

Imperial Equities Inc.

3rd Quarter Report

June 30, 2009

DRAFT

MD&A FOR THE 3RD QUARTER ENDING JUNE 30, 2009

AS AT AUGUST 19, 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.

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.

3rd QUARTER REPORT TO SHAREHOLDERS

June 30, 2009

The Alberta industrial real estate market is clearly one of the strongest of any jurisdiction in the country. As other jurisdictions in Canada struggle to mitigate vacancy rates, Alberta and Edmonton in particular have enjoyed a very healthy occupancy rate. The portfolio of properties held by Imperial Equities is 100 percent occupied and the prospect of its continued occupancy is excellent. Business activity in the Capital region remains very active resulting in a sustained demand for warehouse space. In the past 8 to 12 months, we have experienced fewer speculative industrial projects being built thus creating the demand for existing space. This demand for industrial lease space has helped maintain the lease rates at favorable levels.

As a diversified company, Imperial Equities has the benefit of generating revenues from sources other than just real estate. Our wholly owned subsidiary, Imperial Distributors Canada Inc. (IDCI) is in the business of wholesaling and distributing pharmaceuticals. IDCI has been on target with its sales projections and is now fast becoming a major supplier of pharmaceuticals in Alberta. With a small team of skilled employees, six of which hold BSc degrees, IDCI has consistently been able to increase its market share despite a highly competitive environment.

Interest rates are of vital importance to any corporation that borrows funds to operate. The real estate business depends on financially leveraging existing assets to acquire others. With lower interest rates borrowers are usually able to obtain larger loans or are able to pay off the loans at a much faster rate. During this Q3 the Bank of Canada has again lowered the overnight rate to an all time low of 0.25%. This reduction couldn't have come at a better time as IEI placed a \$3.5 million line of credit on very favorable terms and used part of the line of credit to pay off two mortgages.

The Normal Course Issuer Bid (NCIB) 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 current NCIB began in June 2008 and expired June 15, 2009. During this period IEI purchased 106,000 shares at an average price of \$1.93. Subsequent to this Q3, IEI initiated another NCIB set to expire in August 2010.

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

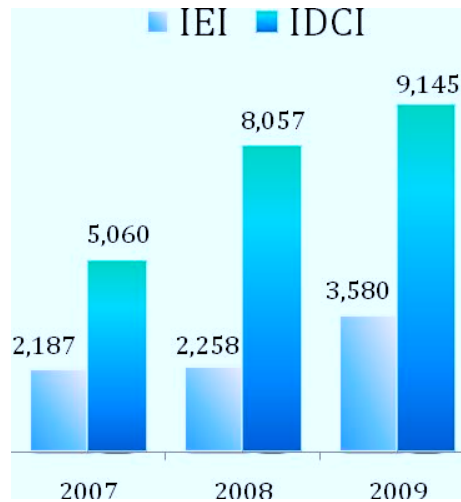
Sincerely,



Sine Chadi
Chief Executive Officer and Chairman of the Board

3RD QUARTER -OVERALL PERFORMANCE HIGHLIGHTS

- *Revenue from real estate operations is up \$1,343,193 (60%) over last June*
- *Revenue from sales of pharmaceuticals is up \$1,088,369 (14%) over last June*
- *Funds from operations have exceeded the MILLION dollar mark at \$.16 cents per share*
- *Earnings before income taxes are in excess of half a million - \$.065 cents per share*
- *The Company continues to enjoy the lowest ever weighted average mortgage rates on the properties at 4.95%.*



Revenue From the First Three Quarters

(\$ thousands)

ANALYSIS OF RESULTS OF OPERATIONS AND CASH FLOWS BY SEGMENT

REAL ESTATE SEGMENT

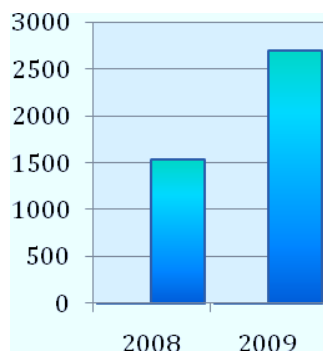
Revenues from real estate were up this quarter over last year due to increased rental rates on renewals and additional revenue from the two newest properties, PowerComm and RSC in Fort Saskatchewan. Property operations expenses increased due to market value increases in property taxes and the addition of the two newest properties noted above. Imperial also painted a couple of the older, larger buildings and upgraded the landscaping to give the properties a fresh look. These items are expensed rather than capitalized improvements. 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 million compared to \$17 million at June 2008. Amortization of deferred leasing has increased this year due to additional deferred leasing costs incurred with lease renewals. Selling and administrative expenses for the real estate segment were lower this year with a decrease in marketing and consulting fees as well as a decrease in financing fees this year.

Cash flows from real estate operations were \$1,431,723, \$.16 cents per share at June 30. The Company generated higher quarterly profits compared to last June because of an increase in revenue generating properties and a decrease in expenditures for leasing costs that has improved our cash flows compared to 2008.

Cash flows from financing in the real estate segment were negative due to the repayment of two debentures in the aggregate amount of \$180,000. The debentures were held by private individuals. The purchase of additional shares through the normal course issuer bid described in Note 6 of the consolidated financial statements also reduced cash flows by \$110,070.

Leasehold improvements to finish the PowerComm building were completed and paid for in the first quarter. At June of 2008 the PowerComm project costs totaled over \$5 million which required additional short term financing from private lenders as well as a line of credit.



Standardized EBITDA is defined as earnings before the following:

- Interest
- Income taxes
- Depreciation and Amortization

IEI EBITDA from real estate operations (\$ thousands)

REAL ESTATE SEGMENT (CONT'D)

The real estate segment of our Company decreased its net cash position by \$411,984 since the fiscal year end of September 30, 2008 in large part due to the finalization of the PowerComm project, a reduction of the outstanding debentures and the purchase of IEI's shares.

Receivables from tenants are lower by \$236,515 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 have increased since September 30 with the June property tax bills that are now prepaid until December 31st and prepaid insurance premiums due in May of each year.

Payables and accruals decreased by \$570,278 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 14% over June 2008. This increase in revenue is driven by an increasing customer base, as well as existing customers increasing their volume purchases.

Gross margins are 8.19% this quarter due to achieving an annual purchasing and sales target of products from a major supplier offering a volume discount. The average mix of products sold in a month causes the gross margins to vary between 6 and 7%. The year to date gross margin is now 7.09% for June 2009. Rebates on sales that are offered to customers are competitive with the competition and leave little room for increases in the gross margins. Gross margins are defined as sales net of returns, discounts and rebates, less cost of the goods sold including discounts from vendors. IDCI expects to increase profits with economies of scale gained with increased sales.

Interest expense is lower by \$39,492 this year as the Company no longer has to rely so heavily on the line of credit to bridge the gap between receivables and payables.

Selling and administrative costs are in line with last year even though sales are up 14%. The increase over last year is a modest \$7,757.

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.

PHARMACEUTICAL SEGMENT (CONT'D)

Receivables are up \$545,227 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 three quarters ending June 30, are \$1,015,970 with a receivable balance of \$2,490,856, or approximately 2.4 months outstanding. Collection periods continue to decrease with close monitoring of accounts and incentives granted to customers that help improve our cash flows.

Accounts payable have increased since the yearend by \$88,393. This is only a timing difference as the Company takes advantage of all prompt payment discount opportunities with vendors.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
	2009	2009	2008	2008	2008	2008	2007	2007
Revenue	4,440,749	3,977,798	4,306,692	3,505,103	3,978,432	2,936,785	3,399,754	2,704,902
Net earnings								
or -loss	106,896	138,155	195,701	16,281	-46,983	-52,160	40,006	-179,266
EPS basic	0.01	0.01	0.02	0.01	-0.01	-0.01	0.01	-0.01
EPS diluted	0.01	0.01	0.02	0.01	-0.01	-0.01	0.01	-0.01
				Year End				Year End

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 three 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 revenues at 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 an adjustment to the property taxes expensed at June 30 for the first six months of 2009. Some of our properties experienced tax increases of 28% to as high as 147% for the PowerComm building. Earnings before taxes are over half a million at June 2009 compared to a loss at this date last year.

At *March 2009* the quarter had a decrease in earnings due to higher utility bills in January through March as well as the costs associated with producing the annual report and mailings to shareholders. All increases in utility costs and property taxes will be recovered from the tenants once we reconcile at the Company's yearend of September 30.

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. The Company continues its efforts to collect this debt. The loss of rental revenues from two properties sold during the 2007 fiscal year contributed to the net decrease in earnings in that quarter.

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 June 30, 2009 are 9,105,442. During the first three quarters the Company purchased 57,600 shares pursuant to the normal course issuer bid for total cash consideration of \$110,070. The normal course

issuer bid expired June 15, 2009. The Company has initiated another normal course issuer bid to purchase 5% of the outstanding shares commencing August 24, 2009 and expiring August 23, 2010.

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 nine months ending June 30, 2009 for their services as directors and officers of the Corporation.

	Directors' Fees	Salary	Options Granted/Total Held ⁽¹⁾
Sine Chadi, Director & Officer	NIL	\$135,000	100,000/100,000
Diane Buchanan, Director	\$ 1,000	NIL	100,000/NIL
Kevin Lynch, Director	\$ 4,000	NIL	100,000/100,000
Dr. Dennis Modry, Director	\$ 3,000	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 \$210,752 (2008 \$128,998) 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, \$198,352 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 to the pharmaceutical company in the amount of \$12,400 (2008-NIL). Vehicle lease costs were paid to NAML.

Leasehold improvements contract fees of \$58,692 (2008-\$350,000) 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.

RELATED PARTY TRANSACTIONS (CONT'D)

Leasing and real estate commissions in the amount of \$18,644 (2008 - \$211,722) 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 three quarters were \$41,195 compared to \$57,288 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 June 30 2009 was \$77,500 (2008 - \$139,333). No additional advances or repayments of principal took place this year.

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 June 30th equal \$16,602 (2008-\$40,911).

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 \$1,487,293 at June 30th. Cash flows from operations were used to reduce the outstanding debentures by \$180,000. The Company has total lines of credit of \$5,000,000. The balances on the lines of credit at June 30, 2009 amounted to \$3,589,276 leaving \$1,410,724 available for use for general business purposes.

During the third quarter two of the mortgages came up for renewal. These mortgages were incurring interest rates of 6.19%. Both mortgages were held by the same lender on properties that have strong tenant bases with good revenue streams. The Company paid out the mortgages in full with a line of credit from the same lender. The line of credit granted was greater than the balance of the

outstanding mortgages and allows for a more flexible payment schedule. The line of credit also provides a more favorable rate of interest as well as additional proceeds if needed for any future projects.

Another mortgage is up for renewal in September 2009. The Company expects to renew the mortgage on favorable terms.

The Company does not currently have any financial obligations other than in the normal course of property operations.