Mortgages Advanced/ Assumed	Y-T-D Principal Payments	Principal Paid on Maturity	Principal Balance June 30, 2023
July 1, 2023	P + .95	\$ 1,595,085	\$ -	\$ 123,223	\$ -	\$ 1,471,862
October 1, 2023	3.950%	143,163	-	98,465	-	44,698
October 1, 2023	4.090%	5,004,237	-	272,433	-	4,731,804
November 1, 2023	4.330%	3,448,623	-	183,557	-	3,265,066
December 1, 2023	4.648%	4,133,419	-	214,117	-	3,919,302
January 1, 2024	4.300%	1,874,009	-	142,791	-	1,731,218
January 1, 2024	4.300%	1,487,309	-	113,327	-	1,373,982
April 1, 2024	2.110%	3,796,429	-	183,090	-	3,613,339
August 1, 2024	3.300%	8,491,306	-	442,361	-	8,048,945
November 1, 2024	3.555%	7,550,033	-	377,722	-	7,172,311
* December 1, 2024	6.073%	3,034,362	-	171,581	-	2,862,781
* December 1, 2024	6.073%	2,756,884	-	155,888	-	2,600,996
* February 1, 2025	5.720%	1,671,265	-	95,652	-	1,575,613
February 1, 2025	3.420%	4,311,765	-	38,213	-	4,273,552
February 1, 2025	3.310%	4,589,983	-	490,352	-	4,099,631
* April 1, 2025	2.310%	4,565,410	-	236,714	-	4,328,696
April 1, 2025	5.290%	3,269,384	-	152,791	-	3,116,593
August 1, 2025	2.837%	3,540,220	-	172,238	-	3,367,982
April 1, 2026	2.675%	2,404,956	-	166,923	-	2,238,033
July 1, 2026	2.710%	5,522,655	-	250,619	-	5,272,036
July 1, 2026	2.710%	10,553,887	-	478,938	-	10,074,949
October 1, 2026	2.940%	9,031,037	-	393,140	-	8,637,897
November 1, 2026	2.930%	10,506,586	-	454,414	-	10,052,172
June 11, 2029	3.480%	4,960,923	-	259,251	-	4,701,672
		<b>\$ 108,242,930</b>	<b>\$ -</b>	<b>\$ 5,667,800</b>	<b>\$ -</b>	<b>\$102,575,130</b>

\* Mortgages that were renewed during the nine months ended June 30, 2023

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

The Company's two bank operating facilities are secured with specific revenue-producing properties and one operating facility has a general security agreement covering a first position on all present and after acquired property until two temporary increases in the facility expire on August 17, 2023.

## ACTIVITY DURING THE PERIOD

Property under development in Fort McMurray, Alberta is nearing the final stages of completion. The current tenant is occupying 8,000 ft<sup>2</sup> of the total project build and the remaining 25,200 ft<sup>2</sup> is approximately 91% complete. This multi-national tenant has signed a lease agreement encompassing the entire leased space with an expiry date in 2038.

During the nine months ended June 30, 2023, the Company completed two large redevelopment projects for two properties resulting in new tenants taking occupancy and rent commencing in Q2 and Q3 2023.

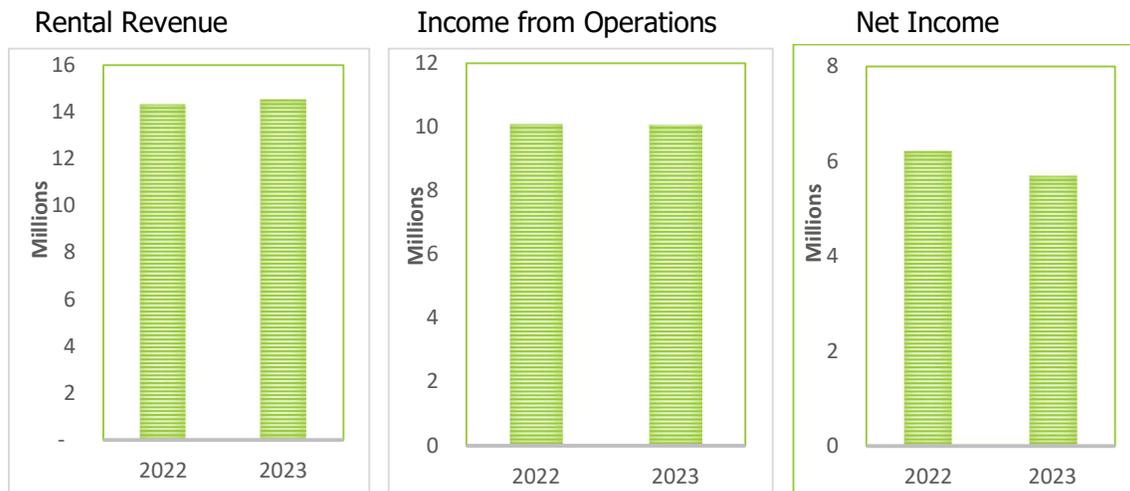
During the nine months ended June 30, 2023 the Company renewed four leases and signed a new lease with an existing tenant to add increased square footage.

## RESULTS OF OPERATIONS

### Condensed consolidated income statement (in 000's)

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Rental revenue	\$ 5,196	\$ 4,759	\$ 14,511	\$ 14,295
Property operating expenses	(1,523)	(1,403)	(4,476)	(4,232)
<b>Income from operations</b>	<b>3,673</b>	<b>3,356</b>	<b>10,035</b>	<b>10,063</b>
Finance costs	(1,246)	(1,116)	(3,682)	(3,214)
Administration and amortization expenses	(484)	(470)	(1,434)	(1,469)
Valuation net gains from investment property	(354)	866	2,047	1,840
<b>Income before income tax</b>	<b>1,589</b>	<b>2,636</b>	<b>6,966</b>	<b>7,220</b>
Income tax expense	(299)	(338)	(1,278)	(1,015)
<b>Net income and comprehensive income</b>	<b>\$ 1,290</b>	<b>\$ 2,298</b>	<b>\$ 5,688</b>	<b>\$ 6,205</b>
<b>Earnings per share basic and diluted</b>	<b>\$ 0.14</b>	<b>\$ 0.24</b>	<b>\$ 0.60</b>	<b>\$ 0.66</b>

The following charts compare the nine months ended June 30, 2023 to the nine months ended June 30, 2022.



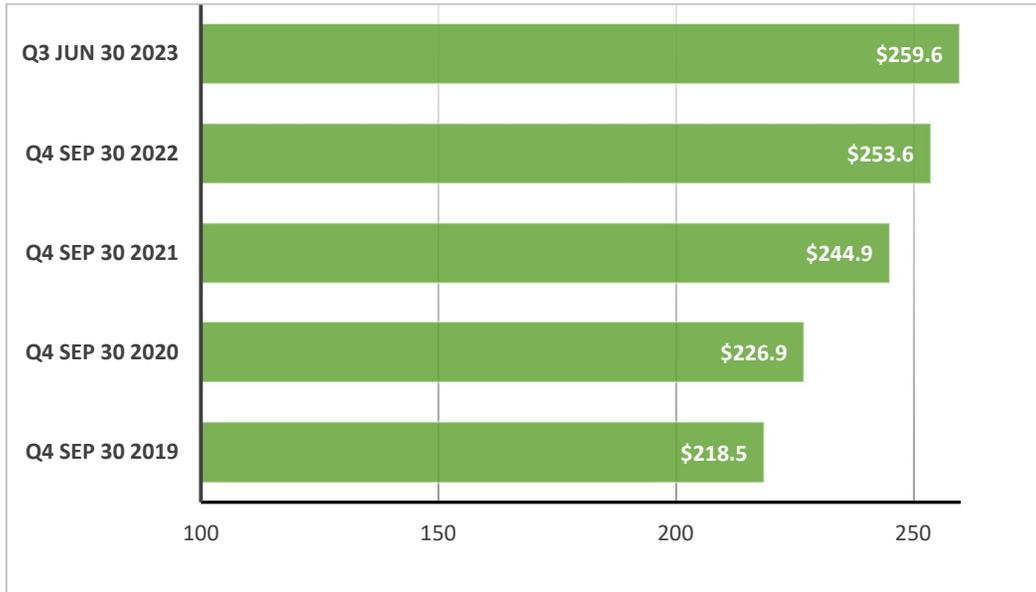
**Rental revenue** is higher in the three and nine-month periods ended June 30, 2023 compared to the same periods in the prior year primarily due to increased property tax, insurance and operating cost recoveries. These increases are related to increases in the cost of property taxes, insurance and operating costs being incurred and billed to tenants. Additionally, in Q3 an adjustment to record additional straight line rental income was recorded related to the commencement of a lease.

**Income from operations** is \$3,672,994 and \$10,034,454 for the three and nine-months ended June 30, 2023 respectively compared to \$3,355,832 and \$10,062,973 in the same periods for the prior year. The increase in the three-month period is primarily due to the increases in rental revenue noted above. In the nine-month period the decrease is due to fluctuations in timing of non-recoverable costs related to renovations on vacant space that was completed and occupied in Q2 and Q3 2023.

**Net income** is lower for the three and nine months ended June 30, 2023 compared to the same periods in the prior year due to primarily to increased financing costs related to higher balances on the operating line of credit, as well as the impact of the valuation net gains (losses) from investment property. The most significant valuation net gains in the nine months ended June 30, 2023 were for the property under construction in Fort McMurray, Alberta where the initial phase of 8000 ft<sup>2</sup> was completed and occupied in Q2 2023, and the remaining property expansion is closer to completion. These gains were offset by a valuation loss recognized in Q3 on a property with a tenant vacancy subsequent to period-end.

**Finance costs** include interest on financing and amortization of deferred finance fees and are net of interest income. Finance costs related to the project in Fort McMurray are capitalized until the project is complete and ready for occupancy. Finance costs have increased from the prior year because of increases in bank operating facilities and debt from related party financing.

## Fair Market Value of Investment Properties (Millions)



**Increases in the fair value of investment properties** at June 30, 2023 compared to September 30, 2022 in the amount of \$6.0 million is largely due to valuation net gains and property improvements.

**Valuation net gains from investment property** are the result of valuing the properties at current fair market values at each reporting date. Values are determined by Management using an income approach, where net operating income is estimated based on the actual annual contracted minimum rental revenue, less a vacancy and structural reserve allowance, and a capitalization rate is applied to this normalized operating income to derive a fair value. Capitalization rates are used to estimate fair market value and consider many factors, including but not limited to: location, size of land, site coverage, strength of the tenant, term of the lease, lease rate, age of the building, size of the building, construction of the building and any unique features of the building. Given that not all industrial properties are the same, Management applies these factors to each property in determining a capitalization rate.

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

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

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

Net valuation gains (losses) per quarter:

2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4
\$ (357,077)	\$ 204,436	\$ 2,197,038	\$ 667,538	\$ 866,337	\$ 379,994	\$ 594,100	\$ (714,103)

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

During the nine-month period ended June 30, 2023, increases in the fair value of properties reflect income generated by properties that were previously vacant, income from new leases, and the increased percentage complete of the building project in Fort McMurray, AB. There has been no significant change in the cap rates.

INVESTMENT PROPERTY CAP RATES	June 30 2023			Rate Change	September 30, 2022	
	Total GLA sf	Range Cap Rates	Total GLA sf		Range Cap Rates	
Edmonton, Alberta	763,589	4.50% - 7.00%	↔	762,960	4.50% - 7.00%	
Red Deer, Alberta	78,196	6.10% - 6.65%	↔	78,196	6.10% - 6.63%	
Fort Saskatchewan, Alberta	6,000	6.75%	↑	6,000	6.51%	
Fort McMurray, Alberta	59,424	6.23% - 6.75%	↔	51,424	6.23% - 6.70%	
Leduc, Alberta	41,630	6.50%	↔	41,630	6.50%	
Vegreville, Alberta	33,295	8.00%	↔	33,295	8.00%	
Nisku, Alberta	37,200	6.50%	↔	37,200	6.50%	
Hanna, Alberta	28,891	7.00%	↔	28,891	7.00%	
Fort St. John, British Columbia	21,140	8.50%	↔	21,140	8.50%	
	1,069,365			1,060,736		
Available for lease, Edmonton, AB.	23,267			23,267		
Total GLA square feet	1,092,632			1,084,003		

## CHANGES IN CASH FLOWS

**Cash provided by operating activities** for the three and nine months ended June 30, 2023 was \$718,150 and \$7,458,070 respectively (June 30, 2022 – \$8,014,561 and \$195,438). The Company continues to generate positive cash from operations each quarter to cover day-to-day expenditures and provide reserves for future opportunities. The change in operating cash was primarily driven by changes in operating working capital including increases in prepaids for property taxes and decreases in income tax payable and accounts payable compared to the prior periods.

**Cash used in investing activities** for the three and nine months ended June 30, 2023 was \$1,316,807 and \$5,791,394 (June 30, 2022 – \$453,343 and \$961,323). Changes in cash used in investing activities is primarily driven by the timing of cash payments for property improvements, including property under development, which can fluctuate period to period depending on projects that are undertaken. Additionally, the nine months ended June 30, 2022 also included cash inflows mortgage receivable that reduced the overall cash used.

**Net cash provided by (used in) financing activities** was a cash inflow of \$789,327 for the three months ended June 30, 2023 (2022 - \$1,203,859) and an outflow of \$1,262,539 (2022 – \$5,617,411) for the year to date. Changes in cash provided by (used in) financing activities are driven by the timing of funds received from mortgages, and other financing, as well as the timing of draws or repayments on the bank operating facilities. During the nine months ended June 30, 2023, there has been increased cash requirements related to the property expansion in Fort McMurray, resulting in increased draws on the bank operating facilities and other financing. Additionally, higher balances for bank operating facilities and other financing have increased finance costs. In the prior period, proceeds from new mortgages were used to repay other financing and the bank operating facilities to reduce interest costs.

At June 30, 2023, there was a **net increase in cash** of \$232,998 compared to September 30, 2022.

## CHANGES IN FINANCIAL POSITION

**Investment properties** include the fair value of the properties at the reporting date as valued by Management, including the unamortized balance of straight-line rent receivables, the unamortized balance of deferred leasing costs and the unamortized balance of tenant inducements if any. Changes since the fiscal year-end of September 30, 2022, are detailed below.

	<b>Income producing properties</b>	<b>Properties under development</b>	<b>Held for development</b>	<b>Total investment properties</b>
<b>Balance, September 30, 2022</b>	\$ 235,674,148	\$ 5,520,242	\$ 12,401,992	\$ 253,596,382
Reclassification of land held for development	(1,000,000)	-	1,000,000	-
<i>Additions:</i>				
Property improvements and additions	1,951,695	1,867,641	-	3,819,336
Capitalized property taxes and other	-	-	165,838	165,838
Tenant inducements	269,501	-	-	269,501
Leasing commissions	376,727	-	-	376,727
Amortization of tenant inducements	(217,769)	-	-	(217,769)
Amortization of deferred leasing commissions	(361,808)	-	-	(361,808)
Change in straight-line rental revenue	(77,319)	-	-	(77,319)
Revaluation gains (losses), net	771,889	1,541,303	(265,795)	2,047,397
<b>Balance, June 30, 2023</b>	<b>\$ 237,387,064</b>	<b>\$ 8,929,186</b>	<b>\$ 13,302,035</b>	<b>\$ 259,618,285</b>

Property improvements and additions include structural improvements and additions to the Company's property under development. Leasing commissions were paid for lease renewals and new leases signed during the period.

**Receivables** decreased by \$180,257 since the year end with collection of occupancy cost reconciliations performed for the fiscal year ended September 30.

**Prepaid expenses and deposits** increased by \$632,249 since the year end with the annual payment of property taxes and insurance in Q3.

**Current portion of mortgages** have increased by \$6,898,393 because there are eight mortgages up for renewal in the next twelve months.

**Other financing** increased by \$2,025,000 and was received from related parties during the current period to assist with the ongoing property under development in Fort McMurray, AB.

**Bank operating facilities** at June 30, 2023 have a balance of \$25,337,105 with two of the Company's major lenders (September 30, 2022 - \$18,883,408). The limit on one of the facilities was increased by \$2 million during Q1 2023. The second facility received temporary increases totalling \$4 million which expire August 17, 2023.

	<b>June 30, 2023</b>	<b>September 30, 2022</b>
Bank credit facility limits	\$ 25,500,000	\$ 19,500,000
Amounts drawn on facilities	(25,337,105)	(18,883,408)
Available credit facilities	\$ 162,895	\$ 616,592

At June 30, 2023 the Company was in compliance with all loan covenants and requirements. Further details on the terms of the facilities are disclosed in Note 6 of the interim condensed consolidated financial statements.

## SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4
<b>REVENUE</b>	<b>\$5,195,639</b>	\$4,650,934	\$4,664,367	\$4,772,001	<b>\$4,758,558</b>	\$4,653,262	\$4,883,273	\$4,860,652
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$1,289,227</b>	\$1,321,039	\$3,076,874	\$1,648,262	<b>\$2,298,470</b>	\$1,910,113	\$1,996,828	\$ 870,558
<b>EPS-Basic</b>	<b>\$ 0.14</b>	\$ 0.14	\$ 0.33	\$ 0.17	<b>\$ 0.24</b>	\$ 0.20	\$ 0.21	\$ 0.09
<b>EPS-Diluted</b>	<b>\$ 0.14</b>	\$ 0.14	\$ 0.33	\$ 0.17	<b>\$ 0.24</b>	\$ 0.20	\$ 0.21	\$ 0.09

### Quarterly Changes in Revenue

At Q2 2022 the Company was fully tenanted in two buildings that subsequently were vacated. Revenue was still earned until the vacancies at which date the Company commenced substantial property improvements to suit new tenants. Tenant rent commenced in Q2 2023 for one of the tenants, and in Q3 2023 for the second tenant.

The increase in revenue in Q3 2023 compared to Q2 2023 includes the recognition of straight-line rent receivable related to the new tenant that commenced leasing in Q3 2023, as well as increased recovery revenue for property taxes, insurance and operating costs.

The decrease in revenue in Q1 2023 compared to Q4 2022 is related to operating cost recovery increases at each fourth quarter when reconciliation of actual to budgeted operating costs are completed and final invoices for operating costs are issued for the year.

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

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

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

### Quarterly Changes in Total Comprehensive Income and Earnings Per Share (basic and diluted)

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

In Q1 2023, and Q3 2022 the valuation gains were larger than in other quarters which increased earnings per share. In Q3 2023 and Q4 2021 there were losses on valuation, which reduced the earnings per share amounts.

Net valuation gains (losses) per quarter:

<b>2023</b>	2023	2023	2022	<b>2022</b>	2022	2022	2021
<b>Q3</b>	Q2	Q1	Q4	<b>Q3</b>	Q2	Q1	Q4
<b>\$ (357,077)</b>	\$ 204,436	\$ 2,197,038	\$ 667,538	<b>\$ 866,337</b>	\$ 379,994	\$ 594,100	\$ (714,103)

In Q1 2023 there were gains on the property under development in Fort McMurray, AB and gains from new leases on renovated properties in Edmonton, AB. Large increases in the fair value of properties in a quarter primarily reflect increases in income generated by properties that were previously vacant. In Q3 2023, there was a reduction in the fair value recorded on a property where a tenant vacated shortly after period end at the expiry of their lease, which offset fair value gains on the property under development in Fort McMurray due to further completion of construction, and gains on a property where a tenant commenced leasing in the quarter.

The net decrease in valuations in Q4 of 2021 resulted from write downs of two properties where existing tenants renewed their leases at lower lease rates.

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

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

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at August 16, 2023 are 9,451,242 and are unchanged from the fiscal year end.

There are currently no options outstanding.

## DIVIDENDS

Dividend distribution is determined by the Board of Directors after evaluating the earnings of the Company and the overall outlook for the economy. Dividends are declared and paid based on the common shares owned at the record date. Shareholders are cautioned that past issuance of dividends by the Company does not guarantee that future dividends will be issued.

The Company paid a total of \$567,075 in dividends to its shareholders during the nine months ended June 30, 2023 representing \$0.02 per share.

## RELATED PARTY TRANSACTIONS

### **Paid to Companies Owned or Controlled by a Director, Majority Shareholder, and Officer**

**Property management and maintenance fees** for the nine months ended June 30, 2023 of \$1,030,172 (nine months ended June 30, 2022 - \$952,846) were paid to Sable Realty & Management Ltd. ("Sable"), a company controlled by Sine Chadi, a director and officer of the Company.

**Leasing fees** for the nine months ended June 30, 2023 of \$91,975 (nine months ended June 30, 2022 - \$68,627) were paid to North American Realty Corp. ("NARC"), a company controlled by Sine Chadi.

**Acquisition fees** paid to NARC for the nine months ended June 30, 2022 were \$nil (nine months ended June 30, 2022 - \$22,500).

**Leased office space and parking** for the nine-months ended June 30, 2023 of \$135,000 was paid to Sable and is unchanged from the same period in the prior year.

**Consulting fees** paid to Sable for the nine-months ended June 30, 2023 were \$nil (nine months ended June 30, 2022 - \$1,800).

**Rent** for the nine months ended June 30, 2023 of \$71,192 was collected from Sable for commercial lease space and was unchanged from the same period in the prior year.

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

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

### **Paid to Directors**

Directors' fees paid for attending directors' meetings during the nine months ended June 30, 2023 were \$37,500 (nine months ended June 30, 2022 - \$27,500). The fees paid are measured at the exchange amount established and agreed to by the related parties. These transactions occurred in the normal course of operations.

### **Compensation to Key Management Personnel**

The Company's key Management personnel include President and Chief Executive Officer, Sine Chadi, who is also a director and significant shareholder of the Company, Ajay Juneja, the Vice President of Corporate Services, and Meghan DeRoo McConnan, the interim Chief Financial Officer. In the prior period, key management included the Company's former Chief Operating Officer, and the Company's Chief Financial Officer, Azza Osman.

The Company announced the appointment of the interim CFO on May 25, 2023. The Company announced the departure of its COO effective July 15, 2022.

Compensation paid to key management personnel for the period is as follows:

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
President and Chief Executive Officer	\$ 75,000	\$ 75,000	\$ 225,000	\$ 225,000
Vice President of Corporate Services	32,933	-	32,933	-
Chief Financial Officer	19,425	-	19,425	-
Chief Financial Officer (Former)	-	46,250	35,582	133,750
Chief Operating Officer (Former)	-	45,000	-	135,000
<b>Total</b>	<b>\$ 127,358</b>	<b>\$ 166,250</b>	<b>\$ 312,940</b>	<b>\$ 493,750</b>

## Unsecured Financing from Directors and Shareholders and Related Companies

As at June 30, 2023, unsecured financing from directors and shareholders and related companies had a balance of \$5,025,000 with interest expense for the nine months then ended of \$275,700 (June 30, 2022 – \$1,900,000 with interest of \$10,917 for the nine months then ended). These loans bear interest at an annual rate of 6% with no specified dates for repayment.

## LIQUIDITY, CAPITAL RESOURCES, AND SOLVENCY

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

	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Income from operations	\$ 10,034,454	\$ 10,062,973
Cash provided by operating activities	\$ 7,458,070	\$ 8,014,561

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

The Company primarily relies on its lenders to finance the majority cost of property acquisitions through conventional mortgage financing. Any further cash shortfalls are covered through related-party financing, bank operating facilities or current cashflows. The Company has been very successful to date with financing its acquisitions and does not foresee any long-term impediments to obtaining the required financing to continue growth and to satisfy short-term borrowing needs and obligations.

Investment properties unencumbered with debt are valued at \$23,038,518 at June 30, 2023 and \$23,138,518 at September 30, 2022. Overall, the ratio of debt to assets at June 30, 2023 is 50% (September 30, 2022 - 51%), providing possible leverage opportunities in the future.

The Company has no other contractual commitments to purchase or sell assets, other than as disclosed above, and as disclosed in Note 13 of the interim condensed consolidated financial statements.

## CRITICAL ESTIMATES OF THE CURRENT ECONOMIC ENVIRONMENT AND OUTLOOK

The economic environment in which Imperial operates could be adversely affected by market risks such as product and service supply shortages, utility price increases, and property tax increases. These risk factors have a direct impact on the Company's costs; however, they are mitigated through the Company's lease term structures which recover the majority of these costs from the respective tenants.

An additional risk is the tenants' exposure to these risks and their impact on their economic performance; however, the Company's strong tenant portfolio and continuous communication with its tenants helps the Company in managing and mitigating these risks.

Vacancies at June 30, 2023 remain unchanged from the fiscal year end of September 30, 2022 and are 23,267 ft<sup>2</sup>. The Company continues to actively market current vacancies and remains optimistic in leasing prospects.

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

## RISKS AND RISK MANAGEMENT

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

One of the Company's internal performance drivers is to ensure the quality of its tenant base is strong. Most of the Company's tenants are large multi-national or national companies and are very likely to manage their operations sustainably during any economic turbulence. The Company has one large tenant occupying five properties in five different locations being Edmonton, Nisku, Red Deer, Fort McMurray, and Fort St. John in British Columbia. The revenue from this tenant now accounts for approximately 20% of Imperial's total revenue.

The Company continuously carries out risk assessment activities with all its tenants to assess potential exposure associated with the tenant’s performance. This tenant has been assessed to have strong financial performance and this is reflected through all property performance and in all financial matters between the Company and the tenant.

<b>Mix of Tenant Base</b>	<b>Multi-National</b>	<b>National</b>	<b>Regional Large</b>	<b>Regional Medium</b>	<b>Local Small</b>	<b>Totals</b>
% of Occupied GLA	38%	41%	13%	1%	7%	100%
% of Annual Rental Revenue	44%	38%	13%	1%	4%	100%

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

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

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

The risk of vacancy in any leased space is a risk to the Company’s ability to continue to meet the mortgage obligations on the property, as well as carrying costs including property taxes, utilities, and insurance. If in an extreme case a property became vacant, the carrying costs and mortgage payments if any could be paid for with existing cash flows from operations. At June 30, 2023 Imperial’s occupancy rate is 97.9%.

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

## **Market Risks**

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

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

The total fair value of the investment properties at June 30, 2023 is \$259,618,284 which includes \$23,038,518 of properties unencumbered with debt. The mortgages and bank operating facilities secured against specific properties total \$127,912,235 or 49% of the value of the Company's investment properties. Management believes the amount of debt against the properties is low enough to absorb any decline in values and support our ability to refinance.

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

**Interest rates** on mortgages that are up for renewal are currently at the highest the Company has seen in a few years. The Company tries to mitigate the risk of rising interest rates by fixing rates for longer terms and by minimizing its exposure to floating-rate financing. All mortgages at June 30, 2023 have fixed terms and fixed rates except for one. Subsequent to period end, the floating rate mortgage was renewed at a fixed rate for a one-year term.

## **Environmental Risk**

The Company is subject to various federal, provincial, and municipal laws relating to the environment and is increasingly responsible for accounting for its environmental impacts and those of its associated tenants, partners, and supply chain.

The Company is moving to ensure it can meet its accountability requirements as well as to set goals to ensure its environmental risks are managed, mitigated and its environmental footprint is reduced over time. The Company has set a goal of achieving Net Zero impact and in the coming months, will more directly determine a path and timeline to achieve this goal.

The Company manages its environmental impacts in three ways:

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

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

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

The Company has chosen the Global Reporting Initiative (GRI) as a framework with which to begin to account for its environmental, social, and governance-related measures. The first report based on the GRI General Disclosures was the Annual Report for the year ended September 30, 2023. Starting in fiscal 2024, the Company will also report using the GRI's Construction and Real Estate Disclosures. If new requirements for reporting are mandated in Canada, the Company will assess its current reporting and ensure that it meets required disclosures.

## Cybersecurity Risk

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

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

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

## PLANNED EXPENDITURES

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

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

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS AND CHANGES IN ACCOUNTING POLICIES

### Future Accounting Standards

The Company has performed an assessment of new standards issued by the International Accounting Standards Board ("IASB") that are not yet effective. The Company does not expect the pronouncements to have a material impact on the Company's interim condensed consolidated financial statements.

### Critical Judgments in Applying Accounting Policies

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

**(i) Leases**

The Company has commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts with tenants as operating leases. In applying this policy, the Company makes judgements for the point in time at which revenue recognition under the lease commences.

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

**(ii) Investment property**

The Company's accounting policies relating to investment property are described in Note 2 of the consolidated financial statements for the year ended September 30, 2022.

In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property to be capitalized and, for properties under development, identifying the point at which practical completion of the property occurs, and the directly attributable borrowing costs are included in the carrying value of the development property. Capitalization of expenses ceases to occur when the investment property is available for use. This judgement is applied when the property is substantially complete and is typically concurrent with occupancy. Judgment is also applied in determining the extent and frequency of independent appraisals.

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

**(iii) Income tax**

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

**(iv) Classification of tenant incentives**

Payments are sometimes made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16.

## **Critical Accounting Estimates and Assumptions**

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

**Investment properties**

The choice of the valuation method for fair valuing and the critical estimates and assumptions underlying the valuation of investment properties and investment properties under construction are set out in Note 3 in the consolidated financial statements for the year ended September 30, 2022.

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

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

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

#### **Income taxes**

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

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

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

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

In addition to performing the accounting and reporting functions of the Company, the CFO also provides accounting functions to numerous other private companies owned and operated by the CEO. There is the potential for conflict of interest regarding related-party transactions. All related-party transactions are disclosed each quarter and the Audit Committee is provided with comparable figures for fees charged by other companies.

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

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

## OFF-BALANCE SHEET ARRANGEMENTS

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