

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	June 30, 2018	Sep. 30, 2017
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 1,793,243	\$ 1,632,235
Property, plant and equipment	5,299	5,235
Intangible assets	–	564
	<u>1,798,542</u>	<u>1,638,034</u>
Current assets		
Prepaid assets	3,402	1,639
Prepaid current income tax	110	110
Trade and other receivables	862	1,004
Restricted cash	3,041	2,730
Inventory	373	244
Cash and cash equivalents	24,059	24,767
	<u>31,847</u>	<u>30,494</u>
Total Assets	\$ 1,830,389	\$ 1,668,528
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	\$ 899,255	\$ 826,116
Deferred tax liabilities	151,979	140,554
	<u>1,051,234</u>	<u>966,670</u>
Current liabilities		
Mortgages payable [Note 5]	42,989	13,865
Trade and other payables	6,614	6,912
Refundable security deposits	4,445	4,108
Bank indebtedness [Note 6]	9,002	–
	<u>63,050</u>	<u>24,885</u>
Total Liabilities	1,114,284	991,555
Equity		
Share capital [Note 7]	24,215	24,225
Contributed surplus	2,382	2,382
Retained earnings	689,508	650,366
Total Equity	716,105	676,973
Total Liabilities and Equity	\$ 1,830,389	\$ 1,668,528

See accompanying notes to these condensed consolidated financial statements.

(SIGNED)

Bob Dhillon
Director
July 9, 2018

(SIGNED)

Joe Amantea
Director

CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

Unaudited

(\$000s of Canadian dollars, except per share amounts)

	Three months ended June 30, 2018	Three months ended June 30, 2017	Nine months ended June 30, 2018	Nine months ended June 30, 2017
Rental revenue	\$ 28,942	\$ 25,952	\$ 83,647	\$ 77,032
Ancillary rental income	355	428	1,039	1,240
	29,297	26,380	84,686	78,272
Property operating expenses	11,023	9,760	33,068	31,148
Net operating income	18,274	16,620	51,618	47,124
Interest income	179	152	451	440
	18,453	16,772	52,069	47,564
Mortgage interest	7,261	6,655	21,237	21,763
Amortization of deferred financing cost	727	672	2,059	2,154
General and administrative expenses	2,644	2,702	8,067	7,803
Depreciation	121	110	331	295
	10,753	10,139	31,694	32,015
Profit before fair value gain (loss) and income tax	7,700	6,633	20,375	15,549
Fair value gain (loss) [Note 4]	24,947	(17,282)	30,872	(33,575)
Software development cost write off	(555)	–	(555)	–
Insurance Settlement	–	–	–	2,400
Profit (loss) before income tax	32,092	(10,649)	50,692	(15,626)
Deferred income tax expense (recovery)	7,090	(433)	11,425	508
Net profit (loss) and total comprehensive income (loss)	\$ 25,002	\$ (10,216)	\$ 39,267	\$ (16,134)
Profit (loss) per share				
– Basic [Note 8]	\$ 2.83	\$ (1.15)	\$ 4.45	\$ (1.82)
– Diluted [Note 8]	\$ 2.62	\$ (1.15)	\$ 4.11	\$ (1.82)

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(\$000s of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2016	\$ 24,315	\$ 2,404	\$ 561,257	\$ 587,976
Shares purchased for cancellation	(88)	–	(1,096)	(1,184)
Exercise of Stock Option	57	(22)	–	35
Loss for the period	–	–	(16,134)	(16,134)
Balance, June 30, 2017	\$ 24,284	\$ 2,382	\$ 544,027	\$ 570,693
Shares purchased for cancellation	(59)	–	(730)	(789)
Profit for the period	–	–	107,069	107,069
Balance, September 30, 2017	\$ 24,225	\$ 2,382	\$ 650,366	\$ 676,973
Balance, October 1, 2017	\$ 24,225	\$ 2,382	\$ 650,366	\$ 676,973
Shares purchased for cancellation	(10)	–	(125)	(135)
Profit for the period	–	–	39,267	39,267
Balance, June 30, 2018	\$ 24,215	\$ 2,382	\$ 689,508	\$ 716,105

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(\$000s of Canadian dollars)

	Nine months ended June 30, 2018	Nine months ended June 30, 2017
Cash obtained from (used in) operating activities		
Net profit (loss)	\$ 39,267	\$ (16,134)
Adjustments for:		
Amortization of deferred financing cost	2,059	2,154
Depreciation	331	295
Fair value (gain) loss	(30,872)	33,575
Deferred income tax expense	11,425	508
Software development cost write off	555	–
Mortgage interest	21,237	21,763
Interest paid on mortgages payable	(21,237)	(21,763)
	22,765	20,398
Change in working capital		
Prepaid assets	(1,763)	(206)
Prepaid current income tax	–	810
Trade and other receivables	142	708
Inventory	(129)	(41)
Restricted cash	(311)	183
Trade and other payables	(470)	(340)
Refundable security deposits	337	(60)
Cash from operating activities	20,571	21,452
Financing activities		
Bank indebtedness	9,002	(40,148)
Financing of investment properties	44,507	193,468
Mortgage payments upon refinancing	–	(59,209)
Mortgage principal repayments	(12,955)	(11,207)
Deferred financing costs incurred	(1,663)	(5,803)
Exercise of stock option	–	(22)
Repurchase of shares	(135)	(1,127)
Cash from financing activities	38,756	75,952
Investing activities		
Purchase of and additions to investment properties	(59,650)	(58,337)
Purchase of and additions to property, plant and equipment	(385)	(683)
Purchase of and additions to intangible assets	–	(41)
Mortgage receivable	–	2,500
Cash used in investing activities	(60,035)	(56,561)
Net (decrease) increase in cash and cash equivalents	(708)	40,843
Cash and cash equivalents, beginning of period	24,767	1,095
Cash and cash equivalents, end of period	\$ 24,059	\$ 41,938
Cash and cash equivalents are comprised of:		
Cash	\$ 708	\$ 490
Short-term deposits	23,351	41,448
	\$ 24,059	\$ 41,938

See accompanying notes to these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

(Thousands of Canadian dollars, except share and per share amounts and amounts within narrative)

For the three and nine months ended June 30, 2018 and 2017

1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation, incorporated under the Business Corporations Act (Alberta), focused on acquiring and managing mid-market residential rental apartment buildings in major markets primarily in Western Canada. The registered office and head office of the Corporation are located at 1413 – 2nd Street SW Calgary, Alberta T2R 0W7 and 305 – 10th Avenue SE Calgary, Alberta T2G 0W2, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The condensed consolidated financial statements of the Corporation have been prepared in compliance with International Accounting Standards ("IAS") 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and adopted by the Chartered Professional Accountants of Canada ("CPA"). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed and, therefore, these financial statements should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended September 30, 2017.

b) Basis of presentation

These condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2017.

These condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value. The condensed consolidated financial statements are prepared on a going concern basis and have been prepared in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects.

c) Basis of consolidation

The condensed consolidated financial statements include the accounts of the Corporation and its wholly owned controlled subsidiary, Mainstreet Equity USA Corp. All inter-company transactions, balances, revenue and expenses have been eliminated on consolidation.

d) Key accounting estimates and assumptions

The following are the key accounting estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 4 for sensitivity analysis;
- ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities;
- iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock options, expected volatility rate and expected dividend rates;
- iv) Allocation of purchase cost in the acquisition of investment properties, property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and
- v) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

Certain new IFRSs related to accounting periods beginning on January 1, 2018 or later have not yet been adopted by Mainstreet.

IFRS 9 – Financial Instruments – Effective for periods beginning on or after January 1, 2018

On October 1, 2018, the Corporation will be required to adopt IFRS 9 “Financial Instruments”, which is the result of the first phase of the International Accounting Standards Board (“IASB”) project to replace IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Amendments to IFRS 7 “Financial Instruments: Disclosures” will also be required to be adopted by the Corporation simultaneously with IFRS 9. The Corporation is currently evaluating the impact of this new standard on its financial statements.

IFRS 15 – Revenue from Contracts with Customers – Effective for periods beginning on or after January 1, 2018

On October 1, 2018, the Corporation will be required to adopt IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 was issued in May 2014 and will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue Recognition”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides a single and comprehensive revenue recognition model. The Corporation’s assessment included a review of relevant contracts for the following key areas, but not limited to, laundry, cable and telephone providers, common area maintenance recoveries. The Corporation is currently evaluating the impact of this new standard on its financial statements.

IFRS 16 – Leases – Effective for periods beginning on or after January 1, 2019

The new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17. From a lessor perspective, the accounting remains similar to current practice of classifying leases as finance and operating leases. The Corporation is currently evaluating the impact of this new standard on its financial statements.

4. INVESTMENT PROPERTIES

	Nine months ended June 30, 2018	Year ended Sept. 30, 2017
Balance, beginning of period	\$ 1,632,235	\$ 1,460,080
Additions	114,349	65,630
Building improvements	15,787	23,636
Fair value gain	30,872	82,889
Balance, end of period	\$ 1,793,243	\$ 1,632,235

The fair value of investment properties held by the Corporation as of September 30, 2017, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation’s investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year’s income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

Except for the investment properties acquired during the nine months ended June 30, 2018 for which the cost of acquisition was used as the best estimate of the fair market value as of June 30, 2018, the Corporation grouped its investment properties in each city by their types and geographic locations, and samples were selected in each group for independent appraisal. The appraised values of the samples selected were compared with their appraised values as of September 30, 2017. The percentage changes in values of those samples selected were applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of June 30, 2018.

The average capitalization rates used in determining the fair value of investment properties are set out below:

	June 30, 2018	Sept. 30, 2017
Surrey, BC	4.01%	4.05%
Abbotsford, BC	4.57%	4.70%
Calgary, AB	4.82%	4.81%
Edmonton, AB	5.67%	5.74%
Saskatoon, SK	6.67%	6.64%
Regina, SK	5.95%	N/A
Investment properties	5.17%	5.17%

The direct capitalization method requires that an estimated forecasted net operating income ("NOI") be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such changes in both NOI and Cap Rate would significantly alter the fair value of investment properties. The tables below set out the impact of changes in both NOI and Cap Rate on the Corporation's fair values.

As at June 30, 2018

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	89,873	\$ 91,726	\$ 92,653	\$ 93,580	\$ 95,433
Capitalization rate						
-0.25%	4.92%	\$ 33,452	\$ 71,116	\$ 89,948	\$ 108,780	\$ 146,444
Cap rate used	5.17%	\$ (54,879)	\$ (19,037)	\$ 1,793,243	\$ 16,806	\$ 52,648
+0.25%	5.42%	\$ (135,062)	\$ (100,873)	\$ (83,778)	\$ (66,683)	\$ (32,494)

As at September 30, 2017

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	81,930	\$ 83,619	\$ 84,464	\$ 85,309	\$ 86,998
Capitalization rate						
-0.25%	4.92%	\$ 33,011	\$ 67,345	\$ 84,513	\$ 101,680	\$ 136,015
Cap rate used	5.17%	\$ (47,514)	\$ (14,839)	\$ 1,632,235	\$ 17,835	\$ 50,510
+0.25%	5.42%	\$ (120,610)	\$ (89,442)	\$ (73,859)	\$ (58,275)	\$ (27,107)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.0% (September 30, 2017 – 3.07%) per annum and are payable in monthly principal and interest installments totaling \$3.9 million (September 30, 2017 – \$3.6 million), maturing from 2018 to 2028 and are secured by specific charges against specific investment properties, having a fair value of \$1,653 million (September 30, 2017 – \$1,478 million).

	June 30, 2018	Sept. 30, 2017
Non-current	\$ 899,255	\$ 826,116
Current	42,989	13,865
	\$ 942,244	\$ 839,981

Estimated principal payments required to retire the mortgage obligations as of June 30, 2018 are as follows:

12 months ending June 30,	Amount
2019	\$ 45,955
2020	97,059
2021	97,350
2022	89,552
2023	18,456
Subsequent	612,658
	961,030
Deferred financing costs	(18,786)
	\$ 942,244

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a new banking facility to a maximum of \$85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 6, 2019. As at June 30, 2018, the Corporation has drawn \$9 million (September 30, 2017 – \$Nil) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2018, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.32, respectively.

Overall funded debt to gross book value ratio

(000s of dollars)

As at June 30, 2018

Total funded debt		
Mortgages payable	\$	942,244
Bank indebtedness		9,002
	\$	951,246
Gross book value of assets		
Investment properties	\$	1,793,243
Property, plant and equipment		5,299
	\$	1,798,542
Overall funded debt to gross book value ratio		53%

Debt service coverage ratio

Earning before interest, tax, depreciation and amortization

For 12 months ended June 30, 2018

Net income	\$	146,336
Add (deduct):		
Mortgage interest		27,877
Income tax		28,309
Depreciation		450
Amortization of finance cost		2,732
Software development write off		555
Fair value gain		(147,337)
	\$	58,922
Principal and interest payments	\$	44,539
Debt service coverage ratio		1.32

7. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Nine months ended June 30, 2018		Year ended September 30, 2017	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	8,835,964	\$ 24,225	8,883,333	\$ 24,315
Shares purchased for cancellation	(3,659)	(10)	(53,569)	(147)
Exercise of stock option	–	–	6,200	57
Issued and outstanding,				
– end of the period	8,832,305	\$ 24,215	8,835,964	\$ 24,225

All common shares have an equal right to dividends.

In the fiscal year 2017, a director of the Corporation exercised 6,200 stock options to purchase 6,200 common shares at the exercise price of \$5.51 per common share.

On May 21, 2018, the Corporation obtained approval from the Toronto Stock Exchange (“TSX”) to repurchase up to 478,664 common shares of the Corporation under a Normal Course Issuer Bid (“NCIB”) commencing June 1, 2018. The current NCIB expires on May 31, 2019. The Corporation’s previous NCIB expired on May 31, 2018.

During the three and nine months ended June 30, 2018 and 2017, the Corporation purchased and cancelled Nil (2017 – 29,825) common shares and 3,659 (2017 – 32,225) common shares respectively, at an average price of \$Nil (2017 – \$36.87) and \$37.02 (2017 – \$36.72) per common share. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

8. PROFIT (LOSS) PER SHARE

Basic profit (loss) per share is calculated using the weighted average number of common shares outstanding during the period.

The treasury stock method of calculating the diluted profit (loss) per share is used.

The following table sets forth the computation of basic and diluted profit (loss) per share:

	Three months ended June 30		Nine months ended June 30	
	2018	2017	2018	2017
Numerator				
Net profit (loss)	\$ 25,002	\$ (10,216)	\$ 39,267	\$ (16,134)
Denominator				
For basic profit (loss) per share				
Weighted average shares	8,832,305	8,868,574	8,832,528	8,878,319
Dilutive effect	713,938	–	711,940	–
For diluted profit (loss) per share	9,546,243	8,868,574	9,544,468	8,878,319
Profit (loss) per share				
– Basic	\$ 2.83	\$ (1.15)	\$ 4.45	\$ (1.82)
– Diluted	\$ 2.62	\$ (1.15)	\$ 4.11	\$ (1.82)

Due to reported loss in the three and nine months ended June 30, 2017; the dilution calculation does not include 822,000 Common shares and 828,200 common shares, respectively issuable upon proper exercise of outstanding stock options. If included, these items would be anti-dilutive and therefore are not included in the computation of diluted loss per share.

9. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of June 30, 2018 and September 30, 2017 and changes during the periods are presented below:

Stock option	June 30, 2018		September 30, 2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, – beginning of the period	822,000	\$ 5.51	828,200	\$ 5.51
Exercised	–	–	(6,200)	\$ 5.51
Outstanding and exercisable, – end of the period	822,000	\$ 5.51	822,000	\$ 5.51
Weighted average contractual life-years	0.69		1.44	
Prices	\$ 5.51		\$ 5.51	

During the nine months ended June 30, 2018, no stock options were granted, exercised or cancelled. No stock options may be granted under the Corporation's stock option plan after March 24, 2017.

10. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, mortgages payable, trade and other payables, and refundable security deposits. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows.

The fair values of restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, trade and other payables, and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

The fair values of mortgages payable are determined using the current market interest rates as discount rates, the net present value of principal balances and future cash flows over the terms of the mortgages. In identifying the appropriate level of fair value, the Corporation performs a detailed analysis of the financial assets and liabilities. The inputs used to measure fair value determine different levels of the fair value hierarchy categorized as follows:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3: Values based on valuation techniques for which any significant input is not based on observable market data.

The fair values of financial assets and liabilities were as follows:

(000s of dollars)

	June 30, 2018		September 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Restricted cash	\$ 3,041	\$ 3,041	\$ 2,730	\$ 2,730
Cash and cash equivalents	24,059	24,059	24,767	24,767
Trade and other receivables	862	862	1,004	1,004
Financial liabilities:				
Mortgages payable	942,244	943,882	839,981	844,147
Bank indebtedness	9,002	9,002	–	–
Trade and other payables	6,614	6,614	6,912	6,912
Refundable security deposits	\$ 4,445	\$ 4,445	\$ 4,108	\$ 4,108

The Corporation's non-financial assets comprise investment properties. The fair values of non-financial assets were as follows:

(000s of dollars)

		June 30, 2018		September 30, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$1,793,243	\$1,793,243	\$1,632,235	\$1,632,235

11. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. Most of the Corporation's financial assets and liabilities are short term in nature and, accordingly, the fluctuation in the fair value is therefore minimal.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. No Mortgages are subject to renewal during the financial year ending September 30, 2018. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would not have resulted in any change of interest expense for the nine months ended June 30, 2018 due to the primarily fixed rate nature of the Corporation's mortgages.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of June 30, 2018, rents due from current tenants amounted to \$295,920 (September 30, 2017 – \$355,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.4 million (September 30, 2017 – \$4.1 million) and provisions for bad debts of \$140,000 (September 30, 2017 – \$130,000).

In relation to cash, cash equivalents and restricted cash, the Corporation believes that its exposure to credit risk is low. The Corporation places its cash, cash equivalents, and restricted cash only with reputable Canadian chartered financial institutions.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk by monitoring forecast and cash flows on a regular basis to meet expected operational expenses, by maintaining adequate banking facilities, by managing mortgage debt secured by its investment properties, and by matching the maturity profiles of financial assets and liabilities.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 45,955	97,059	97,350	89,552	631,114	\$ 961,030
Mortgage interest payable	28,877	26,917	24,025	20,344	59,536	159,699
Bank indebtedness	9,002	–	–	–	–	9,002
Trade and other payables	6,614	–	–	–	–	6,614
Refundable security deposits	\$ 4,445	–	–	–	–	\$ 4,445

12. GUARANTEES, CONTINGENCIES, COMMITMENTS

In the normal course of business, the Corporation may enter into various agreements that may contain features that meet the definition of guarantees, contingencies or commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") that contingently require the Corporation to make payments to the guaranteed party based on: (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of a third party to pay its indebtedness when due.

In the ordinary course of business, the Corporation provides indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements require the Corporation to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Corporation has not made any significant payments under such indemnifications and no amount has been accrued in these condensed consolidated financial statements with respect to these indemnification commitments.

In the normal course of operations, the Corporation will become subject to a variety of legal and other claims against the Corporation. Management and the Corporation's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Corporation will not be material.

As of June 30, 2018 and September 30, 2017, no amounts have been recorded and none are required to be disclosed in the condensed consolidated financial statements with respect to guarantees, contingencies and commitments.

13. RELATED PARTY TRANSACTIONS

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in limited circumstances, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the three and nine months ended June 30, 2018 were \$137,000 (2017 – \$21,000) and \$944,000 (2017 – \$143,100) respectively and formed part of the President and Chief Executive Officer's total remuneration for the year.
- b) The Corporation paid legal and professional fees and reimbursements for the three and nine months ended June 30, 2018 amounting to \$106,143 (2017 – \$11,000) and \$201,487 (2017 – \$208,500) to a law firm of which a director and officer of the Corporation is a partner. As at June 30, 2018, the amounts payable to the law firm were \$18,859 (September 30, 2017 – \$Nil).

14. SEGMENTED INFORMATION

The Corporation specializes in multi-family residential housing and operates primarily within one business segment in three provinces located in Canada. The following summary presents segmented financial information for the Corporation's continuing operations by geographic location:

(000s of dollars)

RENTAL OPERATIONS

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
BRITISH COLUMBIA				
Rental revenue	\$ 7,782	\$ 7,399	\$ 22,983	\$ 21,857
Ancillary rental income	117	124	358	411
Fair value gain or (loss)	26,467	10,365	33,184	8,381
Property operating expenses	2,016	2,136	6,972	7,593
ALBERTA				
Rental revenue	\$ 16,036	\$ 15,319	\$ 46,770	\$ 45,443
Ancillary rental income	223	279	617	742
Fair value gain or (loss)	(1,433)	(26,101)	(237)	(35,527)
Property operating expenses	6,673	6,389	19,994	19,495
SASKATCHEWAN				
Rental revenue	\$ 5,124	\$ 3,234	\$ 13,894	\$ 9,732
Ancillary rental income	15	25	64	87
Fair value (loss)	(87)	(1,545)	(2,075)	(6,429)
Property operating expenses	2,334	1,235	6,102	4,060
TOTAL				
Rental revenue	\$ 28,942	\$ 25,952	\$ 83,647	\$ 77,032
Ancillary rental income	355	428	1,039	1,240
Fair value gain or (loss)	24,947	(17,281)	30,872	(33,575)
Property operating expenses	11,023	9,760	33,068	31,148
Unallocated revenue*	179	152	451	2,840
Unallocated expenses**	18,398	9,707	43,674	32,523
Profit (loss) for the period	\$ 25,002	\$ (10,216)	\$ 39,267	\$ (16,134)

* Unallocated revenue represents interest income and insurance settlement.

** Unallocated expenses include general and administrative expenses, mortgage interest, financing cost, depreciation, income taxes, and software development cost write off.

(000s of dollars)

IDENTIFIABLE ASSETS AND LIABILITIES

	June 30, 2018	Sept. 30, 2017
BRITISH COLUMBIA		
Investment properties	\$ 518,345	\$ 482,825
Property, plant and equipment	10	14
Mortgages payable	242,918	240,236
Refundable security deposits	1,356	1,330
ALBERTA		
Investment properties	\$ 996,255	\$ 954,710
Property, plant and equipment	5,251	5,208
Mortgages payable	550,654	494,080
Refundable security deposits	2,332	2,160
SASKATCHEWAN		
Investment properties	\$ 278,643	\$ 194,700
Property, plant and equipment	38	13
Mortgages payable	167,458	105,665
Refundable security deposits	757	618
TOTAL		
Investment properties	\$ 1,793,243	\$ 1,632,235
Property, plant and equipment	5,299	5,235
Mortgages payable	961,030	839,981
Refundable security deposits	4,445	4,108

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

	Nine months ended June 30, 2018	Year ended Sept. 30, 2017
BRITISH COLUMBIA	\$ 2,335	\$ 4,162
ALBERTA	42,134	61,540
SASKATCHEWAN	86,051	24,535
TOTAL	\$ 130,520	\$ 90,237

15. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and, on occasion, bank loans or lines of credit when drawn on. The Corporation's total capital resources as at June 30, 2018 amounted to \$1,658 million (September 30, 2017 – \$1,517 million).

The Corporation aims to manage its capital resources to maintain financial strength and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity and mortgages.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the Corporation is summarized below:

	June 30, 2018	Sept. 30, 2017
Mortgages payable	\$ 942,244	\$ 839,981
Total equity	716,105	676,973
Total capital	\$ 1,658,349	\$ 1,516,954

The Corporation's policy for capital risk management is to maintain a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at June 30, 2018 is approximately 53% (September 30, 2017 – 51%) which management believes leaves a sufficient capacity to raise additional funds from refinancing before the Corporation reaches its internal policy target ratio of 70%.

As at the dates set forth below, the debt to market value ratios were as follows:

	June 30, 2018	Sept. 30, 2017
Mortgages payable	\$ 942,244	\$ 839,981
Bank indebtedness	9,002	–
Total debts	951,246	839,981
Investment properties	1,793,243	1,632,235
Property, plant and equipment	5,299	5,235
	\$ 1,798,542	\$ 1,637,470
Debt to fair value ratio	53%	51%

In managing the capital requirements of the Corporation, management makes assessments of the capital and liquid resources required to ensure the going concern status of the Corporation. Management believes that the existing liquid resources, funds to be generated from operations, and funds to be raised through the financing and refinancing of debt will be sufficient to support the Corporation's operations on a going concern basis.

16. SUBSEQUENT EVENTS

Subsequent to the quarter ended June 30, 2018, the Corporation acquired an additional 62 residential units in the Province of Alberta for a total consideration of \$9.7 million.

17. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on July 9, 2018.