



IMPERIAL EQUITIES INC.

Q3 2023 Interim Financial Statements

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity's auditor.

IMPERIAL EQUITIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	June 30, 2023 (Unaudited)	September 30, 2022 (Audited)
Assets			
Investment properties	3	\$ 259,618,285	\$253,596,382
Mortgage receivable	3	1,413,599	1,439,324
Right-of-use asset		400,107	512,639
Total non-current assets		261,431,991	255,548,345
Current portion of mortgage receivable	3	34,112	32,992
Receivables		254,281	434,538
Prepaid expenses and deposits	4	1,558,999	926,750
Cash		637,135	232,998
Total current assets		2,484,527	1,627,278
Total Assets		\$ 263,916,518	\$257,175,623
Liabilities			
Mortgages	5	\$ 76,559,695	\$ 89,072,503
Lease liability		288,648	409,195
Security deposits		780,876	763,276
Deferred taxes	9(b)	16,342,697	15,410,921
Total non-current liabilities		93,971,916	105,655,895
Current portion of mortgages	5	25,867,811	18,969,418
Current portion of lease liability		159,433	155,543
Other financing	16 (b)	5,025,000	3,000,000
Bank operating facilities	6	25,337,105	18,883,408
Payables and accruals	7	2,222,782	3,754,446
Income taxes payable		341,572	886,079
Total current liabilities		58,953,703	45,648,894
Total Liabilities		152,925,619	151,304,789
Equity			
Issued share capital		5,947,346	5,947,346
Retained earnings		105,043,553	99,923,488
Total equity		110,990,899	105,870,834
Total Equity and Liabilities		\$ 263,916,518	\$257,175,623

Guarantees, contingencies, and commitments (Note 13)

Post-reporting date events (Note 17)

Approved on Behalf of the Board

Signed "Sine Chadi", Director

Signed "Kevin Lynch", Director

See accompanying notes to the interim condensed consolidated financial statements.

IMPERIAL EQUITIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Notes	Three months ended		Nine months ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Rental revenue	12	\$ 5,195,639	\$ 4,758,558	\$ 14,510,940	\$ 14,295,093
Property operating expenses		(1,522,645)	(1,402,726)	(4,476,486)	(4,232,120)
Income from operations		3,672,994	3,355,832	10,034,454	10,062,973
Finance costs	8	(1,246,291)	(1,116,258)	(3,682,423)	(3,213,771)
Administration expenses		(320,443)	(342,236)	(959,864)	(1,094,939)
Amortization of deferred leasing		(126,445)	(90,167)	(361,806)	(261,765)
Amortization of right-of-use asset		(37,510)	(37,510)	(112,530)	(112,530)
Valuation net gains from investment property	3	(354,077)	866,337	2,047,397	1,840,431
Income before income tax		1,588,228	2,635,998	6,965,228	7,220,399
Income tax expense	9 (a)	(299,001)	(337,528)	(1,278,088)	(1,014,988)
Net income and comprehensive income		\$ 1,289,227	\$ 2,298,470	\$ 5,687,140	\$ 6,205,411
Weighted average number of shares outstanding - basic & diluted		9,451,242	9,451,242	9,451,242	9,451,242
Earnings per share basic and diluted		\$ 0.14	\$ 0.24	\$ 0.60	\$ 0.66

See accompanying notes to the interim condensed consolidated financial statements.

IMPERIAL EQUITIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Number of shares	Capital stock	Retained earnings	Total
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	-	-	(567,075)	(567,075)
Net income and comprehensive income	-	-	5,687,140	5,687,140
Balance June 30, 2023	9,451,242	\$ 5,947,346	\$ 105,043,553	\$ 110,990,899

See accompanying notes to the interim condensed consolidated financial statements.

IMPERIAL EQUITIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Notes	Three months ended		Nine months ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Operating activities					
Net income from operations		\$ 1,289,227	\$ 2,298,470	\$ 5,687,140	\$ 6,205,411
Finance costs		1,246,291	1,116,258	3,682,423	3,213,771
Items not affecting cash:					
Amortization of right-of-use asset		37,510	37,510	112,530	112,530
Amortization of tenant inducements		(5,332)	16,550	17,769	49,651
Amortization of deferred leasing commissions		126,447	90,167	361,808	261,765
Fair value changes on investment properties		354,077	(866,337)	(2,047,397)	(1,840,431)
Straight-line rental revenue		(214,817)	27,849	77,319	169,088
Deferred income taxes		180,531	177,909	931,776	361,252
Leasing commissions		-	-	(376,727)	(68,627)
Net change in operating working capital	10	(2,295,782)	(2,702,938)	(988,570)	(449,849)
Cash provided by operating activities		718,152	195,438	7,458,071	8,014,561
Investing activities					
Purchase of investment properties		-	(1,065)	-	(2,276,912)
Improvements and additions to investment properties		(1,211,138)	(1,619,612)	(4,254,675)	(2,143,142)
Proceeds from mortgage receivable		8,294	-	24,606	2,500,000
Change in payables and accruals for investing		(113,964)	1,167,334	(1,561,326)	958,731
Cash used in investing activities		(1,316,808)	(453,343)	(5,791,395)	(961,323)
Financing activities					
Proceeds from new mortgages		-	2,500,000	-	20,500,000
Repayment of mortgages on maturity		-	-	-	(11,195,362)
Repayment of mortgages through principal instalments		(1,901,114)	(4,367,162)	(5,667,800)	(7,920,437)
Amortization of deferred finance fees		24,484	25,661	67,262	76,983
Fees associated with new or renewed mortgages		(5,228)	-	(13,877)	(80,343)
Advances from other financing		350,000	1,900,000	3,065,000	1,900,000
Repayment of other financing		-	-	(1,040,000)	(3,800,000)
Finance costs		(1,246,291)	(1,116,258)	(3,682,423)	(3,213,772)
Principal repayments on lease liability		(38,885)	(36,179)	(116,657)	(108,538)
Dividends paid		(189,025)	(189,025)	(567,075)	(472,562)
Net advances (repayment) from bank operating facilities		3,708,945	2,491,027	6,453,697	(1,042,600)
Change in accrued interest payable		86,442	(4,205)	239,334	(260,780)
Cash provided by (used in) financing activities		789,327	1,203,859	(1,262,539)	(5,617,411)
Increase in cash and cash equivalents		190,671	945,954	404,137	1,435,827
Cash and cash equivalents, beginning of period		446,464	685,987	232,998	196,114
Cash and cash equivalents, end of period		\$ 637,135	\$ 1,631,941	\$ 637,135	\$ 1,631,941

See accompanying notes to the interim condensed consolidated financial statements.

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

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 interim condensed 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. All significant intercompany balances and transactions have been eliminated.

2. Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Standards (“IAS”) 34 – Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and note disclosures normally included in the annual financial statements have been omitted or condensed. These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2022, and should be read in conjunction with the Company’s annual September 30, 2022 consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB.

The Board of Directors authorized these interim condensed consolidated financial statements for issue on August 16, 2023.

Basis of measurement

The Company’s interim condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair value, as explained in the accounting policies of the Company’s annual September 30, 2022 consolidated financial statements. These interim condensed consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars which is the Company’s functional currency.

Use of estimates judgments and assumptions

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. The significant judgments made by management when applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company’s annual September 30, 2022 consolidated financial statements.

Future accounting policies

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. No pronouncements have been disclosed as they are not expected to have a material impact on the Company’s interim condensed consolidated financial statements.

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

3. Investment properties

	Income producing properties	Properties under development	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)
Revaluation 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	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
Balance, June 30, 2023	\$ 237,387,064	\$ 8,929,186	\$ 13,302,035	\$ 259,618,285

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

3. Investment properties (cont'd)

The key assumptions for the valuation of the investment properties are set out below.

	June 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	\$ 242,405,540	\$ 230,757,797
Weighted average capitalization rates	6.42%	6.38%
Fair value impact of increasing average capitalization rate by 0.25%	\$ (9,071,981)	\$ (8,700,399)
Fair value impact of a 1% decrease in net operating income	\$ (2,410,090)	\$ (2,310,365)
Land held for development		
Average price per acre of land	\$ 202,930	\$ 152,274
Number of acres held	65.55	64.55
Total fair value	\$ 13,302,035	\$ 10,152,036
Impact of a 10% decrease in the price per acre	\$ (1,330,204)	\$ (1,015,204)
Land under lease agreements with tenants		
Number of acres leased	7.90	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)

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

	June 30, 2023	September 30, 2022
Straight-line rent receivable	\$ 1,885,754	\$ 1,963,074
Tenant inducements	652,102	600,370
Leasing commissions	1,888,127	1,873,206
	\$ 4,425,983	\$ 4,436,650

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

Mortgage receivable

In the prior year 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. The mortgage maturity date is July 31, 2024. The VTB can be prepaid in whole or in part without penalty. The balance outstanding on the VTB at June 30, 2023, was \$1,447,711 (September 30, 2022 - \$1,472,316).

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

4. Prepaid expenses and deposits

	June 30, 2023	September 30, 2022
Prepaid operating expenses	\$ 1,531,980	\$ 899,731
Security deposits with municipalities	27,019	27,019
Total	\$ 1,558,999	\$ 926,750

Prepaid operating expenses include insurance and property taxes.

5. Mortgages

Maturity	Rate	June 30, 2023	September 30, 2022
July 1, 2023	P + .95	\$ 1,471,862	\$ 1,595,085
October 1, 2023	3.950%	44,698	143,163
October 1, 2023	4.090%	4,731,804	5,004,237
November 1, 2023	4.330%	3,265,066	3,448,623
December 1, 2023	4.648%	3,919,302	4,133,419
January 1, 2024	4.300%	1,731,218	1,874,009
January 1, 2024	4.300%	1,373,982	1,487,309
April 1, 2024	2.110%	3,613,339	3,796,429
August 1, 2024	3.300%	8,048,945	8,491,306
November 1, 2024	3.555%	7,172,311	7,550,033
* December 1, 2024	6.073%	2,862,781	3,034,362
* December 1, 2024	6.073%	2,600,996	2,756,884
* February 1, 2025	5.720%	1,575,613	1,671,265
February 1, 2025	3.420%	4,099,631	4,311,765
February 1, 2025	3.310%	4,273,552	4,589,983
April 1, 2025	2.310%	4,328,696	4,565,410
* April 1, 2025	5.290%	3,116,593	3,269,384
August 1, 2025	2.837%	3,367,982	3,540,220
April 1, 2026	2.675%	2,238,033	2,404,956
July 1, 2026	2.710%	5,272,036	5,522,655
July 1, 2026	2.710%	10,074,949	10,553,887
October 1, 2026	2.940%	8,637,897	9,031,037
November 1, 2026	2.930%	10,052,172	10,506,586
June 11, 2029	3.480%	4,701,672	4,960,923
<i>Total mortgages</i>		\$ 102,575,130	\$ 108,242,930
<i>Less: current portion of principal payments</i>		(25,867,811)	(18,969,418)
<i>Less: balance of unamortized finance fees</i>		(147,624)	(201,009)
		\$ 76,559,695	\$ 89,072,503
Weighted average rate		3.41%	3.23%

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

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

5. Mortgages (cont'd)

All mortgages are repayable in blended monthly payments of interest and principal. The security pledged for each mortgage is limited to the related investment property. All mortgages have a fixed rate with the exception of one mortgage with a variable rate, which has an outstanding balance of \$1,471,862 at June 30, 2023.

6. Bank operating facilities

	June 30, 2023	September 30, 2022
Bank operating facilities	\$ 25,337,105	\$ 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 - a limit of \$13,500,000).

This LOC is used to assist with property acquisitions and general operations and has a balance at June 30, 2023, of \$15,500,000 (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 June 30, 2023 is \$7,717,316 (September 30, 2022 - \$7,875,620). The remaining balance of the facility is revolving, and bears interest at prime plus 1% per annum. The LOC is secured by specific revenue-producing properties with combined fair values of \$38,261,979 (September 30, 2022- \$36,469,039).

On November 8, 2022, the Company entered into an amending agreement which increased the operating line from \$15,000,000 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 require 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. As at June 30, 2023, and September 30, 2022, the Company was in compliance with all covenants.

- 2) A second operating LOC with a limit of \$10,000,000 (September 30, 2022 – a limit of \$6,000,000).

The balance on the credit facility at June 30, 2023, is \$9,837,105 (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 June 30, 2023, of \$32,290,662 (September 30, 2022 - \$32,052,336).

On March 24, 2023, the Company entered into an agreement to receive a \$2,000,000 temporary increase in the operating line of credit, creating a new limit of \$8,000,000. On June 22, 2023, an additional temporary increase of \$2,000,000 was approved increasing the credit limit to \$10,000,000. The temporary agreements include a general security agreement covering a first position on all present and after acquired property and were extended to July 17, 2023 and subsequent to period end, were further extended to August 17, 2023. At the expiration date of the extension, the security agreement will be discharged and the limit on the LOC limit will revert to \$6,000,000. The \$4,000,000 in temporary increases are required to be repaid from mortgage proceeds to be received on a new mortgage which is expected to be finalized in Q4 2023.

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

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

7. Payables and accruals

	June 30, 2023	September 30, 2022
Trade payables	\$ 1,081,582	\$ 2,712,226
Accrued loan interest	565,678	326,345
Other	575,522	715,875
Total	\$ 2,222,782	\$ 3,754,446

Trade payables include construction costs for property under development. Other payables include prepaid rents and payroll accruals.

8. Finance costs

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Interest on mortgages	\$ 891,749	\$ 879,220	\$ 2,577,408	\$ 2,671,397
Interest on bank operating facilities	267,470	201,751	866,660	440,745
Interest on other unsecured financing	72,642	805	204,357	5,048
Interest on lease obligations	6,114	8,821	18,343	26,462
Amortization of deferred financing fees	24,484	25,661	67,262	76,983
Interest income	(16,168)	-	(51,607)	(6,864)
Total	\$ 1,246,291	\$ 1,116,258	\$ 3,682,423	\$ 3,213,771

9. Income taxes

a) Provision for income taxes

Components of income tax expense (recovery)

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Current tax expense	\$ 113,732	\$ 159,619	\$ 341,574	\$ 653,736
Prior period adjustments	4,738	-	4,738	-
Deferred tax expense	180,531	177,909	931,776	361,252
Total	\$ 299,001	\$ 337,528	\$ 1,278,088	\$ 1,014,988

b) Deferred taxes

Deferred tax assets are attributable to the following:

	June 30, 2023	September 30, 2022
Lease liability	\$ 103,059	\$ 129,890
Capital losses	-	2,889
Total deferred tax assets	103,059	132,779
Offset of deferred tax liabilities	(103,059)	(132,779)
Net deferred tax assets	\$ -	\$ -

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

9. Income taxes (cont'd)

Deferred tax liabilities are attributable to the following:

	June 30, 2023	September 30, 2022
Straight-line rent receivable	\$ 433,724	\$ 451,507
Investment properties	15,471,886	14,512,133
Finance fees	3,192	13,551
Deferred leasing	434,269	430,835
Right-of-use-asset	92,025	117,907
Capital gain reserve	10,660	17,767
Total deferred tax liabilities	16,445,756	15,543,700
Offset of deferred tax assets	(103,059)	(132,779)
Net deferred tax liabilities	\$ 16,342,697	\$ 15,410,921

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

10. Supplemental consolidated cash flow information

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Change in:				
Receivables	\$ (37,638)	\$ (124,447)	\$ 180,257	\$ 135,420
Prepaid expenses and deposits	(1,492,645)	(1,974,974)	(632,249)	(1,134,551)
Security deposits	(22,260)	12,700	17,600	14,669
Payables and accruals	656,192	(461,551)	(9,671)	490,576
Income taxes payable	(1,399,431)	(154,666)	(544,507)	44,037
Net change in operating working capital	\$ (2,295,782)	\$ (2,702,938)	\$ (988,570)	\$ (449,849)
Interest paid	\$ 882,706	\$ 876,142	\$ 3,409,093	\$ 2,832,821
Income taxes paid	\$ 452,000	\$ 581,214	\$ 703,042	\$ 685,760

A non-cash transaction was recorded in the statement of cash flows for the reversal of a previously accrued tenant inducement of \$175,000 net of accrued amortization of \$25,000, and reversal of related accounts payable balance of \$200,000.

11. Segmented information

In the prior year, the Company reassessed the existence of operating segments as it has determined that its growth strategy will be assessed on its investment properties as whole as opposed to the industry that each investment property operates in. The Company concluded there is one operating segment and the statements for June 30, 2022, have not been restated as the prior period disclosure includes the comparatives figures within the consolidated amounts disclosed.

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

12. Rental revenue

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

a) Rental revenue

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 20, 2022
Rental revenue, contractual amount	\$ 3,769,773	\$ 3,595,660	\$ 11,020,423	\$ 11,206,077
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
Amortization of tenant inducements	(19,669)	(16,550)	(17,770)	(49,651)
Straight-line rental revenue	214,816	(27,848)	(77,319)	(169,088)
Other	47,619	-	47,619	-
Total	\$ 5,195,639	\$ 4,758,558	\$ 14,510,940	\$ 14,295,093

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

	June 30, 2023	June 30, 2022
One year	\$ 14,460,642	\$ 8,224,558
Two to five years	43,693,777	44,617,869
Over five years	40,164,454	27,089,331
	\$ 98,318,873	\$ 79,931,758

Month-to-month tenant lease 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.

13. Guarantees, contingencies, and commitments

- In the normal course of operations, the Company and its subsidiaries may 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 may 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.
- 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).
- 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 16.

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

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

- d) During the prior year, the Company entered into a construction contract to build an additional 33,200 ft² of industrial space adjacent to one of its investment properties in Fort McMurray, Alberta. The total budgeted price is \$8,600,000. At June 30, 2023, construction is approximately 91% completed.

14. Capital risk management

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

	June 30, 2023	September 30, 2022
Mortgages	\$ 102,427,506	\$ 108,041,921
Lease liability	448,081	564,738
Bank operating facilities	25,337,105	18,883,408
Other financing	5,025,000	3,000,000
Total debt financing	133,237,692	130,490,067
Equity	110,990,899	105,870,834
Total capital	\$ 244,228,591	\$ 236,360,901

15. Financial instruments

	June 30, 2023	September 30, 2022
Financial assets		
Cash and cash equivalents	\$ 637,135	\$ 232,998
Receivables	254,281	434,538
Mortgage receivable	1,447,711	1,472,316
	2,339,127	2,139,852
Financial liabilities		
Bank operating facilities	\$ 25,337,105	\$ 18,883,408
Payables and accruals	2,222,782	3,754,446
Other financing	5,025,000	3,000,000
Lease liability	448,081	564,738
Security deposits	780,876	763,276
Mortgages	102,427,506	108,041,921
	\$ 136,241,350	\$ 135,007,789

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

15. Financial instruments (cont'd)

The carrying value of cash and cash equivalents, receivables, mortgage receivable, bank operating facilities, other financing, payables and accruals, and security deposits approximate their fair value because of the near-term maturity of those instruments. The fair value of mortgages payable is a level 2 measurement and is based on discounted future cash flows using rates that reflect observable current market rates for similar investments with similar terms and conditions. The estimated fair value of mortgages payable at June 30, 2023, is \$96,809,504 (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 6.49% (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 \$254,281 at June 30, 2023 (September 30, 2022 - \$434,538), and cash and cash equivalents of \$637,135 (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 had limited credit losses as most tenants have been able to meet their financial obligations. At June 30, 2023, there is no loss provision for tenant receivables (September 30, 2022 - \$nil).

Accounts receivable are written off when there is no reasonable expectation of recovery. During the current period, there were no write downs (September 30, 2022 – \$nil).

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

Interest rate risk

The Company's exposure to interest rate risk relates to its short-term floating interest rates on bank operating facilities. The required cash flow to service the debt will fluctuate because of the changing prime interest rate. The balance on the bank operating facilities that are not at a fixed rate and fixed term at June 30, 2023, is \$17,619,789 (September 30, 2022 - \$11,007,788). Under the assumption any balance of the debt is outstanding for a further one year; a 1% increase in the prime rate would have a negative impact on the future annual earnings of the Company of \$176,197 (September 30, 2022 - \$110,078). The Company minimizes its exposure to interest rate risk to the extent that all mortgages except one have fixed rates with terms of 2-5 years.

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. The Company actively monitors its financing obligations and cash and cash equivalents to ensure that it has enough available funds to meet current and expected future financial requirements at a reasonable cost.

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

15. Financial instruments (cont'd)

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 nine months ended June 30, 2023, there were four mortgages which matured and were renewed with the same lenders. There are an additional eight mortgages which mature in the next twelve months.

Contractual obligations at March 31, 2023

	1 year	2-3 years	4-5 years	>5 years	Total
Gross mortgage payments	\$ 29,143,790	\$ 48,388,336	\$ 28,616,329	\$ 2,880,565	\$ 109,029,020
Payables and accruals	2,222,782	-	-	-	2,222,782
Gross lease liability payments	180,000	285,000	-	-	465,000
Security deposits	22,259	60,530	117,731	602,615	803,135
	31,568,831	48,733,866	28,734,060	3,483,180	112,519,937
Operating facilities	25,337,105	-	-	-	25,337,105
	\$ 56,905,936	\$ 48,733,866	\$ 28,734,060	\$ 3,483,180	\$ 137,857,042

16. Related party transactions

The following are the related party transactions of the Company.

a) Management agreements

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

Refer to the September 30, 2022, audited consolidated financial statements for the property management, maintenance, and project fee structures. Payments for the periods ending June 30, 2023, are as follows:

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Property management and maintenance fees	\$ 362,325	\$ 212,879	\$ 1,030,172	\$ 952,846
Acquisition fees	-	-	-	22,500
Leasing fees	-	5,988	91,975	68,627
Total payments	\$ 362,325	\$ 218,867	\$ 1,122,147	\$ 1,043,973

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

16. Related party transactions (cont'd)

b) Other related party transactions

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

	Three months ended		Nine months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Leased office space and parking	\$ 45,000	\$ 45,000	\$ 135,000	\$ 135,000
Fees for accounting/consulting services	-	-	-	1,800
Rent at Sable Centre	(23,731)	(23,729)	(71,192)	(71,190)
Net payments for the period	\$ 21,269	\$ 21,271	\$ 63,808	\$ 65,610

Amount payable at June 30, 2023 - \$nil

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 nine months ending June 30, 2023, were \$37,500 (nine months ending June 30, 2022 – \$27,500).

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 Company's key management personnel include President and CEO, Sine Chadi, who is also a director of the Company, the Vice-President of Corporate Services, Ajay Juneja, the interim Chief Financial Officer, Meghan DeRoo McConnan and the former Chief Operating Officer, Patricia Misutka, and Chief Financial Officer, Azza Osman.

	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 (interim)	19,425	-	19,425	-
Chief Financial Officer (Former)	-	46,250	35,582	133,750
Chief Operating Officer (Former)	-	45,000	-	135,000
Total	\$ 127,358	\$ 166,250	\$ 312,940	\$ 493,750

iv) Other financing, unsecured

Related Parties	Balance			Balance June 30, 2023
	October 1, 2022	Advances	Repayments	
Jamel Chadi, Shareholder ¹	\$ 1,200,000	\$ 1,350,000	\$ (350,000)	\$ 2,200,000
Sine Chadi, Shareholder ¹	\$ 750,000	1,050,000	(200,000)	\$ 1,600,000
NAMC ²	\$ 350,000	665,000	(490,000)	\$ 525,000
Diane Buchanan, Shareholder ¹	\$ 700,000	-	-	\$ 700,000
Total	\$ 3,000,000	\$ 3,065,000	\$ (1,040,000)	\$ 5,025,000

IMPERIAL EQUITIES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended June 30, 2023

(Unaudited)

16. Related party transactions (cont'd)

- 1) Loans received from shareholders bear interest at an annual rate of 6%. Total interest expense during the three months ended June 30, 2023, was \$65,973, and \$255,532 for the nine-months ended June 30, 2023 (2022 - \$806 and \$10,917).
- 2) Loans from North American Mortgage Corp. ("NAMC"), a company controlled by the President and CEO of the Company, bears interest at 6% per annum. Total interest expense for the three and nine-months ended June 30, 2023, was \$6,671 and \$20,168 respectively (2022 - \$nil).

All related party financing is unsecured with no specified dates of repayment and are due on demand.

17. Post-reporting date events

Subsequent to period end, the Company renewed the mortgage that matured on July 1, 2023, for a term of one year, bearing interest at a fixed rate of 6.91% and with monthly principal and interest payments of \$22,084.

Subsequent to period end, the Company declared a quarterly dividend of \$0.02 per share totalling \$189,025 which was paid on August 3, 2023, to shareholders of record effective July 21, 2023.

Subsequent to period end, the Company entered into a second mortgage on the property under development (Note 3). The gross proceeds of the mortgage are \$7,200,000, and the mortgage bears interest at a fixed rate to be calculated based on the bank's cost of funds at the date of funding plus 0.6%, with monthly blended principal and interest payments. The mortgage has a term of two years, with an amortization period of 15 years and is secured by specific property with an approximate fair value of \$26,942,000 at June 30, 2023. Of the gross proceeds, \$4,000,000 is required to be used to repay the temporary increases on the bank operating facility as disclosed in Note 6. The mortgage will be funded when the final occupancy certificate is received on the property under development, which is substantially completed at the financial statement date.