

Imperial Equities Inc.

1st Quarter Report

December 31, 2008

MD&A FOR THE 1ST QUARTER ENDING DECEMBER 31, 2008

AS AT FEBRUARY 23, 2009

The following Management's Discussion and Analysis ("MD&A") is intended to provide readers with an explanation of the performance of Imperial Equities Inc. and its subsidiary Imperial Distributors Canada Inc. This MD&A should be read in conjunction with the audited consolidated financial statements and MD&A for the fiscal year ended September 30, 2008. 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.

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 Canadian GAAP. In addition, the Company's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company and have reviewed and approved this MD&A and the accompanying interim consolidated financial statements.

FORWARD-LOOKING INFORMATION

In our report to shareholders, Management may talk about our current economy and express opinions on future interest rates and capitalization rates that we might experience or speculate on future market conditions. This forward-looking information is based on management's current assessment of market conditions based on their expertise as well as the opinions of other professionals in this industry. While Management considers these statements to be reasonably optimistic and favorable, the opinions and estimates of future trends are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in Note 26 of our 2008 annual report. Any forward-looking statements in our report should not be relied upon as facts, as actual results may differ from estimates.

1st QUARTER REPORT TO SHAREHOLDERS
December 31, 2008

Despite being in the midst of a global recession, the Alberta industrial real estate market is clearly one of the strongest of any jurisdiction in North America. Although there is an abundance of caution there continues to be solid activity in the market place. Demand for industrial lease space is still strong and consequently lease rates have experienced very little negative or downward pressure. Imperial's real estate portfolio is 100 percent occupied primarily with international, national and large regional type tenants. Another strong sector in Alberta is the business of wholesaling and distributing pharmaceuticals. Imperial Equities, through its wholly owned subsidiary, Imperial Distributors Canada, is now fast becoming a major supplier of pharmaceuticals in Alberta. Both the real estate and pharmaceutical sectors have been strong revenue generators and we are optimistic that the future outlook remains strong.

As governments around the world scurry to assist in softening the impact of a recession, a common denominator has emerged. World governments have all agreed that the cost of borrowing must come down. In Canada, the Bank of Canada lowered their lending rate to a historic low of one percent. This move can be beneficial for Imperial particularly as we renew our mortgages. Another advantage is the lower costs associated with the bank line of credit used by Imperial Distributors. Lower interest rates have a positive effect on our bottom line.

Our Company continues to generate positive cash flows and the pharmaceutical segment is meeting budgeted targets. The aggressive business plan that Imperial Distributors has implemented has been a real success. Sales of pharmaceuticals continue to increase in each quarter proving that our business model is working. The selection of products we inventory are the highest we've ever had and continue to grow. Pharmaceutical manufacturers are taking notice and are now beginning to provide Imperial Distributors with exceptional trade relations.

Again, we are optimistic about the continued growth of Imperial Equities and as always, we would like to thank our shareholders for their ongoing support and do invite you to contact any of the directors with comments, concerns or investment opportunities.

Sincerely,

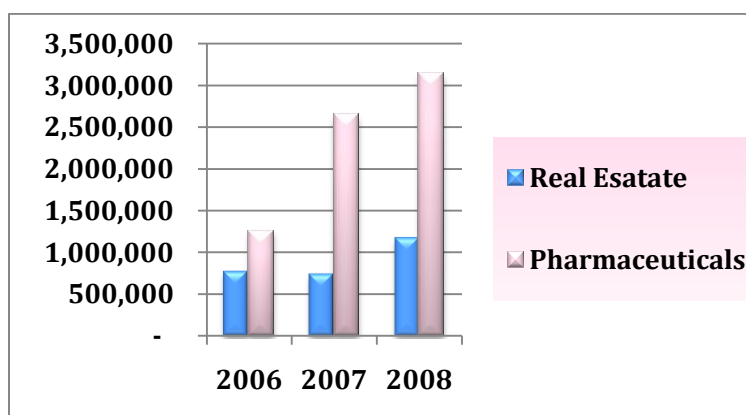


Sine Chadi

Chief Executive Officer and Chairman of the Board

1ST QUARTER -OVERALL PERFORMANCE HIGHLIGHTS

- **Revenue from real estate operations** is up \$427,724 (58.4%) over Dec. 2007
- **Revenue from sales of pharmaceuticals** is up \$492,761 (18.6%) over Dec. 2007
- **Funds from operations** have more than doubled compared to last year at this time providing positive cash flows from operations
- Imperial continues its aggressive approach to paying off mortgages with a quarterly **principal reduction** at December 2008 of \$320,309.
- The Company continues to enjoy the **lowest ever weighted average mortgage rates** on the properties at 5.04%.



Sales in the First Quarter 3 Year Comparison

ANALYSIS OF RESULTS OF OPERATIONS AND CASH FLOWS BY SEGMENT

REAL ESTATE SEGMENT

Revenues from real estate were up this quarter over last due to increased rental rates on renewals and additional revenue from the two newest properties, PowerComm and RSC in Fort Saskatchewan. **Property operations** expenses increased due to market value increases in property taxes and the addition of the two newest properties noted above. **Interest** on mortgages has increased with the addition of two mortgages for the new properties. **Amortization on revenue producing properties** has increased due to the larger real estate asset base. This year revenue producing properties that are amortized total \$26,646,390 compared to \$15,170,888 at December 2007. **Selling and administrative** expenses for the real estate segment did not vary much over last year with an increase of under \$10,000.

Cash flows from real estate operations were very favorable this quarter at \$590,766 as the Company generated higher quarterly profits compared to last December due to the increase in revenue generating properties.

Cash flows from financing decreased in the real estate segment with the purchase of additional shares through the normal course issuer bid described in Note 4 of the consolidated financial statements.

Leasehold improvements to finish the PowerComm building were completed and paid for in the first quarter. Last December, the PowerComm project costs totaled \$1,167,280 at December which required additional short term financing in the previous year.

The real estate segment of our Company **decreased its net cash position** by \$386,142 since the fiscal year end of September 30, 2008 in large part due to the finalization of the PowerComm project.

Receivables from tenants are lower by \$235,796 from our yearend figures due to the collection of a large receivable from PowerComm and collection from the tenants of common area adjustments which are reconciled at September 30 each year.

Prepaid expenses and deposits decreased \$108,076 since September 30 with the allocation of prepaid property taxes to expense during the quarter.

Payables and accruals decreased by \$555,712 from September 30 with the final payments made on the PowerComm project and the payment of accrued liabilities at year end.

RESULTS OF OPERATIONS AND CASH FLOWS

Pharmaceutical Segment

Imperial Distributors Canada Inc. ("IDCI")

Revenues from the pharmaceutical business have increased significantly once again this quarter. Sales are up 18.6% over December 2007. This increase in revenue is driven by an increasing customer base, as well as existing customers increasing their volume purchases.

Gross margins are around 6% this quarter. The average mix of products sold in a month causes the gross margins to vary between 6 and 7%. Rebates on sales that are offered to customers are competitive with the competition and leave little room for increases in the gross margins. IDCI intends to increase profits with economies of scale.

Selling and administrative costs are up \$24,000 this quarter with the addition of two new employees and lease costs on delivery vehicles.

Inventory is lower than at September 2008 because products that are about to expire are returned to the manufacturer for replacement. Inventories may vary month to month by \$100,000 - \$250,000 due to the timeliness of the exchange of products.

Receivables are up \$429,087 from September 30, 2008 as sales continue to grow. Average monthly sales for the year ending September 30, 2008 were \$578,000 with a receivable balance of \$1,945,629. Average monthly sales for this first quarter ending December 31, are \$1,049,000 with a receivable balance of \$2,374,716, or approximately 2.26 months outstanding.

Accounts payable have decreased since the yearend by \$309,436. This is only a timing difference as the Company takes advantage of all prompt payment discount opportunities with vendors.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	Year End				Year End			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
	2008	2008	2008	2008	2007	2007	2007	2007
Revenue	4,306,692	3,505,103	3,978,432	2,936,785	3,399,754	2,704,902	3,313,399	1,916,529
Net earnings								
(loss)	195,701	16,281	- 46,983	- 52,161	40,006	- 179,266	2,358,972	- 56,858
EPS-basic	0.02	0.01	- 0.01	- 0.01	0.01	- 0.01	0.26	- 0.01
EPS-diluted	0.02	0.01	- 0.01	- 0.01	0.01	- 0.01	0.26	- 0.01

QUARTERLY CHANGES IN THE REVENUE

Revenue producing properties report straight line revenue therefore quarterly changes are not material unless new tenants have come on stream as in the last two quarters of 2008. Prior to the Sep. 08 quarter, the changes in revenue in each period can be primarily attributed to the sales of pharmaceuticals. The decrease in Mar 2008 is the result of one large pharmaceutical customer placing their monthly order just after the closing of the month end. Jun. '07 showed a dramatic increase in revenue due to May and June of 2007 having the highest reported monthly sales of pharmaceuticals.

QUARTERLY CHANGES IN NET EARNINGS (LOSS) AND EARNINGS (LOSS) PER SHARE

Our most recent quarter is showing an increase in earnings attributed to the real estate segment and the additional revenue generated from PowerComm and RSC in Fort Saskatchewan. The second and third quarters of fiscal 2008 generated some losses from the pharmaceutical side as the expenses relating to software implementation occurred.

At September 30, 2007 our earnings were negatively affected by the write down of a bad debt in IDCI in the amount of \$345,591. Also, the loss of rental revenues from two properties sold during the year contributed to the net decrease in earnings in that quarter.

The positive net earnings generated at June 30, 2007 are due to the sale of two of the properties creating a before tax gain of \$2,946,968 and creating EPS of \$.26.

At Mar.'07 the drop in net earnings can be largely attributed to acquiring the pharmaceutical business. This segment of operations continued to incur losses in the range of \$40-\$50,000 per month at that date.

*The fluctuations in **earnings per share** figures are directly related to the operational activities described herein. Despite the normal course issuer bid allowing the Company to purchase shares, there have been no significant changes to the outstanding shares in the last three years that would affect the EPS.*

Outstanding share data

The Company is authorized to issue an unlimited number of common shares. Total issued and outstanding shares at December 31, 2008 are 9,206,342. During the first quarter the Company purchased 45,500 shares pursuant to the normal course issuer bid for total cash consideration of \$91,470. There are currently 300,000 options held by directors of the Corporation that remain unexercised. Of these 300,000 outstanding, 200,000 can be exchanged for one common share at an exercise price of \$1.00 and 100,000 options have an exercise price of \$1.75 for one common share. All of the options expire August 11, 2010.

Compensation of Directors and Officers

The following table sets forth information in respect of all compensation paid to the directors and officers of the Corporation during the current financial quarter ending December 31, 2008 for their services as directors and officers of the Corporation.

	Directors' Fees	Salary	Options Granted/Total Held ⁽¹⁾
Sine Chadi, Director & Officer	NIL	\$45,000	100,000/100,000
Diane Buchanan, Director	NIL	NIL	100,000/NIL
Kevin Lynch, Director	\$ 1,000	NIL	100,000/100,000
Dr. Dennis Modry, Director	\$ 1,000	NIL	100,000/100,000

Notes: (1) Granted pursuant to the Option Plan.

RELATED PARTY TRANSACTIONS

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

Property management and operations expenditures in the amount of \$59,478 (2007 \$42,356) were paid to Sable Realty & Management Ltd., ("Sable") a company owned 100%

by Sine Chadi, a director and officer of the Company, and North American Mortgage & Leasing Corp. ("NAML") a company owned 100% by Sine Chadi. Of the fees paid to Sable, \$55,803 are pursuant to a contract with Imperial Equities Inc. to bill for the management and maintenance of its properties for a percentage of rents collected. Fees charged by Sable are favourable compared to competitor's fees for the same service. These costs include building and ground maintenance charges as well as the costs associated with billing and collection of rents. Also included are labour and equipment costs performed for tenant improvements and tenant's normal repairs and maintenance. Imperial Equities recovers these fees from the tenants under their common area costs. Additional fees billed by Sable may include accounting costs associated with public company quarterly and annual filing requirements. Amounts Operations also include the cost of leased vehicles in the pharmaceutical company in the amount of \$3,675 (2007-NIL). Vehicle lease costs were paid to NAML.

Leasehold improvements contract fees of \$40,553 (2007-nil) were paid to Sable for the additional tenant improvement projects requested by PowerComm to increase their workspace . The funds paid by Imperial Equities to Sable are amortized and recovered from the tenant under their lease agreement.

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.

Also included in Sable's billings to Imperial Equities are a percentage of salaries paid for **marketing and consulting fees**. These fees are billed to the Company at 10% above base salary cost for actual work performed. This 10% fee paid to Sable covers additional expenses Sable incurs for costs associated with employee benefits, car allowance, etc. Fees billed for this quarter were \$18,095 compared to \$19,800 for 2007.

Other financing from a company which is owned by a member of the immediate family of a director and significant shareholder

The balance of \$1,500,000 remains outstanding with interest paid monthly at a rate of 8% per annum. This loan is unsecured with no fixed terms of repayment. Total interest paid in the quarter ending December 31 2008 was \$30,000 (2007 - \$30,000).

Paid to directors

Mr. Kevin Lynch, a director of the Company, is a partner in the law firm of Bennett Jones LLP who provides corporate **legal services** to the Company. All of the transactions are in the ordinary course of business and include, but are not limited to, fees for the acquisition and disposition of real estate assets. Total fees billed for this quarter equal \$8,987 (2007-\$1,608).

LIQUIDITY, CAPITAL RESOURCES & SOLVENCY

The Company's liquidity position has improved marginally from the year end. There was a net cash decrease from September 30, as the cash available at September was used to reduce the current liabilities. Working capital needed to fund the day-to-day operations has been achieved through normal cash flows from operations. IDCI used its line of credit by \$616,573 at December 31st creating a timing difference between accounts payable and accounts receivable. One month later, the line of credit returned to less than \$100,000. Also subsequent to December 31, the Company received the full amount of corporate taxes receivable in the amount of \$357,269. These funds were applied to the line of credit in Imperial Equities that is used for general business purposes.

During the next quarter, two of the mortgages are up for renewal. These mortgages are currently incurring interest rates of 6.19%. Both mortgages with the same lender are on properties that have strong tenant bases with good revenue streams. The Company anticipates that renewals will provide a more favorable rate of interest as well as additional proceeds. There is considerable equity in both properties to allow for increased leverage without jeopardizing the Company's commitment to shorter term amortization periods. Any additional proceeds will be held in reserve to allow the Company to take advantage of real estate opportunities that may present themselves.