



MD&A FOR THE YEAR ENDING SEPTEMBER 30, 2009

AS AT DECEMBER 29, 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 for the fiscal year ended September 30, 2009. 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 contained in this 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 consolidated financial statements.

FORWARD-LOOKING INFORMATION

In our report to shareholders, management may talk about our current economy and express opinions on the market value of our properties, 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 and market values are subject to risk and uncertainties. Readers are encouraged to read the risk factors identified in Note 23 of our audited 2009 consolidated financial statements. Any forward-looking statements in our report should not be relied upon as facts, as actual results may differ from estimates.

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 are 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 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.

The Board of Directors of Imperial Equities agree that a diversified company could probably withstand an economic downturn better than a single source company. 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.

Diversity of our Company must not only be in its business ventures but also with the talent of its Board of Directors. This year Mr. Bill Smith was appointed to the Board of Imperial Equities. Mr. Smith was a previous board member who took some time off and has now rejoined the board and shall serve as a member of the audit committee. Dr. Dennis Modry was appointed as chair of the audit committee.

The highlight of this fiscal year has to be our earnings. The best method for a company with real estate assets is to report its earnings before interest, taxes, depreciation and amortization (EBITDA). On a consolidated basis, Imperial Equities generated earnings of more than \$3 million in 2009. Real estate revenues were up 43% and revenue from sales of pharmaceuticals were up 23% over last year. Funds from operations were more than double from that of last year. In the coming year we will begin to transition our accounting and reporting to conform with the International Financial Reporting Standards (IFRS). This method would more accurately define the value of our Company and our corporate results would be reported in the same fashion as any public company worldwide.

We have often mentioned that the share price of Imperial Equities has never reflected the real value of its assets. As at September 30, 2009 Imperial Equities had a total of 9,100,342 issued and outstanding common shares. The unrecognized equity in the real estate assets of Imperial Equities is over \$45 million alone. With a stock market share price of around \$2.00 it is no surprise that very few shares are sold. A Normal Course Issuer Bid (NCIB) is a vehicle that allows corporations 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. Throughout this fiscal year Imperial Equities has maintained a NCIB and the current bid is set to expire in August 2010.

This fiscal 2009 started with a great deal of uncertainty and as such became a year of progressing cautiously. In the coming year we expect to begin construction of the largest build to suit project in our company's history. The Fort McMurray \$14 million project is expected to be completed in November 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.

Sine Chadi



CEO & Chairman of the Board

ANNUAL INFORMATION

	2009	2008	2007
Total Revenue	\$ 17,671,907	\$ 13,820,074	\$ 9,957,267
Net Earnings (loss)	\$ 361,533	\$ (42,857)	\$ 2,050,907
Earnings (loss) per share – basic cents	.04	(.01)	.23
Earnings (loss) per share – diluted cents	.04	(.01)	.22
Total Assets	\$ 34,047,167	\$ 35,489,302	\$ 26,619,064
Total Long-term Financial Liabilities*	\$ 16,835,770	\$ 18,467,415	\$ 13,331,586

**(Does not include the current portion of long-term financial liabilities)*

Significant Factors Affecting Year Over Year Changes

TOTAL REVENUE

Annual revenue increased by \$3,851,833 in 2009; \$1,449,227 in the real estate segment and \$2,402,606 in the pharmaceutical segment. Real estate revenue increases are due to the benefit of a full year of rental revenues from the Company's largest tenant acquired in July 2008 and the new tenant in Fort Saskatchewan since July 2008. The pharmaceutical business continues to grow rapidly increasing the customer base and volumes with existing customers.

In 2008 revenues overall increased by \$3,862,807. The revenue derived from real estate increased \$349,281 over the prior year. This increase was largely due to the addition of two properties to our portfolio and an increase in rental rates on lease renewals. The largest gain was in pharmaceutical sales which increased from \$6,937,463 at September 2007 to \$10,452,371 at 2008. A larger customer base as well as volume increases with existing customers resulted in increased sales of \$3,514,908 or 51% for the year ending September 30, 2008.

NET EARNINGS

The real estate segment generated net earnings of \$754,456 in 2009 (\$877,849–2008) excluding general corporate expenditures of \$387,726 (\$500,029–2008). The pharmaceutical segment reported a loss of \$5,197 compared to a loss of \$420,677 in 2008. A further breakdown is shown in Note 18 of the consolidated financial statements. Amortization expense in the real estate segment increased by almost half a million dollars this year as well as an increase in interest expense of \$331,494. As the Company grows and

increases the real estate asset base there will likely be new mortgages on these new properties. Amortization and interest expenses will continue to increase so long as the assets increase. If the asset base stays the same with no additional property acquisitions, the corresponding amortization and interest expense will decrease each year which will positively affect the net earnings. Gross margins in the pharmaceutical segment remain very constant year to year. The additional revenue generated in IDCI this year contributed \$162,446 to the gross margins to help offset any increases in overhead expenditures. In 2009 IDCI had a decrease in interest expense of \$42,554 as there was less of a requirement to use of the line of credit.

Net earnings in 2008 were significantly lower compared to 2007 as there were no capital gains on the sales of properties to report. Normal property operations in the real estate segment reflect net earnings of \$877,849 before corporate expenditures of \$500,029 and the pharmaceutical segment reported a net loss of \$420,677. In 2008 IDCI continued to invest in employees and processes to facilitate the expected demand in growth. Now that the sales are reaching targeted levels, the pharmaceutical segment is expected to begin to show profits.

Net earnings in 2007 were positively affected by the gain on the sale of two properties in the amount of \$2,946,968 before tax. Also impacting earnings were the losses for the pharmaceutical company of \$307,983 before tax recoveries and a provision of \$345,591. This provision relates to a bad debt with an Edmonton based retail pharmacy. Management continues to seek recovery of this debt under a lawsuit.

TOTAL ASSETS

Total assets in 2009 decreased by \$1,442,135 compared to 2008. Amortization accounts for \$1,058,146 of the decrease and in the prior year there were \$357,269 of income taxes receivable which were collected in the first quarter of 2009. There were no dispositions this year and additions to revenue producing properties were largely the result of finalizing leaseholds for the new PowerComm building that was completed in the summer of 2008. The Company chose to put any excess monthly cash balances against the line of credit in IEI to reduce interest expense during the year.

The total assets of the Company increased 33% in 2008 over 2007, a total of \$8,870,238. The real estate segment increased revenue producing properties by \$11,246,196 net of amortization with the completion of the build to suit project that began in 2007, and a new acquisition in Fort Saskatchewan in April 2008. The pharmaceutical segment's assets increased \$909,945 attributed to higher inventory and accounts receivable.

In June of 2007, the Company sold two revenue producing properties decreasing its book value of real estate assets by approximately \$2,300,000. The decrease was partially offset by the development of the build to suit project on 7.66 acres of our existing land bank (PowerComm Building). At September 30, 2007 there were accumulated building costs of \$360,000 with additional projected costs to completion of approximately \$6,155,000. The sale of the two properties in 2007 contributed to the levels of cash the company had at year end which increased the total assets.

TOTAL LONG-TERM FINANCIAL LIABILITIES

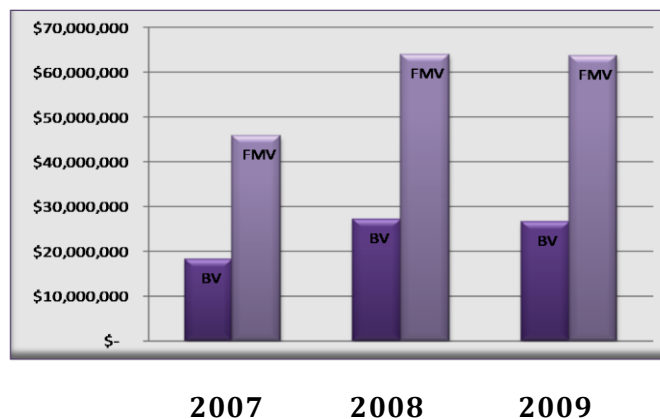
Long-term mortgage balances in 2009 decreased by \$1,583,595. Mortgages on three of our properties were up for renewal in 2009 and the Company chose to pay out the balances of two of the mortgages from a line of credit obtained from the same lender. The line of credit provided more favourable interest rates and flexible options for principal reduction. The balance of these two mortgages no longer show under mortgage balances and are included in bank indebtedness. The mortgage on the third property was renewed in September 2009 at a more favourable rate of interest.

In 2008 the Company completed the development and redevelopment of two revenue producing properties. Once completed, a total of \$9 million of long term financing was placed as a first charge. At September 30, 2008 Imperial Equities had a total of 11 mortgages payable with long-term financial liabilities of \$17,380,149. Three of these mortgages were up for renewal in 2009 with the total mortgage balance shown as current liabilities.

The portion of mortgages payable that are due in the next twelve months are recorded as current liabilities and therefore excluded from the total long-term liabilities.

Market Valuation of Real Estate Assets

*MARKET VALUE VS BOOK
VALUE OF REAL ESTATE
PROPERTIES*



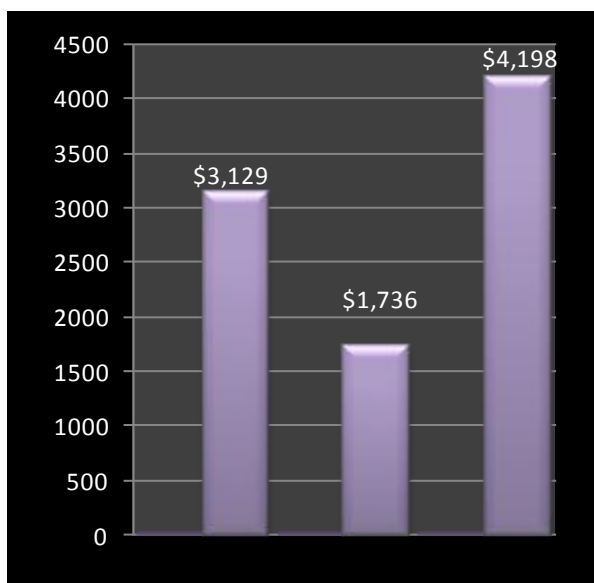
Market value was estimated by management using the actual three year average future revenue stream per property, less a 2% vacancy rate and capitalization rates varying from 6.5% to 7%. This calculation was used on all of the revenue producing properties with the exception of our Oliver Crossing property and the Capital Business Park. The market values of these two properties are based on the total square footage of land multiplied by a dollar value per square foot. Vacant land was valued using management's research of similar vacant land that has sold recently, or available for sale. Capitalization rates take into account many factors including but not limited to; the location of the property, the size of the land parcel, site coverage, the quality and strength of tenant, whether lease rates are over or under current market rates, demand for the type and use of the property, the age of the building, any special use characteristics of the building or area, whether it is single tenant or multi tenanted and vacancy rates in the area.

OVERALL PERFORMANCE HIGHLIGHTS - 2009

IEI Consolidated EBITDA

(\$thousands)
non-gaap measure, see page 22

EBITDA is defined as earnings before the following: Interest, Income taxes, Depreciation and Amortization *this is a non-gaap measure, see page 22



2009 2008 2007

IEI UNRECOGNIZED EQUITY In Real Estate

Properties (\$ thousands)



FMV of properties Equity in properties Mtg balances

- ↑ **Funds from operations** before changes in non-cash operating balances, generated **\$.18 per share** for a total of \$1,683,589 compared to \$.07 per share at 2008
- ↑ **Revenue from real estate operations** is **up \$1,449,226 (43%)** over last year
- ↑ **Revenue from sales of pharmaceuticals** is **up \$2,402,607 (23%)** over last year
- ↑ **Earnings before income taxes** are in excess of **half a million \$ - 0.06 cents per share**
- ↑ Imperial has evaluated its revenue producing properties to reflect current market conditions with extremely favorable results showing **unrecognized equity of \$45 million** based on management's estimate of the fair value of the properties and the current balance of mortgages.

ANALYSIS OF RESULTS OF OPERATIONS AND CASH FLOWS BY SEGMENT

REAL ESTATE SEGMENT

Rental revenue in 2009 increased by \$1,449,227 due to increased rental rates on lease renewals and a full year of revenue streams from the build to suit project completed in July 2008 and the new acquisition in Fort Saskatchewan in April 2008. Most of the Company's leases have escalations in lease rates throughout their terms and this revenue stream is equalized and recorded as straight line over the terms of the leases. As leases mature and are renewed, Imperial can continue to expect increases in lease rates so long as the market continues to remain strong. Imperial continues to enjoy 100% occupancy in all of the buildings with international, national and strong regional companies as tenants. There is no vacant space available at September 30, 2009.

Property operations expenses increased by \$355,937 this year due to property tax increases of \$190,589, insurance increases of \$6,148, repairs and maintenance of \$90,060 and management fees based on a percentage of rents. The Company was able to recover 82% of the costs of operations from the tenants compared to 88% in the prior year. Un-recovered costs this year include major repairs to a parking lot in the amount of \$22,000, exterior paint on two of the Company's buildings for \$49,300 which gave a renewed look to the properties, and repairs to a water main break that totaled \$70,644. These expenses are not recoverable from the tenants however the Company is pursuing an insurance claim on the water main break.

Amortization of revenue producing properties increased by \$381,382 this year as a full year of amortization was recorded on the PowerComm building. This property represents 34% of the book value of all of the revenue producing properties and accordingly incurs the highest amortization.

Amortization of deferred leasing costs relates entirely to the real estate segment. Real estate leasing fees charged on the signing of new tenants or on lease renewals are amortized over the life of the respective leases varying from three to ten years. There were fewer lease renewals in 2009 compared to 2008 causing little change in the unamortized leasing costs.

Selling and administrative costs for the real estate segment are down \$67,040 this year to \$153,748 (2008-\$220,788). The largest category difference lies in financing fees. In the prior year the Company incurred financing fees of \$50,552 compared to \$13,679 in the current year. These fees include legal fees, appraisals and environmental reports associated with new or renewed mortgages.

Removed from segmented selling and administrative expenses in the real estate segment are costs the Company incurs related to public company expenditures that are not necessarily related to real estate. These costs are shown separately as corporate expenses in Note 18 of the Consolidated Financial Statements to provide better comparability of segment results.

*Corporate expenditures this year of \$387,726 is a decrease of \$112,303 over 2008. This decrease is a combination of lower **professional fees**, lower fees for **in-house accounting**, lower expenditures on **business promotions** and no recorded **stock based compensation** which was \$31,720 in 2008.*

Cash flows from the real estate operations had a very positive impact through **funds from operations** before non-cash operating balances, for total net cash inflows of \$1,687,061. Any funds not needed for current property operations are used to decrease the line of credit and reduce borrowing costs.

Cash flows from changes in non-cash operating balances were positive at \$116,906 this year with increased cash flows from receivables more than offsetting decreases in accounts payable. At September 30, 2008 there were large receivables which were collected early in the first quarter of 2009 increasing the cash flows.

Cash flows from financing were negative in the real estate segment as the Company reduced its overall net debt by reducing outstanding debentures by \$180,000 and refinancing two mortgages with a line of credit that allows for increased principal reductions and corresponding decreases in interest expense.

Cash outflows from investing were \$602,200 in 2009. The Company continues to invest in its properties to keep them attractive and well maintained. This year leasehold improvements were completed in the first quarter and some of the parking lots were renewed.

The real estate segment had a net cash outflow of \$452,915 this year largely due to the reduction in net debt. A summary of the capital structure of the Company can be found in Note 20 of the Consolidated Financial Statements.

Significant Balance Sheet Changes Real Estate Segment

Cash at September 30, 2009 decreased \$452,915 to a balance of \$90,670 since September 30, 2008. The Company keeps a monthly reserve of cash for normal operations and any extra funds were put against the line of credit to reduce interest costs.

Receivables from tenants are down \$252,263 this year to a balance of \$74,639. At September 30 2008 there was a large receivable from one tenant that was paid early in the first quarter of 2009. The majority of the receivable balance is due to common area adjustments made at September 30th when actual costs are compared to budgeted costs. Property taxes were the largest contributor to increased common area costs this year and these costs are fully recoverable from the tenants.

Prepaid expenses and deposits show little change between years. At September 2009 the balance was \$164,088 compared to \$159,812 in 2008. Prepaid expenses include property taxes, insurance and a landscaping bond receivable from the City of Edmonton.

Future rent receivable has a net increase as the Company follows straight line revenue recognition policies. Any lease concessions for free rent during the year decrease the current actual revenue stream causing an entry to bump up the current revenue stream to record straight line revenue and increase future rent receivable. There will be a corresponding decrease in future rent receivable when escalating lease rates cause current actual revenues to be higher than straight line revenues.

Deferred leasing costs net of amortization have decreased by \$115,192 due to amortization of \$144,636. Total leasing fees incurred this year on new or existing leases totaled \$29,444 compared to \$401,502 in 2008.

Expenditures on **land held for development** consist of property taxes that were paid at June 30 and are capitalized until such time as the property becomes a revenue producing property.

Bank indebtedness consists of a new line of credit received during the year with an existing lender. The previous line of credit had a limit of \$2,000,000 and during 2009 this line increased by an additional \$1,500,000 to bring the total available credit to \$3,500,000. At September 30, 2009 the balance outstanding was \$2,844,685 leaving available unused credit of \$655,315. The line of credit was used to pay out two existing mortgages that were up for renewal in May 2009 by the same lender. The total value of the mortgages paid out was \$1,585,493. The line of credit provides increased flexibility for making monthly payments and allows the Company to payout the balances without any penalties. The line of credit is for general business purposes and is described in Note 8 of the Consolidated Financial Statements.

Payables and accruals are down \$545,992 at September 30, 2009. Last year there were construction costs accrued and unpaid at the yearend creating the large difference in payables from year to year.

Other financing remains unchanged from September 30, 2008. There were no real estate projects during the year that required any interim financing. Further disclosure relating to these loans is described in the related party transactions of the MD&A and in Note 17 of the Consolidated Financial Statements.

Debentures have a current balance of \$150,000 which is a reduction of \$180,000 this year as the Company paid out two debenture holders in full. The remaining debentures are unsecured with no set terms of repayment. Interest is paid monthly at an annual rate of 6%.

The **current portion of mortgages** has decreased this year; the result of three mortgages that were up for renewal in 2009 and shown as current liabilities in the prior year. In the next fiscal year there is only one mortgage up for renewal. The Company intends to renew the mortgage as it comes due.

Security deposits show little change this year over last year as the tenant base remains very constant. Deposits are held by Imperial Equities and act as security for the performance of the tenants.

ANALYSIS OF RESULTS OF OPERATIONS AND CASH FLOWS BY SEGMENT CONTINUED

PHARMACEUTICALS SEGMENT

Imperial Distributors Canada Inc. ("IDCI")

Revenue from the **sale of pharmaceuticals** has increased significantly again this year. By September 30, 2009 sales had increased \$2,402,607 to \$12,854,978; a 23% increase over last year. Gross margins in this segment increased to 6.8% compared to 6.1% last year as the Company looks to maximize sales of more profitable items. Investment in the new on-line ordering software has proved to benefit the Company and its customers. An aggressive sales team has brought on board 39 new customers this year.

Amortization expense on capital assets and intangible assets decreased this year with minor additions and a lower amortized asset base.

Interest expense in IDCI decreased this year by \$42,554 as the pharmaceutical segment did not require the line of credit to finance inventory growth. Receivables and payables are closely matched and any use of the line of credit is temporary in nature and at most times during the year it wasn't used at all. Interest expense in 2009 was \$6,239 for the year.

Selling and administrative costs in IDCI are up \$106,415 to \$866,390 at September 30, 2009. As IDCI has grown substantially the Company now requires its own in house IT personnel and accounting professional. The Company hired an expert to refine and effectively use the software programs installed and ensure the on-line ordering system runs smoothly. Also contributing to the increase in S&A was the additional leased delivery vehicle and driver necessary to meet the customers' delivery expectations. An increase in the sales staff contributed to customer satisfaction and increased sales.

SALES IN THE PHARMACEUTICAL COMPANY CONTINUE TO TREND UPWARD AT INCREASING RATES.

	2009	2008	2007
Average monthly sales	\$ 1,071,128	\$ 870,850	\$ 578,122
Average monthly fourth quarter sales	\$ 1,236,601	\$ 798,282	\$ 625,925

We are pleased to report that subsequent to year end, monthly sales have hit \$2,200,000.

Cash flows from funds from operations of the pharmaceutical segment were almost at breakeven this year with a total outflow of \$3,472.

Cash flows from changes in non-cash operating balances were negative at \$368,269. The biggest outflow of cash is the increase the accounts receivable balance at year end. Receivables are \$2,722,994 compared to \$1,945,629 last year. As sales continue to trend upward monthly, the receivables will correspondingly increase. Positively affecting non-cash operating balances is the reduction in inventory this year from \$2,761,061 to \$2,328,738 at September 2009.

Cash flows from financing were positive at \$344,778 as the line of credit was \$400,426 at yearend compared to \$55,648 last year.

Cash flows from investing were positive at \$28,405 as the pharmaceutical segment received advances from the real estate segment of \$50,853 while expenditures on assets were \$22,448.

Significant Balance Sheet Changes for the Pharmaceutical Segment

IDCI's **cash** position at September 30, 2009 is \$104,986. This sum is held in an interest bearing GIC with a major bank.

Receivables have increased \$777,365 at September 30, 2009 to a total of \$2,722,994. Sales have increased 23% for the year however the month of September 2009 alone sales were over \$1.5 million. IDCI's strategy of aggressive prompt payment discounts for customers has increased our current cash flows and partially alleviated the need to utilize our line of credit. Of the trade receivables outstanding, 74% are current, 14% are 31-60, 7% are 61-90 and 5% over 90. This compares with last year's receivables where 46% were current, 27% were 31-60, and 25% were 61-90 and 2% over 90. Other receivables are in the current and 30-60 day ageing period.

Inventory levels have decreased by \$432,323 this year as a major culling of the inventory was done at year end resulting in products being returned to manufacturers for exchange of product with a longer shelf life or different product. A primary goal of IDCI is to successfully anticipate the needs of the customers by effectively monitoring their buying habits and having their products readily available for delivery. On a daily basis operations are overseen and scrutinized by management and any need to take corrective and proactive measures to streamline processes and ensure efficiency is immediately addressed. The inventory turnover ratio has increased this year to 4.41 from 3.61. This ratio measures the number of times the inventory turns over in the year. The more times we can turnover the inventory, the less our carrying costs.

IDCI's Asset Turnover Ratios	2009	2008	2007
<i>Inventory turnover ratio</i>	4.41	3.61	3.23
<i>Number of days inventory Is on hand during year</i>	83	101	112
<i>Average receivables collection period</i>	71	68	81

Inventory turnover ratio is calculated as the cost of goods sold divided by the average inventory during the year. **The number of days** the inventory is on hand is calculated by taking 365 and dividing by the inventory turnover ratio. **The receivables collection period** is calculated by taking the net sales and dividing by the average receivables for the year.

Improved inventory management practices continue to show positive results year after year. Although average collection periods show 71 days, current trade accounts represent 74% at year end.

Prepaid expenses have increased by \$13,330 to \$40,189 due to greater insurance coverage of our business assets and prepaid annual fees for the software licenses which get amortized monthly.

Bank indebtedness at year end is \$400,426 against a line of credit with a limit of \$1,500,000. This is a timing difference between payables and receivables. Subsequent to the year end, that balance was reduced to zero. The line of credit will fluctuate to meet the needs of our vendor's prompt payment terms. Depending on the delivery of goods received, some suppliers require payment in 10 days where IDCI gives 30-90 days to its customers for collection of accounts receivable. As our sales increase there may be a need to utilize the line of credit temporarily to increase inventory levels to accommodate sales.

Accounts payable are down \$9,897 over last year which is again a timing difference at year end. Purchases of inventory to accommodate increased sales are all within the terms of the suppliers. IDCI continues to take advantage of all prompt payment discounts offered by the suppliers.

EVALUATION OF OPERATIONS (IDCI)

Below are positive action items that Management has undertaken during the year to increase revenues and the customer base for Imperial Distributors Canada Inc.

- In house IT expert** to manage the custom software package and the on-line ordering integration software. IDCI's goal is zero down time for on-line order processing and having an IT person on-site makes the Company more responsive to any issues that

arise. In house IT management also tweaks and monitors internal financial control procedures and measures to ensure reliable financial information is generated.

- ❑ **Improved warehouse inventory management** – identifying and culling product for returns and replacement by the manufacturer ensures inventory on the shelf has proper dating required by our customers.
- ❑ **Improved relations** with pharmaceutical manufacturers and their representatives - By September 30, 2007, IDCI had increased the number of suppliers from 36 to 64. By 2008 that number increased to 96. This trend has continued and now the Company has 123 suppliers represented by Canada's best recognized manufacturers.
- ❑ **Rapid order fulfillment** with twice daily delivery within the metropolitan Edmonton region and 24 hour turnaround to most centers across Canada. The addition of delivery vehicles and drivers has enabled the Company to keep its delivery promises exceeding the expectations of our customers.
- ❑ **Cross-training** of employees is on-going between order desk, shipping and receiving to effectively handle any employee vacation periods or changes in staff. IDCI continues to train employees in multiple areas and internally promote job sharing and accountability to develop experienced capable employees able to handle any situation effectively and make employees feel valued at all levels of the organization.
- ❑ The Company promotes a **positive team environment** where all employees feel they are contributing to the success of the Company and are willing to work together sharing ideas and strategies to continually improve our processes.
- ❑ An **aggressive successful sales team** drives the sales numbers higher each month with weekly visits to customers to ensure they are happy and satisfied with our service.

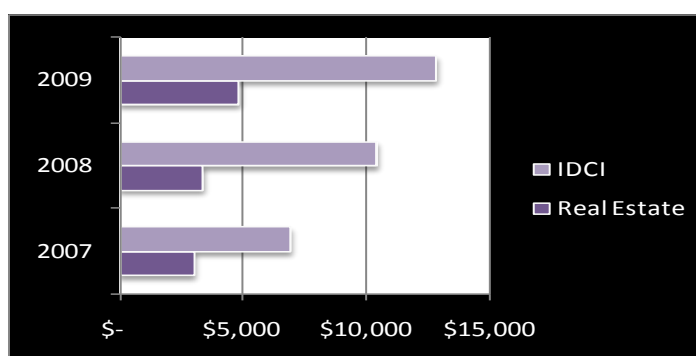
IDCI is now in its fourth year of operations and progress continues to be remarkable. Rapid growth can cause some Company's to experience staffing issues, logistics problems and operational hiccups. IDCI's hands on management recognizes problem situations before they arise and the proactive decision making keeps everyone on their toes and performance at peak levels. Management has continued confidence in all levels of personnel to deliver results and continue to outperform month after month.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

	Sep-09 Q4	2009 Q3	2009 Q2	2009 Q1	Sep-08 Q4	2008 Q3	2008 Q2	2008 Q1
REVENUE	4,946,667	4,440,749	3,977,798	4,306,692	3,505,103	3,978,432	2,936,785	3,399,754
NET EARNINGS (LOSS)	(79,219)	106,896	138,155	195,701	16,281	(46,983)	(52,161)	40,006
EPS-Basic	(0.01)	0.01	0.01	0.02	0.01	(0.01)	(0.01)	0.01
EPS-Diluted	(0.01)	0.01	0.01	0.02	0.01	(0.01)	(0.01)	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 quarter of 2008. In 2009 the real estate segment reported full year revenue streams from the two new acquisitions in 2008. The changes in revenue in each quarter can be primarily attributed to the sales of pharmaceuticals. The decrease in Q2 each year is the result of large pharmaceutical orders being placed just after the closing of the month end.



Annual Revenues (\$thousands)

Annual Revenues Continue to Increase in the Real Estate Segment and IDCI's Growth Remains Strong and Aggressive Increasing Market Share Year After Year.

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

The lower earnings reported in Q4 2009 were the result of increases in repairs and maintenance items expensed. A broken water main at one of our real estate properties cost the Company \$70,644 in damages. The Company is pursuing an insurance claim to recover some of the expenses. IEI's 3rd and 4th quarter included the costs associated with exterior painting of two of our larger buildings. Total painting expenses were \$49,300 and a

refurbished parking lot cost the Company \$22,000. The Company believes it is necessary to keep the revenue producing properties looking their best displaying a pride of ownership. Other contributing factors at each year end are the recording of external audit fees and additional accounting fees associated with preparation of the year end reporting requirements.

2009 Q3 shows 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. Property taxes for all properties increased by \$190,589 over 2008 as valued by the City of Edmonton, City of Fort Saskatchewan and Strathcona County assessments.

2009 Q2 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 for 2008 and mailings to shareholders. All increases in utility costs and property taxes are recovered from the tenants through reconciliation at the Company's yearend of September 30.

Losses mid year in 2008 Q2 and Q3 reflect the cost of implementation of the new software at IDCI. Revenues in the last quarter of 2008 helped to absorb some of those costs.

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

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Total issued, outstanding and fully paid shares at December 17, 2009 are 9,100,342. There were no options granted, exercised or forfeited during the year. 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 each common share. All of the options expire August 11, 2010. On August 24th 2009, the Company received approval from the TSX Venture Exchange for a Normal Course Issuer Bid described in *Note 13* of the Consolidated Financial Statements.

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 \$276,324 (2008 \$243,955) 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, \$235,749 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 in the amount of \$18,000 (2008 - \$52,800.) include accounting costs associated with public company quarterly and annual filing requirements. There were no amounts outstanding and payable at September 30, 2009. Operations also include the cost of leased vehicles in the pharmaceutical company in the amount of \$15,850 (2008-\$7,500). Vehicle lease costs were paid to NAML.

Leasehold improvements contract fees of \$65,114 (2008-\$550,000) were paid to Sable for the finalization of the large scale tenant improvement project for PowerComm. These leaseholds began in September 2008 and were finalized during the first quarter of 2009. The fees paid by Imperial Equities to Sable are amortized and recovered from the respective tenant under their lease agreement. Other smaller project fees were charged this year for large scale repairs that are not covered under normal property operations such as the water main break at the NAIT building.

Leasing and real estate commissions in the amount of \$18,644 (2008- \$232,571) 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 any 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.

Contracts with Sable and NARC have been in place since 1999 with no changes to the terms. They can be viewed on-line at www.Sedar.com.

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. Fees billed for 2009 were \$71,995 compared to \$57,288 for 2008.

Other financing from a company owned by a director, officer and majority shareholder

Imperial Equities Inc. periodically receives **loans** from Sine Chadi or a company owned by Sine Chadi to assist the Company with interim financing needs. When the Company secures other long-term financing, these short term loans are paid back with interest at a rate of 8% per annum calculated daily from the date of advance until the repayment date. For the year ending September 30, 2008, Mr. Chadi's company North American Mortgage Corp. had provided Imperial Equities a total of \$350,000 in loans. Of the \$350,000 loaned to Imperial Equities, all was repaid with the stated interest in the aggregate of \$2,915. During the current year there were no advances received from a company owned by Sine Chadi.

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

Additional interim financing has been provided to Imperial Equities by a company which is owned by the spouse of a director, Diane Buchanan. During the prior year, this company provided interim financing of \$2,000,000 in addition to the balance outstanding at the beginning of the year in the amount of \$1,500,000. Of the total \$3,500,000 borrowed by the Company, \$2,000,000 was repaid with interest at a rate of 1% per month and the balance of \$1,500,000 remains outstanding at September 30, 2008 and 2009. Interest is paid monthly on the \$1,500,000 financing at a rate of 6% (2008-8%) per annum. These loans are unsecured with no fixed terms of repayment. Total interest paid in 2009 was \$100,000 compared to \$181,315 in 2008.

Other financing from a director, officer and majority shareholder

In the prior year the Company received a loan from Sine Chadi in the amount of \$100,000. The loan was repaid with interest at a rate of 8% per annum. Total interest paid in the prior year was \$142. There were no advances received from Sine Chadi in the current 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 for the year equal \$23,050 (2008-\$47,307).

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 year for their services as directors and officers of the Corporation.

	Directors' Fees	Salary	Options Previously Granted/Total Held ⁽¹⁾
Sine Chadi , <i>Director & Officer</i>	NIL	\$180,000	100,000/100,000
Diane Buchanan , <i>Director</i>	\$ 2,000.00	NIL	100,000/NIL
Kevin Lynch , <i>Director</i>	\$ 5,000.00	NIL	100,000/100,000
Dr. Dennis Modry , <i>Director</i>	\$ 4,000.00	NIL	100,000/100,000
Bill Smith , <i>Director</i> ²	\$ 0.00	NIL	100,000/NIL

Notes (1) Granted pursuant to the Option Plan.

(2) Bill Smith was appointed director effective September 29, 2009

LIQUIDITY, CAPITAL RESOURCES AND SOLVENCY

The Company's liquidity position calculated as cash, receivables and inventory divided by bank indebtedness, payables and accruals and income taxes payable is 1.29 compared to 1.86 in the prior year. Affecting this ratio is the increase in IEI's line of credit that was used to payout two of the mortgages in May 2009. Under the terms of the new credit facility, monthly payments are interest only with an annual principal reduction of \$300,000. As of the date of the MD&A, IEI has already made the annual payment and continues to aggressively pay down the line of credit using cash flows from real estate operations. The total credit limit on both lines of credit is \$5,000,000 and is more fully described in Note 8 of the Consolidated Financial Statements. At September 30, 2009 the combined bank indebtedness was \$3,245,111. At year end, there was available credit for use of \$1,754,889. These lines of credit are available for general business purposes.

The working capital needed to fund the day-to-day operations of the real estate segment has been generated through funds from regular operations. During the year, the real estate segment had funds from operations of \$1,756,642. IDCI had a net cash outflow from operations of \$3,472. Current working capital needed in the pharmaceutical company will be managed through the current line of credit.

Mortgages on the revenue producing properties have term dates varying from 2010 to 2013. The weighted average interest rate on the mortgages is currently 4.89% compared to 5.05% at September 30, 2008. Two of the mortgages are up for renewal in 2010. Management will acquire independent third party appraisals to identify the current market value of the properties and potentially take advantage of unrealized equity. Management's opinion of the market value of the three properties that are currently held as security for these renewals is in the range of \$15,000,000. The current balance of the two mortgages at September 2009 is \$3,386,342. Refinancing of these properties upon maturity of the mortgages can bring an estimated \$6 million in cash into the Company in 2010 if it is required.

Subsequent to the year end the Company entered into an agreement to purchase land in Fort McMurray, Alberta. The total purchase price is \$5,775,000. The funds needed to facilitate this purchase will come from interim financing until the Company has completed a build to suit project and then secure conventional mortgage financing. The interim financing needed will be generated through private investors and/or bridge financing through a lender that the Company is currently considering. The project includes a long-term lease with a substantial international high profile tenant that will add tremendous value to IEI's portfolio. Closing of the purchase is expected to take place in the spring of 2010.

CRITICAL ESTIMATES OF THE CURRENT ECONOMIC ENVIRONMENT AND OUTLOOK

The recession taking place in Alberta and around the globe has had very little impact on the operations of IEI. While global financial markets went into crisis and financial institutions tightened up their lending practices, IEI was very successful with all its financing requirements in 2009. Lower interest rates and a strong tenant base helped IEI weather the crisis that affected many businesses worldwide but had no tangible effect on IEI's operations or performance. Risk factors still exist and are always considered when making strategic plans.

THE COMPANY HAS DETERMINED THE **RISKS OF THE REAL ESTATE** COMPONENT OF IMPERIAL EQUITIES LIE IN THE FOLLOWING AREAS; TENANTS' PERFORMANCE, MARKET CAPITALIZATION RATES, LEASE RATES AND INTEREST RATES.

Current tenants and their exposure to market risks may impact IEI if the tenant fails to make contracted rental payments. Companies with exposure to the production of oil and their ability to weather tighter financial restrictions could have a negative effect on operations.

Imperial's real estate portfolio is predominately made up of large single tenanted buildings that are leased to multinational, national and large regional tenants. Unlike smaller local tenants these large companies tend to be more skilled in the ability to weather an economic downturn.

With the exception of PowerComm, most tenants have been with Imperial for a number of years already and as a result, their leases are considered under market. Imperial valued its properties at September 30, 2009 based on the current levels of income and estimated capitalization rates in today's market. Based on this estimate, all of the properties are significantly undervalued on the books. Our exposure to risky tenants is very limited. In 2009 we recorded an allowance for doubtful accounts of only \$27,000. Imperial is not aware of any tenants prematurely terminating their leases based on the current economic turbulence.

Notwithstanding the size of each individual tenant, Imperial runs the risk of losing such a tenant due to unforeseen and continued poor economic conditions. If a tenant were to vacate, the risk to Imperial would be the ability to continue to meet the mortgage obligations on the property as well as carrying costs including property taxes and insurance. To mitigate this risk, Imperial would try to resolve temporary cash flow problems with the tenant and/or pursue other tenants for the same space. The cash flow required to maintain the property in this extreme situation would be funded with cash flows from property operations or existing lines of credit.

Market values of the real estate properties can decrease if the demand for space decreases. Imperial's exposure to the market value of its real estate assets affects mortgages up for renewal. Mortgages that are coming up in the next 12 months will be appraised for their current market value. The market value of a property will be calculated using the income generated through the property and factoring a capitalization rate. Other factors that influence market value are demand, vacancy rates, age of the building and location. Imperial is not aware of any obstacles at this date that would negatively affect its ability to refinance its buildings as the mortgages come due. The Company has determined that capitalization rates used to evaluate a property have changed little since September 2008 inferring that there has been little change in the economic environment of commercial leasing.

Lease rates may adjust downward if demand for space decreases. As demand for space goes up so does the lease rate. In any economic downturn we could expect that the demand for space decreases and therefore the lease rate would decrease accordingly. Imperial is mindful of these risks. The large single tenant buildings have strong tenants in place and so far have not indicated to management that there are any potential threats to continued tenancy.

Interest rates on mortgages that are up for renewal may become higher as financial institutions widen the gap on spreads. The two mortgages up for renewal in 2010 have current interest rates ranging from 4.4% to 4.71%. Interest rates on mortgages are not expected to change dramatically from the levels we are seeing today of approximately 4.75%. If this prediction holds true the affect on the income statement will not be material.

Planned expenditures

At the date of this MD&A the Company has no other planned financial commitments for capital expenditures other than the new proposed Fort McMurray project. An offer to purchase the land has been accepted by the owners and the Company is in the due diligence phase. The Company is also looking at potential opportunities to develop or sell

the vacant lands in the west end of Edmonton which may translate to positive cash inflows. There are also opportunities to purchase properties that are currently on the market. Activity in the marketplace has increased due to the changes occurring in the economy and the Company will continue to look at all opportunities and evaluate the best possible alternatives. Cash needed to fund an acquisition of property will be provided by any unused balance on the lines of credit and/or private sources until long term financing is put into place.

THE COMPANY HAS DETERMINED THE **RISKS OF THE PHARMACEUTICAL SEGMENT** OF IMPERIAL EQUITIES LIE IN THE FOLLOWING AREAS; PRICE VOLATILITY, CUSTOMER CREDIT, AND INTEREST RATE RISK.

The current economic environment could pose a threat to Imperial Distributors' operations if there was ***price volatility affecting the inventory costs***. Prices for generic inventory products are regulated by the government and therefore sheltered from market volatility. Large adverse inventory price adjustments would impact the gross margins on the brand products held in inventory although the Company has been very successful in having the manufacturers give credits for any inventory on hand that has decreased in price. Imperial's risk is minimized through just in time inventory management processes. Understanding the customers' ordering habits ensures that exposure to inventorying products for a long period of time is reduced. There has to date been no material adverse price changes that has negatively affected the gross margins.

Exposure to customers' credit risks is a factor for any business that extends credit. The risk to IDCI's receivables lie in its customers' exposure to the economic conditions and their ability to pay their accounts. Exposure to this risk is minimized by keeping tight controls over accounts receivable collections and monthly monitoring of accounts. Currently there are no known customers with large accounts that pose a threat to the cash flows of IDCI. Offering customers cash rebates for prompt payments continues to prove effective at minimizing exposure to doubtful accounts. Typically the customers order product when they know they have a sale. As a large portion of their receivables will be from government or private health plans, our exposure is also reduced.

IDCI's exposure to ***interest rate risk*** lies in its operating line of credit with a fluctuating rate based on prime. The line of credit is used to bridge the gap between receivables and payables. At various times during the year the line of credit will be used to ramp up inventory for customer sales or bridge the gap between sales and purchases. This is generally only a timing difference as cash flows from operations will offset the need to rely on this line of credit. Current prime rates continue to remain low and there are no indications that it will increase dramatically in the next twelve months. IDCI maintains a positive working relationship with its lender adhering to all imposed margins for the line of credit.

Lease expiry

The leased premises currently occupied by IDCI are up for renewal in June of 2010. The Company is currently evaluating renewal options or expansion plans and may use the real

estate segment to facilitate the growth needs of the warehouse footprint. There are no commitments in place to relocate and it is anticipated the current space will accommodate the growth for the next twelve months.

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

Effective October 1, 2008 the company has adopted the new Canadian standard, Handbook Section 3064, *Goodwill and Intangible Assets* which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of the adoption of this new section the Company has retrospectively reclassified its software with net book value of \$62,902 from capital assets to intangible assets for year ended September 30, 2008.

Effective October 1, 2008 the company has adopted the new Canadian standard, Handbook Section 1400, *General Standards of Financial Statement Presentation* which was amended to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. When preparing financial statements, management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The adoption of this section does not have an impact on the Company's financial position or results of operations.

Future accounting pronouncements

In June 2009 the CICA has amended Section 3862, *Financial Instruments - Disclosures* to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Corporation does not anticipate the the prospective adoption of these new accounting standards will have a noticeable effect on its results, financial situation, or cash flow.

Convergence with International Financial Reporting Standards

In February of 2008 the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for Canadian publicly accountable enterprises for year ends beginning on or after January 1, 2011. As the Company will be required to report its results in accordance with IFRS starting in 2012, the Company is assessing the potential impacts of this changeover and developing its plans accordingly.

The Company has completed the preliminary diagnostic phase, having reviewed the major differences between Canadian GAAP and IFRS. The IFRS assessment on reporting results is

being overseen by the Company's Chief Financial Officer, with involvement with the Company's auditor as determined by management. The Company will address the design and planning, solution development and implementation of the project in the subsequent phases.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The following measure included in this report do not have a standardized meaning under Canadian GAAP, and therefore are unlikely to be comparable to similar measures presented by other companies.

EBITDA is not a concept recognized by Canadian GAAP, however is recognized in most industries as an indirect measure for operating cash flow. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A.

Years ended September 30, 2009	2009	2008	2007
Net earnings (loss)	\$ 361,533	\$ (42,857)	\$ 2,050,907
Addback:			
Interest	1,274,515	985,574	966,757
Income taxes	181,257	(135,269)	221,510
Amortization	1,311,493	928,206	958,885
EBITDA	\$ 3,128,798	\$ 1,735,654	\$ 4,198,059

DISCLOSURE CONTROLS AND PROCEDURES

Imperial Equities' major weakness in internal controls and procedures lies in the lack of segregation of duties in the accounting department. Management is considering a formal process involving directors to periodically review the Company's draft financial statements with more in-depth transaction review of all material disclosures to ensure consistency and accuracy of the reporting. Internal controls and procedures within Imperial Distributors continue to be revised and modified to maintain the integrity of the financial information as well as provide reasonable assurance that transactions are properly authorized and reported.

OFF-BALANCE SHEET ARRANGEMENTS

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