

# Imperial Equities Inc.

2<sup>nd</sup> Quarter Report

March 31, 2009

# **MD&A FOR THE 2<sup>ND</sup> QUARTER ENDING MARCH 31, 2009**

**AS AT MAY 27, 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](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 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.

## **NON-GAAP MEASURES**

Throughout the MD&A, management will use measures that have no standardized meaning under GAAP, and therefore may not be comparable to other companies that use the same measures. These measures include EBITDA (earnings before interest, taxes, depreciation and amortization), and gross margins.

2<sup>nd</sup> QUARTER REPORT TO SHAREHOLDERS  
March 31, 2009

The global recession has had little effect on the Alberta industrial real estate market which is still clearly one of the strongest of any jurisdiction in North America. Although new construction has slowed, demand for existing 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 with long term leases.

During this quarter, the Bank of Canada lowered their lending rate to a historic low of a half of one percent. Major Canadian banks have followed suit and dropped their prime lending rates. This move has greatly benefited Imperial Equities with lower interest costs relating to its two lines of credit and any mortgage renewals. Lower interest rates have a positive effect on our bottom line.

Imperial Distributors Canada Inc., our wholly owned subsidiary, is now fast becoming a major supplier of pharmaceuticals in Alberta. With the implementation of new information technology systems that allow us to communicate with customers all over Canada, as well as dedicated and growing sales personnel, we have consistently increased our sales year after year and we are optimistic that the future outlook remains strong.

The real highlight of this quarter is the major increase in revenues. Year to date revenue from real estate operations have increased by 60 percent over the same period last year and revenues from pharmaceutical sales have increased more than one million dollars in the same period.

The Normal Course Issuer Bid is the vehicle that allows Imperial Equities to buy back its shares. Over the past several years management has received approval to buy back the IEI stock if the share price did not reflect the market value. The corporation has a standing bid and during this Q2 we purchased an additional 7000 shares for a total of 52,500 shares YTD.

The annual general meeting of Imperial Equities took place on March 18, 2009 and was attended by over 50 shareholders and guest. The meeting was well received by all those in attendance.

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.

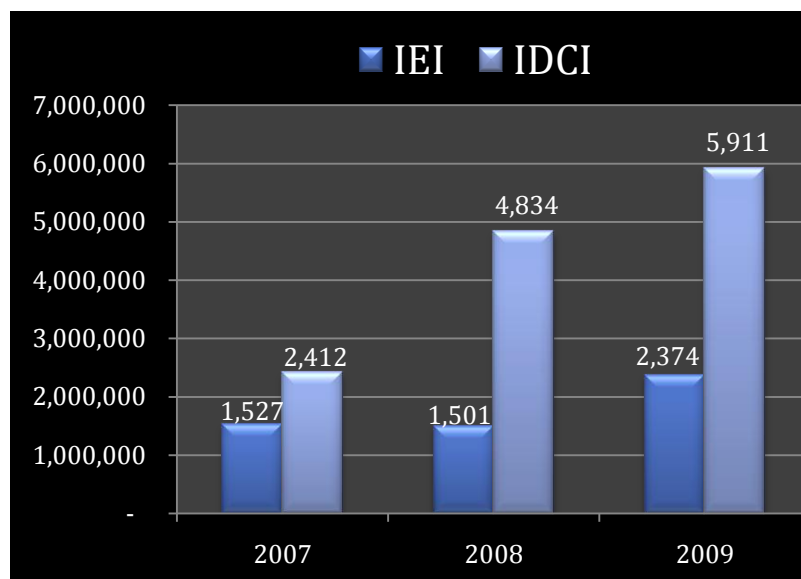
Sincerely,



Sine Chadi  
Chief Executive Officer and Chairman of the Board

## 2<sup>ND</sup> QUARTER -OVERALL PERFORMANCE HIGHLIGHTS

- **Revenue from real estate operations is up \$887,994 (60%) over last March**
- **Revenue from sales of pharmaceuticals is up \$1,076,370 (22%) over last March**
- **Funds from operations have exceeded the MILLION dollar mark**
- **Imperial continues its aggressive approach to paying off mortgages with a *principal reduction* for the six months ending March 2009 of \$656,100.**
- **The Company continues to enjoy the *lowest ever weighted average mortgage rates* on the properties at 5.04%.**



***Revenue from the First Two Quarters***

## ANALYSIS OF RESULTS OF OPERATIONS AND CASH FLOWS BY SEGMENT

### REAL ESTATE SEGMENT

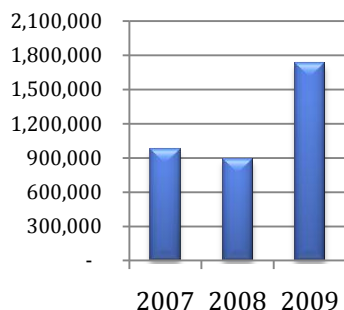
**Revenues** from real estate were up this quarter over last year due to increased rental rates on renewals and additional revenue from the two newest properties, PowerComm and RSC in Fort Saskatchewan. **Property operations** expenses increased due to market value increases in property taxes and the 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 \$26,920,019 compared to \$15,323,366 at March 2008. **Amortization of deferred leasing** has increased due to additional deferred leasing costs incurred since last year. **Selling and administrative** expenses for the real estate segment were lower this year with a decrease of \$22,000 in marketing and consulting fees as well as a decrease in financing fees this year .

**Cash flows from real estate operations** were \$1,062,483 as the Company generated higher quarterly profits compared to last March 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 5 of the consolidated financial statements, and a reduction in IEI's operating line of credit of \$528,596.

Leasehold improvements to finish the PowerComm building were completed and paid for in the first quarter. Last March, the PowerComm project costs totaled \$2,956,025 which required additional short term financing from private lenders as well as a line of credit.

#### IEI ebitda from real estate



**Standardized EBITDA** is defined as earnings before the following:

- Interest
- Income taxes
- Depreciation and Amortization

## REAL ESTATE SEGMENT (CONT'D)

The real estate segment of our Company **decreased its net cash position** by \$440,987 since the fiscal year end of September 30, 2008 in large part due to the finalization of the PowerComm project and a reduction of short term debt.

**Receivables** from tenants are lower by \$254,100 from our fiscal yearend figures due to the collection of receivables from the tenants which included common area adjustments reconciled at September 30 each year.

**Prepaid expenses and deposits** decreased \$121,098 since September 30 with the expense allocation of prepaid property taxes and prepaid insurance premiums.

**Payables and accruals** decreased by \$504,106 from September 30 with the final payments made on the PowerComm project and the payment of accrued liabilities from the year end.

## PHARMACEUTICAL SEGMENT

### *Imperial Distributors Canada Inc. ("IDCI")*

**Revenues** from the pharmaceutical business continue to grow and are up 22% over March 2008. This increase in revenue is driven by an increasing customer base, as well as existing customers increasing their volume purchases.

**Gross margins** are around 6.5% 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 expects to increase profits with economies of scale gained with increased sales. Gross margins are defined as sales net of returns, discounts and rebates, less cost of the goods sold including discounts from vendors.

**Selling and administrative costs** are up \$33,000 over last year with the addition of two new employees and lease costs on delivery vehicles.

**Inventory** is relatively unchanged from September 2008. 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 \$57,000 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 or 3.37 months. Average monthly sales for the first two quarters ending March 31, are \$985,002 with a receivable balance of \$2,370,965, or approximately 2.4 months

outstanding. Collection periods continue to decrease with close monitoring of accounts and incentives to customers that help improve our cash flows.

**Accounts payable** have increased slightly since the yearend by \$46,620. 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			
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
	2009	2008	2008	2008	2008	2007	2007	2007
<b>Revenue</b>	3,977,798	4,306,692	3,505,103	3,978,432	2,936,785	3,399,754	2,704,902	3,313,399
<b>Net earnings</b>								
<b>or -loss</b>	138,155	195,701	16,281	-46,983.00	-52,160.00	40,006.00	-179,266.00	2,358,972.00
<b>EPS-basic</b>	0.01	0.02	0.01	-0.01	-0.01	0.01	-0.01	0.26
<b>EPS-diluted</b>	0.01	0.02	0.01	-0.01	-0.01	0.01	-0.01	0.26

### 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. Sales of pharmaceuticals can vary at a quarter due to the timing of orders at the end of the month. Sales are not recorded until the product is shipped. Prior to the fourth quarter of fiscal Sep. 08, 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.

### QUARTERLY CHANGES IN NET EARNINGS OR **-LOSS** AND EARNINGS OR **-LOSS** PER SHARE

Our most recent quarter is showing a decrease in earnings attributed to the real estate segment where the Company experienced higher utility bills in January through March as well as the costs associated with producing the annual report and mailings to shareholders. Utility costs will be recovered from the tenants. The second and third quarters of fiscal 2008 generated some losses from the pharmaceutical side as the expenses relating to software implementation occurred.

## QUARTERLY CHANGES IN NET EARNINGS OR **-LOSS** AND EARNINGS OR **-LOSS** PER SHARE (CONT'D)

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. The Company continues its efforts to collect this debt. 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.

*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 March 31, 2009 are 9,125,342. During the first quarter the Company purchased 45,500 shares pursuant to the normal course issuer bid for total cash consideration of \$91,470. During the second quarter the Company purchased an additional 7,000 shares for total cash consideration of \$10,800. There are currently 300,000 options held by directors of the Corporation that remain unexercised. Of these 300,000 outstanding, 200,000 options 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 two quarters ending March 31, 2009 for their services as directors and officers of the Corporation.

	<b>Directors' Fees</b>	<b>Salary</b>	<b>Options Granted/Total Held<sup>(1)</sup></b>
Sine Chadi, Director & Officer	NIL	\$90,000	100,000/100,000
Diane Buchanan, Director	NIL	NIL	100,000/NIL
Kevin Lynch, Director	\$ 3,000	NIL	100,000/100,000
Dr. Dennis Modry, Director	\$ 2,000	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 \$127,372 (2008 \$87,544) 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, \$118,422 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 included in Operations also include the cost of leased vehicles in the pharmaceutical company in the amount of \$8,950 (2008-NIL). Vehicle lease costs were paid to NAML.

**Leasehold improvements contract fees** of \$40,553 (2008-nil) were paid to Sable for the additional tenant improvement projects requested by PowerComm to increase their work space . The funds paid by Imperial Equities to Sable are amortized and recovered from the tenant under their lease agreement.

**Leasing and real estate commissions** in the amount of \$18,644 (2008 - \$89,375) were paid to North American Realty Corp. (“NARC”) a company managed and controlled by Sine Chadi and owned 100% by Mr. Chadi’s wife, Seham Chadi. NARC has a contract with Imperial Equities Inc. to provide asset management services by licensed realtors in the province of Alberta. Fees and commissions paid are in line with current industry standards and are comparable to similar transactions undertaken by the Company with unrelated parties. Any fees charged by NARC are then paid by NARC to participating outside real estate firms and to the realtors employed with NARC.

*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 the two quarters were \$25,795 compared to \$39,600 for 2008.

### **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 6% (2008 – 8%) per annum. This loan is unsecured with no fixed terms of repayment. Total interest paid at March 31 2009 was \$52,500 (2008 - \$60,000).

### **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 at March 31<sup>st</sup> equal \$16,602 (2008-\$20,340).

## **LIQUIDITY, CAPITAL RESOURCES & SOLVENCY**

The Company's liquidity position has changed 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 which generated \$1,234,050 at March 31<sup>st</sup>. Cash flows were used to pay down IEI's line of credit leaving an available \$918,000 for use. IDCI's line of credit had a balance of \$29,545 at March 31, 2009 leaving an available \$1,470,455 for use.

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. Subsequent to the quarter ending, the Company has entered into a commitment for a lending agreement described in Note 8 of the Consolidated Financial Statements.

Any additional proceeds will be held in reserve to allow the Company to take advantage of real estate opportunities that may present themselves. The Company does not currently have any financial obligations other than in the normal course of property operations.