

LANZEL PROPERTIES LTD.
Consolidated Financial Statements
Year Ended September 30, 2023
(Unaudited)

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LANZEL PROPERTIES LTD.

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Year Ended September 30, 2023

(Unaudited)

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INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

Edmonton, Alberta

To the Shareholders of Lancel Properties Ltd.

We have reviewed the accompanying consolidated financial statements of Lancel Properties Ltd. (the Company) that comprise the consolidated balance sheet as at September 30, 2023, and the consolidated statements of income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises (ASPE), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying consolidated financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of consolidated financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Lancel Properties Ltd. as at September 30, 2023, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with ASPE.

Kingston Ross Pasnak LLP

Chartered Professional Accountants

LANZEL PROPERTIES LTD.
Consolidated Balance Sheet
September 30, 2023
(Unaudited)

	2023	2022
ASSETS		
CURRENT		
Cash	\$ 113,657	\$ 115,678
Short term investment (Note 3)	254,904	-
Accounts receivable	11,880	6,006
Prepaid expenses	85,783	72,903
Mortgage receivable (Note 4)	843,301	1,459,118
Lease inducements	6,987	9,691
	1,316,512	1,663,396
PROPERTY AND EQUIPMENT (Note 5)	9,096,818	9,248,159
	\$ 10,413,330	\$ 10,911,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	\$ 21,967	\$ 18,765
Income taxes payable	44,760	72,081
Goods and Services Tax payable	5,849	6,861
Unearned interest	13,768	46,249
Deposits received	28,239	26,689
Callable debt due in one year	-	116,676
Current portion of long term debt (Note 6)	75,808	73,422
Advances from shareholders (Note 7)	1,533,564	2,628,360
Advances from related party (Note 8)	1,234,781	-
	2,958,736	2,989,103
Callable debt due thereafter	-	489,376
	2,958,736	3,478,479
LONG TERM DEBT (Note 6)	996,820	1,072,627
FUTURE INCOME TAXES	46,898	44,719
	4,002,454	4,595,825
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Common Shares	6,000,010	6,000,010
Preferred shares		
40 Class "C" shares redeemable for \$1,550 per share at the option of the shareholder (total redemption amount - \$62,000)	62,000	62,000
	6,062,010	6,062,010
Retained earnings	348,866	253,720
	6,410,876	6,315,730
	\$ 10,413,330	\$ 10,911,555

APPROVED BY THE DIRECTOR

Director

LANZEL PROPERTIES LTD.**Consolidated Statement of Income and Retained Earnings****Year Ended September 30, 2023***(Unaudited)*

	2023	2022
REVENUES (Note 10)	\$ 770,269	\$ 755,813
EXPENSES		
Amortization of property and equipment	217,872	224,959
Property taxes	138,455	139,717
Interest on long term debt	65,343	56,589
Telephone and utilities	64,812	63,131
Repairs and maintenance	64,149	57,210
Insurance	59,841	57,365
Property management	49,754	46,394
Interest on callable debt	38,689	27,843
Advertising and promotion	9,532	16,130
Professional fees	9,493	12,980
Bad debts	4,206	809
Office	3,784	1,400
Interest and bank charges	2,568	1,802
Amortization of deferred financing charges	1,639	430
Meals and entertainment	858	1,201
	730,995	707,960
INCOME FROM OPERATIONS	39,274	47,853
OTHER INCOME		
Interest income	135,511	136,898
Dividend income	-	2,147
	135,511	139,045
INCOME BEFORE INCOME TAXES	174,785	186,898
INCOME TAXES		
Current	36,597	34,606
Future	2,179	2,871
	38,776	37,477
NET INCOME	136,009	149,421
RETAINED EARNINGS - BEGINNING OF YEAR	253,720	141,774
	389,729	291,195
REFUNDABLE INCOME TAXES PAID	(40,863)	(37,475)
RETAINED EARNINGS - END OF YEAR	\$ 348,866	\$ 253,720

LANZEL PROPERTIES LTD.
Consolidated Statement of Cash Flow
Year Ended September 30, 2023
(Unaudited)

	2023	2022
OPERATING ACTIVITIES		
Net income	\$ 136,009	\$ 149,421
Items not affecting cash:		
Amortization of property and equipment	217,872	224,959
Amortization of deferred financing charges	1,639	430
Future income taxes	2,179	2,871
Interest income (Note 3)	(4,904)	-
	352,795	377,681
Changes in non-cash working capital:		
Accounts receivable	(5,874)	8,723
Prepaid expenses	(10,176)	3,677
Accounts payable and accrued liabilities	3,203	3,079
Income taxes payable	(68,184)	67,180
Unearned interest	(32,481)	46,249
Goods and Services Tax payable	(1,012)	2,370
Deposits received	1,550	506
	(112,974)	131,784
Cash flow from operating activities	239,821	509,465
INVESTING ACTIVITIES		
Purchase of property and equipment	(66,531)	(73,750)
Purchase of short-term investment (Note 3)	(250,000)	-
Mortgage receivable issued (Note 4)	(148,889)	(1,159,118)
Mortgage receivable collected (Note 4)	764,706	-
Cash flow from (used by) investing activities	299,286	(1,232,868)
FINANCING ACTIVITIES		
Advances from related party	1,234,781	-
Advances (to) from shareholders	(1,094,796)	581,557
Repayment of callable debt	(607,691)	(116,676)
Repayment of long term debt	(73,422)	(151,843)
Cash flow (used by) from financing activities	(541,128)	313,038
DECREASE IN CASH FLOW	(2,021)	(410,365)
Cash - beginning of year	115,678	526,043
CASH - END OF YEAR	\$ 113,657	\$ 115,678

LANZEL PROPERTIES LTD.

Notes to Consolidated Financial Statements

Year Ended September 30, 2023

(Unaudited)

1. DESCRIPTION OF OPERATIONS

Lanzel Properties Ltd. (the "Company") is incorporated provincially under the Business Corporations Act of Alberta. The Company's principal business activity is the operation of numerous rental properties in Edmonton and Okotoks, Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises. Significant accounting policies observed in the preparation of the consolidated financial statements are summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. As a result, figures as at September 30, 2023 or for the year then ended include the financial position of this subsidiary and the results of its operations for the year then ended. The results of operations of the subsidiary are included in the consolidated financial statements from the date of acquisition or incorporation. All intercompany balances and transactions have been eliminated.

Subsidiary	Ownership %	Year end
LZL Properties Inc.	100.00	September 30, 2023

Changes in accounting policies

The Company has adopted amendments to ASPE Section 3400, 'Revenue' related to bill-and-hold arrangements, multiple-element arrangements, percentage of completion method of revenue recognition, and reporting revenue gross or net.

There was no change in accounting policies related to revenue recognition that are applied by the Company as a result of adopting the amendments.

General purpose financial statements

These consolidated financial statements have been prepared primarily for use by management. Non-consolidated financial statements including a review engagement report have been prepared for shareholders and are for general purpose use.

Revenue recognition

Rent

Revenues from rental properties include rents earned from tenants under lease arrangements. Revenue is measured at the fair value of the consideration received and is recognized on an accrual basis, by reference to the agreements entered, as well as when collection is reasonably assured.

Interest income

Interest income is recognised as interest accrued on a time basis by reference to the principal outstanding and to the effective interest rate applicable. The effective interest rate applicable is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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LANZEL PROPERTIES LTD.

Notes to Consolidated Financial Statements

Year Ended September 30, 2023

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost or deemed cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates and methods:

Buildings	4%	diminishing balance method
Paving	8%	diminishing balance method
Fencing	8%	diminishing balance method
Furniture and fixtures	20%	diminishing balance method
Automotive	30%	diminishing balance method
Computer equipment	30%	diminishing balance method

In the year of purchase, amortization on property and equipment is taken at one half of the normal amount.

Property and equipment acquired during the year but not placed into use are not amortized until they are available for use.

Financial instruments

All arm's length financial instruments are initially measured at fair value, and, unless otherwise noted, the Company subsequently measures its financial instruments at amortized cost.

The measurement basis for related party financial instruments is disclosed in Note 10.

Future income taxes

Income taxes are reported using the future income taxes method, as follows: current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years, and future income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes;
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

Future income taxes are estimated using the rates enacted by tax law and those substantively enacted for the years in which future income taxes assets are likely to be realized, or future income tax liabilities settled. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include management estimates on the useful life of property and equipment and the collectibility of accounts receivable which are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

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LANZEL PROPERTIES LTD.**Notes to Consolidated Financial Statements****Year Ended September 30, 2023***(Unaudited)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Deferred Revenue

The Company entered into a contractual agreement that stipulates a pre-payment of interest from customer that will require a transfer of funds at the beginning of the contract term based on an agreed calculated amount. Revenue is to be recognized on a monthly basis over the life of the contract.

Cash and cash equivalents

Cash consists of cash on deposit, less cheques issued and outstanding.

Short term investment

Short term investment consists of a guaranteed investment certificates with original maturity at date of purchase beyond three months and less than twelve months is carried at amortized cost.

3. SHORT TERM INVESTMENT

	2023	2022
Guaranteed investment certificate	\$ 254,904	\$ -

The short-term investment has an interest rate of 4% and matures in April 2024. During the year, interest of \$4,904 (2022 - \$nil) was recognized to the non-consolidated statement of income.

4. MORTGAGES RECEIVABLE

\$300,000 loaned with an extended movable loan maturity date of December 31, 2023. New Interest charged on the loan receivable is at 15% per annum. Monthly payments are interest only at the original interest rate of 12%. Remaining interest payments to be paid on maturity date or the early repayment date in accordance with the loan agreement.

\$144,412 loaned with a set loan maturity date of November 1, 2023. Interest charged on the loan receivable is at the greater of 12% or Prime + 9.55% per annum, compounded monthly. Monthly payments are interest only until the loan maturity date, or the early repayment date in accordance with the loan agreement.

\$250,000 loaned with a set loan maturity date of September 1, 2024. Interest charged on the loan receivable is greater of 14.5% or Prime + 7.3% per annum, compounded annually, Monthly payments are interest only until the loan maturity date, or the early repayment date in accordance with the loan agreement.

\$148,889 loaned with a set loan maturity date of May 15, 2024. Interest charged on the loan receivable is at 13% per annum, compounded annually, increasing to 17% per annum for the period May 11 to May 15, 2024.

During the year, a mortgage receivable of \$700,000 was repaid and received.

All above mentioned mortgages are secured by a first mortgage on individual specific properties.

LANZEL PROPERTIES LTD.**Notes to Consolidated Financial Statements****Year Ended September 30, 2023***(Unaudited)***5. PROPERTY AND EQUIPMENT**

	Cost	Accumulated amortization	2023 Net book value	2022 Net book value
Land	\$ 4,123,095	\$ -	\$ 4,123,095	\$ 4,123,095
Buildings	7,392,393	2,554,651	4,837,742	5,008,778
Paving	128,663	55,115	73,548	52,626
Fencing	76,818	47,440	29,378	32,581
Furniture and fixtures	47,544	24,643	22,901	16,574
Automotive	42,111	33,517	8,594	12,277
Computer equipment	4,528	2,968	1,560	2,228
	\$ 11,815,152	\$ 2,718,334	\$ 9,096,818	\$ 9,248,159

6. LONG TERM DEBT

	2023	2022
Loan bearing interest at 2.79% per annum, repayable in monthly blended payments of \$5,435, maturing May 2030.	\$ 601,647	\$ 649,460
Loan bearing interest at 4.03% per annum, repayable in monthly blended payments of \$3,749, maturing June 2027.	470,981	496,589
	1,072,628	1,146,049
Amounts payable within one year	(75,808)	(73,422)
	\$ 996,820	\$ 1,072,627

Principal repayment terms are approximately:

2024	\$ 75,808
2025	78,226
2026	80,683
2027	441,336
2028	54,919
Thereafter	341,656
	\$ 1,072,628

The loans are secured by a first charge mortgage against the land and buildings with a carrying value of \$4,569,613, an unconditional personal guarantee from a shareholder of the corporation in the aggregate amount of \$963,574, a general security agreement, a general assignment of rents, and a general assignment of insurance proceeds.

7. ADVANCES FROM SHAREHOLDERS

Advances from shareholders are unsecured, bear interest at the discretion of the directors, and have no fixed terms of repayment. During the year the Company paid interest of \$nil (2022 - \$nil) to shareholders of the Company.

LANZEL PROPERTIES LTD.**Notes to Consolidated Financial Statements****Year Ended September 30, 2023***(Unaudited)***8. ADVANCES FROM RELATED PARTY**

Advances from related party are non-interest bearing and have no set repayment terms, are unsecured and due on demand.

9. SHARE CAPITAL

	2023	2022
Issued:		
100 Class A voting common shares	\$ 10	\$ 10
60,000,000 Class B non-voting common shares	6,000,000	6,000,000
40 Class C voting non-cumulative redeemable preferred shares	62,000	62,000
	\$ 6,062,010	\$ 6,062,010

On January 1, 2017, the Company issued 400 Class C redeemable preferred shares in exchange of 500 Class A common shares of CW Ranch Developments Ltd. and a promissory note. In 2018, CW Ranch Developments amalgamated with a related company to form LZL Properties Inc. The investment in LZL Properties Inc. is eliminated upon consolidation.

10. RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions:

	2023	2022
Companies with common shareholder with significant influence		
Revenue	\$ 216,419	\$ 220,736

The transactions with related parties are measured at cost, which is equal to the undiscounted cash flows received, or expected to be received, not including expected interest and dividends, less any previously recognized impairment losses.

11. FINANCIAL INSTRUMENTS

The Company is exposed to various risks through its financial instruments. The following analysis provides information about the Company's risk exposure and concentration as of September 30, 2023. Unless otherwise noted, the Company's risk exposure has not changed from the prior year.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from tenants. In order to reduce its credit risk, the Company reviews a new tenant's credit history before extending credit and conducts regular reviews of its existing tenants' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company has a significant number of tenants which minimizes concentration of credit risk.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its receipt of funds from its tenants and other related sources, long-term debt, and accounts payable.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rates on mortgage receivables.