

MANAGEMENT'S REPORT

To the Shareholders of Mainstreet Equity Corp.

The management of Mainstreet Equity Corp. is responsible for the preparation and content of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards.

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are properly authorized, financial reporting responsibilities are met and assets of the corporation are safeguarded against theft.

The financial statements have been audited by PwC, the independent auditors, in accordance with International Financial Reporting Standards. The Audit Committee recommended their approval of the statements to the Board of Directors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

[Signed]

"Bob Dhillon"
Director

December 7, 2020

[Signed]

"Joe Amantea"
Director



Independent auditor's report

To the Shareholders of Mainstreet Equity Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mainstreet Equity Corp. and its subsidiaries (together, the Company) as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at September 30, 2020 and 2019;
- the consolidated statements of net profit and total comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ian H. Gunn.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
December 7, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

Year Ended September 30,	2020	2019
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 2,182,965	\$ 2,040,051
Property and equipment [Note 5]	6,574	6,389
Intangible assets [Note 6]	1,399	1,145
Property held for sale [Note 4]	1,250	–
	2,192,188	2,047,585
Current assets		
Prepaid assets [Note 7]	1,941	2,032
Prepaid current income tax	110	110
Trade and other receivables [Note 8]	1,308	1,878
Restricted cash [Note 9]	3,298	3,387
Inventory [Note 10]	994	963
Cash and cash equivalents	38,472	70
	46,123	8,440
Total Assets	\$ 2,238,311	\$ 2,056,025
Liabilities		
Non-current liabilities		
Mortgages payable [Note 11]	\$ 1,082,406	\$ 898,645
Deferred tax liabilities [Note 12]	177,561	165,870
	1,259,967	1,064,515
Current liabilities		
Mortgages payable [Note 11]	97,115	121,078
Trade and other payables [Note 13]	9,386	8,911
Refundable security deposits [Note 14]	4,754	4,774
Bank indebtedness [Note 15]	–	56,442
	111,255	191,205
Total Liabilities	1,371,222	1,255,720
Equity		
Share capital [Note 16]	26,507	26,597
Retained earnings	840,582	773,708
Total Equity	867,089	800,305
Total Liabilities and Equity	\$ 2,238,311	\$ 2,056,025

See accompanying notes to these consolidated financial statements.

[Signed]

[Signed]

"Bob Dhillon"
Director

"Joe Amantea"
Director

December 7, 2020

CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

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

Year Ended September 30,	2020	2019
Rental revenue [Note 17]	\$ 147,770	\$ 135,642
Ancillary revenue	2,000	1,971
Total rental and ancillary revenue	149,770	137,613
Property operating expenses [Note 18]	56,737	51,305
Net operating income	93,033	86,308
Financing costs [Note 19]	36,861	34,771
General and administrative expenses [Note 18]	12,477	12,463
Depreciation	871	505
Interest income	(206)	(179)
Other income	–	(260)
Profit before Fair value gain and income tax	43,030	39,008
Change in fair value [Note 4]	37,211	26,908
Profit before income tax	80,241	65,916
Deferred income tax expense	11,691	7,231
Net profit and total comprehensive income	\$ 68,550	\$ 58,685
Profit per share		
– basic [Note 20]	\$ 7.32	\$ 6.41
– diluted [Note 20]	\$ 7.32	\$ 6.23

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$000s of Canadian dollars)

		Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2018	\$	24,215	\$ 2,382	\$ 722,964	\$ 749,561
Stock option cash settlement		2,382	(2,382)	(7,941)	(7,941)
Profit for the period		–	–	58,685	58,685
Balance, September 30, 2019	\$	26,597	\$ –	\$ 773,708	\$ 800,305
Shares purchased for cancellation [Note 16]		(90)	–	(1,676)	(1,766)
Profit for the period		–	–	68,550	68,550
Balance, September 30, 2020	\$	26,507	\$ –	\$ 840,582	\$ 867,089

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s of Canadian dollars)

Year Ended September 30,	2020	2019
Cash obtained from (used in) operating activities		
Net profit	\$ 68,550	\$ 58,685
Adjustments for:		
Depreciation	871	505
Change in fair value	(37,211)	(26,908)
Deferred income tax expense	11,691	7,231
Financing costs [Note 19]	36,861	34,771
Deferred financing costs incurred	(13,550)	(2,973)
Interest paid on mortgages [Note 19]	(32,967)	(31,674)
Cash from operating activities before changes in non-cash working capital	34,245	39,637
Change in working capital		
Prepaid assets	92	(80)
Trade and other receivables	570	(1,054)
Inventory	(31)	(279)
Restricted cash	89	(267)
Trade and other payables	508	2,268
Refundable security deposits	(20)	248
Cash from operating activities	35,453	40,473
Financing activities		
Bank indebtedness	(56,442)	54,584
Financing of investment properties	308,914	83,863
Mortgage principal repayments	(21,292)	(19,690)
Mortgage payments upon refinancing	(119,512)	(2,935)
Exercise of stock options	–	(7,941)
Repurchase of shares	(1,766)	–
Cash from financing activities	109,902	107,881
Investing activities		
Purchase of and additions to investment properties [Note 4]	(105,643)	(146,940)
Purchase of and additions to property and equipment	(693)	(1,661)
Purchase of and additions to intangible assets	(617)	(1,002)
Proceeds from disposal	–	935
Cash used in investing activities	(106,953)	(148,668)
Net increase (decrease) in cash and cash equivalents	38,402	(314)
Cash and cash equivalents, beginning of period	70	384
Cash and cash equivalents, end of period	\$ 38,472	\$ 70
Cash and cash equivalents are comprised of:		
Cash	\$ –	\$ –
Short-term deposits	38,472	70
	\$ 38,472	\$ 70

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

For the years ended September 30, 2020 and 2019

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. Navjeet (Bob) Dhillon, President and Chief Executive Officer of the Corporation, owns 46% of the outstanding common shares of the Corporation.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by Chartered Professional Accountants Canada ("CPA Canada").

b) Basis of presentation

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

c) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, MEQ Asset Management Corp. All inter-company transactions, balances, revenue and expenses have been eliminated on consolidation.

d) Revenue recognition

Rental revenue from an investment property is recognized on a monthly straight line basis when a tenant begins occupancy of a rental unit, and rent is due. Any rental incentive offered is amortized over the term of the tenancy lease. All residential leases are for one-year terms or less and the Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Realized gain or loss from the sale of investment properties is recognized in the period of disposal.

Ancillary revenue comprises income from laundry machines, income from telephone and cable providers and other miscellaneous income and is recognized as earned.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and applicable effective interest rates.

e) Investment properties

Investment properties include multi-family residential properties held to earn rental income and are initially measured at cost. Cost includes purchase price, and any direct attributable expenditure related to the acquisition (excluding transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading the quality and extending the economic life of the investment properties are capitalized as additional cost of investment properties.

Subsequent to initial recognition, investment properties are recorded at fair value, determined based on valuations performed by independent third party qualified appraisers or available market evidence, in accordance with International Accounting Standard ("IAS") 40-Investment Property ("IAS 40"). Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's-length transaction at the date of valuation.

Mainstreet's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with economies of scale from owning a large portfolio or the consolidation value from having compiled a large portfolio of properties over a long period of time, often through individual property acquisitions. Fair value is determined based on a combination of internal and external valuation processes. Gains and losses arising from differences between current

period fair value and the sum of previous measured fair value and capitalized costs as described above are recorded in profit and loss in the period in which they arise.

For the Corporation's financial reporting, external valuations were obtained throughout the year from 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. In addition, the Corporation has established an internal valuation model, which is based on the same assumptions and valuation techniques used by the external valuation professionals. The Corporation grouped its investment properties in each city by their types and geographic locations. Samples were selected in each group for independent appraisal. The appraised values of the samples selected were compared with their carrying values. 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 September 30, 2020.

Investment properties are reclassified to 'Non-Current Assets held for sale' when the criteria set out in IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value is adjusted to reflect the fair value as outlined in the purchase and sale agreement. This adjustment is recorded as a change in fair value. Any remaining gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Excess land

Excess land represents land owned by the Corporation located contiguous to land included as investment property. The Corporation has the ability to develop additional multi-family residential buildings on this land or sell it separately from the investment property at a later date. Excess land is held for capital appreciation, and therefore is treated as Investment Property and recorded in accordance with IAS 40 as outlined above.

f) Non-current assets held for sale

Non-current assets held for sale include assets or groups of assets and liabilities ("disposal groups") that are available for sale in their present condition and the sale is highly probable and expected to be completed within one year from the date of classification. From time to time the Corporation also purchases properties with the intention of selling the property within a pre-determined period of time. The property is classified as an asset held for sale if the disposal is expected to take place within one year of the acquisition. The gains or losses arising on a sale of assets or group of assets that does not meet the definition of discontinued operations will be recognized as part of continuing operations.

g) Property and equipment

Tangible assets that are held for use in the production or supply of goods and services, for rent to others, or for administrative purposes and are expected to be used during more than one period, except when other accounting standards require or permit a different accounting treatment, are recorded using the cost model in accordance with IAS 16 – Property, Plant and Equipment ("IAS 16") which requires, after initial recognition, that the tangible assets be carried at their cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in a manner that reflects the pattern in which the future economic benefits of the assets are expected to be realized and consumed by the Corporation. IAS 16 also requires that the cost and useful economic life of each significant component of a depreciable real estate property be determined based on the circumstances of each property.

Property and equipment are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Administrative building	over the estimated useful life, not exceeding 40 years	– straight line
Building improvements	20%–40%	– declining balance
Equipment	4% to 30%	– declining balance
Furniture	20%	– declining balance
Vehicle	40%	– declining balance
Computer	30%	– declining balance

The method of depreciation and estimated useful lives of property and equipment are periodically evaluated by management and any changes are accounted for as a change in accounting estimates in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

h) Impairment of assets

All assets, except for those identified as not within the scope of IAS 36 – Impairment of Assets (“IAS 36”) are assessed for indications of impairment at the end of each financial reporting period. Should an indication of impairment exist, the recoverable amount of the asset is estimated. The recoverable amount is defined in IAS 36 as the higher of an asset’s fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted. Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the statement of comprehensive income and the remaining useful life of the assets will be re-assessed. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in profit or loss. However, in accordance with IAS 36, the reversal of an impairment loss will not increase the carrying value of the assets to a value greater than its original carrying value (net of amortization).

i) Income taxes

Income taxes include current and deferred income taxes.

Current tax is the expected tax payable or receivable in the taxable profit or loss for the current reporting period and any changes in estimates in respect of previous periods. Taxable profit differs from profit as reported in the statement of net profit and total comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The tax rates used in calculating current income tax have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the reporting date. In addition, deferred income tax assets and liabilities are measured using the rate that is consistent with the expected manner of recovery (i.e. using the asset versus selling the asset). Where applicable, current and deferred income taxes relating to items recognized directly in equity or comprehensive income are also recognized directly in equity or comprehensive income respectively.

j) Provision

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a discounted rate that reflects current market assessment of the time value of money and the risks and uncertainties specific to the obligation. Provisions are re-measured at each reporting date using a current and relevant discount rate. The increase in the provision due to the passage of time is recognized as an interest expense.

k) Financial instruments

Financial instruments are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss, which are recognized immediately in profit and loss, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Subsequent measurement is dependent on the financial instrument’s classification.

Financial assets

Under IFRS 9, Financial assets are classified and measured at three categories: (i) amortized cost, (ii) fair value through other comprehensive income (FVTOCI), or (iii) fair value through profit and loss (FVTPL).

Financial assets are classified into the following specified categories, which are defined and measured as follows:

Classification IFRS 9	Definition	Measurement – IFRS 9
Amortized cost	Non-derivative financial assets with fixed determinable payments that are not quoted in an active market; or non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest rate method less any expected credit loss. (See footnote 1 and 2).
FVTPL	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> – Classified as held for trading if it has been acquired principally for the purpose of selling it in the near future term, or on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. – Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives. 	<p>Measured at fair value with gains or losses recognized in profit or loss</p> <p>Measured at fair value with gains or losses recognized in profit or loss</p>
FVTOCI	Non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivable, (b) held-to-maturity investments or (c) financial assets at FVTPL	Measured at fair value with gains or losses recognized in other comprehensive income.

Note (1) – The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Note (2) – Financial assets, other than those at FVTPL, are assessed using an expected credit loss impairment model, which requires the use of the lifetime expected loss provisions for expected credit losses. Generally, the carrying amount of the financial asset is reduced through the use of an allowance account.

The Corporation's financial assets are as follows:

Financial assets	Classification – IFRS 9
Trade and other receivables	Amortized cost
Restricted cash	Amortized cost
Cash and cash equivalents	Amortized cost

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the assets to another entity or when the carrying value is reduced by expected credit loss.

Financial liabilities

Under IFRS 9, Financial liabilities are classified and measured as either amortized costs or FVTPL. Financial liabilities are classified into the following specified categories which are defined and measured as follows:

Classification – IFRS 9	Definition	Measurement – IFRS 9
FVTPL	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> – Classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near future term, or on initial recognition, it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. – Classified as FVTPL upon initial recognition if : such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liabilities form part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives. 	<p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising in measurement recognized in profit or loss.</p>
Amortized cost	All other liabilities	Measured at amortized cost using the effective interest rate method (See footnote 1).

Note (1) – The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Corporation's financial liabilities are as follows:

Financial liabilities	Classification – IFRS 9
Mortgages payable	Amortized cost
Bank indebtedness	Amortized cost
Trade and other payables	Amortized cost
Refundable security deposits	Amortized cost

The Corporation derecognizes a financial liability when the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and short-term interest bearing deposits. Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, short-term interest bearing deposits qualify as a cash equivalent as they have a maturity of 90 days or less from the date of acquisition.

Certain cash balances have restricted use and have been classified as restricted cash on the statement of financial position. Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties.

m) Stock option plan

The Corporation had a stock option plan, which is described in Note 21.

The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate and expected dividend rate. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration received by the Corporation on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

For stock options of which the holders can elect to exercise the options by selecting cash settlement, those stock options will be classified as liabilities instead of equity in the financial statements and measured at fair value.

n) Profit (Loss) per share

Basic profit (loss) per share is calculated based on the weighted average number of shares outstanding. Diluted earnings per share reflect the possible dilutive effect of the exercise of the options outstanding as at the balance sheet date. The dilutive effect of outstanding share purchase options is computed using the "treasury stock" method whereby the proceeds that would be received from the exercise of options are assumed to be used to repurchase outstanding shares of the Corporation.

o) Critical judgment in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 2(p) below) that have been made in applying the Corporation's accounting policies that have the most significant effect on the reported amounts in the financial statements:

- i) Determining the extent and frequency of obtaining independent, third party appraisals and establishing an internal valuation model to measure fair value of investment properties;
- ii) Determining the useful lives for the property and equipment based on their estimated useful lives;
- iii) Assessing potential impairments based on management's judgment of whether there are sufficient internal and external factors that indicate that the Corporation's administrative assets are impaired;
- iv) Determining the nature of expenses to be capitalized as capital improvement; and
- v) Determining the tax rate applicable to the Corporation's current and deferred income taxes and identifying the temporary differences in respect of which deferred income taxes are recognized.

p) 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 asset

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate, net operating income 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 are outlined in Note 22;
- iii) Allocation of purchase cost in the acquisition of investment properties is based on information from industry practice and entity specific history;
- iv) Allocation of purchase cost in the acquisition of property and equipment into different components, estimation of useful life and impairment are based on information from industry practice and entity specific history; 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. Please refer to Note 12 for detailed analysis.

Actual results could differ from estimates.

In addition, beginning in 2020, the COVID-19 pandemic has had a substantial impact on the economy. As a result of the uncertainty associated with the unprecedented nature of the pandemic, certain of the Corporation's significant assumptions may be impacted. In particular, significant assumptions are required when measuring the value of the Corporation's properties which are carried at fair value using assumptions based on market conditions, which are uncertain at this time. Additionally, due to the high uncertainty associated with the pandemic, lower weight can be applied to previous market evidence to inform fairness of opinions. Accordingly, the full long-term impact of COVID-19 on the valuation of the Corporation's properties is unknown. Furthermore, assumptions are required in assessing the collectability of any outstanding tenant receivable balances and the consideration of applying an allowance for doubtful accounts to these balances. In response to the spread of the virus, provincial governments have limited landlord's ability to evict tenants for the non-payment of rent. Government responses to the pandemic have resulted in the temporary closure of many businesses, which has had a significant impact on unemployment rates across Canada and may adversely impact resident's ability to pay rent, with the long-term impact being unknown at this time.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

New IFRSs, including IFRS 16 described below, which relate to accounting periods beginning on or after January 1, 2019 are not expected to have a significant effect on Mainstreet's 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 has concluded the adoption of IFRS 16 does not have material impact on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(000s of dollars)

Year ended September 30,	2020	2019
Balance, beginning of year	\$ 2,040,051	\$ 1,865,897
Additions related to acquisitions	90,182	129,389
Building improvements	16,771	18,792
Property held for Sale	(1,250)	–
Disposal	–	(935)
Change in fair value	37,211	26,908
Balance, end of year	\$ 2,182,965	\$ 2,040,051

The fair value of investment properties held by the Corporation as of September 30, 2020 and September 30, 2019, were determined through external valuations obtained from 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 the relevant locations. In addition, the Corporation has established an internal valuation model, which is based on the same assumptions and valuation techniques used by the external valuation professionals. The Corporation grouped its investment properties in each city by their types and geographic locations. Samples were selected in each group for independent appraisal. The appraised values of the samples selected were compared with their appraised values of the previous corresponding financial quarters. 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 September 30, 2020 and September 30, 2019. Properties are selected on a rotational basis and approximately 40% of the Corporation's portfolio is externally valued annually.

The fair value of Mainstreet's investment properties as of September 30, 2020, was determined by the following qualified appraisers:

Location	Name of Appraisers	Qualification	Firm
Vancouver/Lower Mainland (including, Abbotsford & Surrey)	James Glen	AACI, P.App.	Colliers International
Calgary (including, Cochrane & Lethbridge)	Mark Berestiansky Jamie Wingrowth	CPA CMA, AACI, P.App BBA	Colliers International
Edmonton (including, Fort. Saskatchewan)	Ryan Miller	AACI	Colliers International
Saskatoon	Mark Berestiansky Chase Hunter	CPA CMA, AACI, P.App B.Sc, AACI	Colliers International
Regina	Mark Berestiansky Chase Hunter	CPA CMA, AACI, P.App B.Sc, AACI	Colliers International

An analysis of sales considered to be similar to the subject properties has been completed. In arriving at an appropriate capitalization rate for the property, the Corporation has applied qualitative adjustments to the sales comparables. The average capitalization rates used in determining the fair value of investment properties are set out below:

Year ended September 30,	2020	2019
Surrey, BC	4.39%	4.19%
Abbotsford, BC	4.80%	4.66%
Calgary, Alberta	5.09%	4.85%
Edmonton, Alberta	5.67%	5.59%
Saskatoon, Saskatchewan	6.62%	6.64%
Regina, Saskatchewan	6.33%	6.08%
Investment properties	5.34%	5.20%

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 September 30, 2020

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 113,181	\$ 115,514	\$ 116,681	\$ 117,848	\$ 120,181
Capitalization rate						
-0.25%	5.09%	\$ 40,622	\$ 86,469	\$ 109,393	\$ 132,316	\$ 178,163
Cap rate used	5.34%	\$ (63,479)	\$ (19,778)	\$ 2,182,965	\$ 23,923	\$ 67,624
+0.25%	5.59%	\$ (158,268)	\$ (116,522)	\$ (95,648)	\$ (74,775)	\$ (33,029)

As at September 30, 2019

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 102,984	\$ 105,107	\$ 106,169	\$ 107,231	\$ 109,354
Capitalization rate						
-0.25%	4.95%	\$ 2,080,483	\$ 83,329	\$ 104,777	\$ 126,226	\$ 169,122
Cap rate used	5.20%	\$ (59,591)	\$ (18,757)	\$ 2,040,051	\$ 22,078	\$ 62,912
+0.25%	5.45%	\$ (150,438)	\$ (111,477)	\$ (91,996)	\$ (72,515)	\$ (33,554)

Investment properties with a fair value of \$2,010 million (September 30, 2019 – \$1,823 million) are pledged as security against the Corporation's mortgages payable.

For the year ended September 30, 2020, investment properties earned rental income (excluding ancillary revenue) of \$147.8 million (2019 – \$135.6 million).

For the year ended September 30, 2020, operating expenses relating to investment properties were \$56.7 million (2019 – \$51.3 million).

5. PROPERTY AND EQUIPMENT

The carrying amounts of property and equipment were as follows:

(000s of dollars)

	September 30, 2020			September 30, 2019		
	Cost	Accum. Deprec.	Net book value	Cost	Accum. Deprec.	Net book value
Land	\$ 2,397	\$ –	\$ 2,397	\$ 2,397	\$ –	\$ 2,397
Building	4,515	1,351	3,164	4,218	1,147	3,071
Equipment	299	175	124	253	149	104
Furniture	757	381	376	521	323	198
Vehicles	413	290	123	391	217	174
Computers	2,391	2,001	390	2,299	1,854	445
	\$ 10,772	\$ 4,198	\$ 6,574	\$ 10,079	\$ 3,690	\$ 6,389

The changes of the carrying amount of the property and equipment for the year ended September 30, 2020 were as follows:

(000s of dollars)

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Land	\$ 2,397	\$ –	\$ –	\$ –	\$ 2,397
Building	3,071	297	–	(204)	3,164
Equipment	104	46	–	(26)	124
Furniture	198	236	–	(58)	376
Vehicles	174	22	–	(73)	123
Computers	445	92	–	(147)	390
	\$ 6,389	\$ 693	\$ –	\$ (508)	\$ 6,574

The changes of the carrying amount of the property and equipment for the year ended September 30, 2019 were as follows:

(000s of dollars)

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Land	\$ 2,159	\$ 238	\$ –	\$ –	\$ 2,397
Building	2,125	1,124	–	(178)	3,071
Equipment	117	12	–	(25)	104
Furniture	218	27	–	(47)	198
Vehicles	70	188	(47)	(37)	174
Computers	544	75	–	(174)	445
	\$ 5,233	\$ 1,664	\$ (47)	\$ (461)	\$ 6,389

6. INTANGIBLE ASSETS

The carrying amount of the intangible asset was as follows:

(000s of dollars)

Year ended September 30,	2020	2019
Balance, beginning of year	\$ 1,145	\$ 143
Additions related to software development	617	1,002
Depreciation	(363)	–
Balance, end of year	\$ 1,399	\$ 1,145

7. PREPAID ASSETS

Prepaid assets comprise prepaid property tax, license expenses and utility deposits:

(000s of dollars)

Year ended September 30,	2020	2019
Prepaid expenses	\$ 1,937	\$ 2,028
Utility deposits	4	4
	\$ 1,941	\$ 2,032

8. TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts due from tenants and other receivables mainly comprise refundable mortgage commitment fees:

(000s of dollars)

Year ended September 30,	2020	2019
Trade receivables	\$ 779	\$ 887
Other receivables	529	991
	<u>\$ 1,308</u>	<u>\$ 1,878</u>

9. RESTRICTED CASH

Certain cash balances have restricted use are classified as restricted cash on the statement of financial position. Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties

(000s of dollars)

Year ended September 30,	2020	2019
Restricted refundable security deposits	\$ 3,249	\$ 3,339
Restricted cash	49	48
	<u>\$ 3,298</u>	<u>\$ 3,387</u>

10. INVENTORY

Inventories consists of renovation materials such as carpet, floor and appliance which the Corporation uses to upgrade its investment properties. Inventories are measured at the lower of cost and net realizable value. No amount of write-down of inventory was recognized for the years ended September 30, 2020 and 2019.

(000s of dollars)

Year ended September 30,	2020	2019
Inventory	\$ 994	\$ 963

11. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.72% (September 30, 2019 – 2.97%) per annum and are payable in monthly principal and interest installments totaling \$4.7 million (September 30, 2019 – \$4.3 million), maturing from 2020 to 2030 and are secured by specific charges against specific investment properties, having a fair value of \$2,010 million (September 30, 2019 – \$1,823 million).

(000s of dollars)

Year ended September 30,	2020	2019
Non-current	\$ 1,082,406	\$ 898,645
Current	97,115	121,078
	<u>\$ 1,179,521</u>	<u>\$ 1,019,723</u>

The following table reconciles the changes in cash flows from financing activities for long-term debt:

(000s of dollars)

Years ending September 30,	2020	2019
Opening balance	\$ 1,019,723	\$ 956,965
Financing of investment properties	308,914	83,863
Mortgage assumed to purchase investment properties	1,344	1,395
Mortgage principal repayments	(21,292)	(19,690)
Mortgage payments upon refinancing	(119,512)	(2,935)
Deferred financing cost	(9,656)	125
Closing balance	<u>\$ 1,179,521</u>	<u>\$ 1,019,723</u>

Estimated principal payments required to retire the mortgage obligations as of September 30, 2020 are as follows:

(000s of dollars)

Years ending September 30,	Amount
2021	\$ 101,569
2022	85,821
2023	111,458
2024	145,073
2025	76,908
Subsequent	686,749
	1,207,578
Deferred financing cost	(28,057)
	\$ 1,179,521

12. DEFERRED INCOME TAX

Income tax expense comprises:

(000s of dollars)

Year ended September 30,	2020	2019
Deferred Income Tax	\$ 11,691	\$ 7,231

No current or deferred income taxes were recognized in equity for the years ended September 30, 2020 and 2019. The income tax expense differs from the results that would be obtained by applying the combined federal and provincial income tax rate to income before income taxes. The decrease in statutory tax rate in 2020 is mainly due to a reduction in Alberta corporate tax rate. A further decrease in statutory tax rate in Alberta to 8% was not substantially enacted as of September 30, 2020. However, the updated statutory tax will be applied to the following quarter. Non-taxable income includes the non-taxable portion of capital gains. This difference results from the following:

(000s of dollars)

Year ended September 30,	2020	2019
Profit from operations before income tax	\$ 80,241	\$ 65,916
Statutory tax rate	26.10%	26.77%
Computed expected tax	20,943	17,646
Increase (decrease) in deferred tax liabilities for non-taxable portion of capital gain	(4,832)	(3,510)
Increase (decrease) in deferred tax liabilities for changes in future tax rate	(4,512)	(6,935)
Other	92	30
	\$ 11,691	\$ 7,231

As of September 30, 2020 and September 30, 2019, the Corporation does not have any unrecognized deductible temporary differences.

The deferred tax liabilities components and their changes were as follows:

(000s of dollars)

Deferred tax liabilities	September 30, 2019	Recognized in profit	September 30, 2020
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 162,931	\$ 11,238	\$ 174,169
Differences in tax and book carrying amounts of deferred financing cost	2,939	453	3,392
Deferred tax liabilities	\$ 165,870	\$ 11,691	\$ 177,561

13. TRADE AND OTHER PAYABLES

Trade and other payables comprise trade payables, accrued liabilities and deferred revenue:

(000s of dollars)

Year ended September 30,	2020	2019
Trade payables and accrued liabilities	\$ 8,396	\$ 7,687
Deferred revenue	990	1,224
	\$ 9,386	\$ 8,911

14. REFUNDABLE SECURITY DEPOSITS

Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties:

(000s of dollars)

Year ended September 30,	2020	2019
Refundable Security Deposit	\$ 4,754	\$ 4,774

15. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a 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 1.15%. 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 5, 2022. As at September 30, 2020, the Corporation has drawn \$Nil (September 30, 2019 – \$56.4 million) 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 September 30, 2020, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.49, respectively.

16. 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:

	Year ended September 30, 2020		Year ended September 30, 2019	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	9,381,730	\$ 26,597	8,832,305	\$ 24,215
Shares purchased for cancellation	(31,900)	(90)	–	–
Exercise of stock options	–	–	549,425	2,382
Issued and outstanding,				
– end of the period	9,349,830	\$ 26,507	9,381,730	\$ 26,597

All common shares have an equal right to dividends.

On May 28, 2020, Mainstreet obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 476,539 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2020. The current NCIB expires on May 31, 2021. The Corporation's previous NCIB expired on May 31, 2020.

During 2020 and 2019, the Corporation purchased and cancelled 31,900 (2019 – Nil) common shares at an average price of \$55.37 (2019 – Nil) per common shares pursuant to the NCIB for total consideration of \$1.8 million (2019 – Nil).

17. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

Year ended September 30,	2020	2019
Rental revenue	\$ 146,780	\$ 134,572
Other rental revenue (1)	990	1,070
	\$ 147,770	\$ 135,642

(1) Consists of revenues from parking and recovery of certain operating costs.

18. EXPENSES BY NATURE

The components of property operating expenses and general and administrative expenses are as follows:

(000s of dollars)

Year ended September 30,	2020	2019
Salaries, wages and employee benefits	\$ 23,138	\$ 21,165
Utility	17,046	16,159
Property tax	14,399	12,534
Repair and maintenance	4,858	5,140
Other	3,227	3,373
Insurance	3,076	2,183
Legal and other professional expenses	1,742	1,789
Advertising and Marketing	1,728	1,425
Total Operating and G&A expenses	\$ 69,214	\$ 63,768

19. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

Year ended September 30,	2020	2019
Mortgage interest	\$ 32,967	\$ 31,674
Amortization of deferred financing cost	3,894	3,097
Financing costs	\$ 36,861	\$ 34,771

20. PROFIT PER SHARE

Basic profit 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 per share is used.

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

(000s of dollars, except share and per share amounts)

Year ended September 30,	2020	2019
Numerator		
Net profit	\$ 68,550	\$ 58,685
Denominator		
For basic profit per share		
Weighted average shares	9,367,358	9,154,434
Dilutive effect of stock options	–	270,246
For diluted profit per share	9,367,358	9,424,680
Profit per share		
– basic	\$ 7.32	\$ 6.41
– diluted	\$ 7.32	\$ 6.23

21. STOCK OPTIONS

A summary of the Corporation's stock options as of September 30, 2020 and September 30, 2019, and changes during the period, are presented below:

Stock option	September 30, 2020		September 30, 2019	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning of the year	–	\$ –	822,000	\$ 5.51
Exercised	–	–	549,425	45.75
Cancelled	–	–	272,575	45.75
Outstanding and exercisable,				
– end of the year	–	\$ –	–	\$ –

During the fiscal year 2019, the Corporation issued 549,425 common shares pursuant to the exercise of outstanding stock options with an average weighted price of \$5.51 per common share. Also during the fiscal year 2019, four officers and directors of the Corporation jointly elected with the Corporation to receive a cash settlement in respect of a portion of their options to purchase 272,575 common shares on a cash settlement alternative basis whereby the Corporation paid to these officers and directors an amount of \$7.9 million representing the in-the-money value of the options on the dates of exercise (being the difference between the weighted average closing price of the common shares of the Corporation on the dates of exercise and the exercise prices of the options multiplied by the number of common shares exercised on such basis) and cancelled the stock options. The amounts paid to the officers and directors were recognized as a stock option settlement change in the statement of changes in equity.

As a result of the foregoing, the Corporation has no issued and outstanding stock options.

Since March 24, 2017, the Corporation was unable to grant any further options under the Corporation's stock option plan and as a result of the foregoing exercise of all remaining issued and outstanding stock options, the Corporation's stock option plan expired in accordance with the terms thereof.

22. 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 mortgage 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)

		September 30, 2020		September 30, 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,298	\$ 3,298	\$ 3,387	\$ 3,387
Cash and cash equivalents	Level 1	38,472	38,472	70	70
Trade and other receivables	Level 2	1,308	1,308	1,878	1,878
Financial liabilities:					
Bank indebtedness	Level 1	–	–	56,442	56,442
Mortgages payable	Level 2	1,179,521	1,259,831	1,019,723	1,057,210
Trade and other payables	Level 2	9,386	9,386	8,911	8,911
Refundable security deposits	Level 1	\$ 4,754	\$ 4,754	\$ 4,774	\$ 4,774

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

(000s of dollars)

		September 30, 2020		September 30, 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$ 2,182,965	\$ 2,182,965	\$ 2,040,051	\$ 2,040,051

23. 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.

Pandemic Risk

Since December 2019, the outbreak of the novel strain of coronavirus, specifically known as COVID-19, has resulted in all levels of governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Government and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic

conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods.

The Corporation, in coordination with its Board of Directors, will continue to monitor the situation and has taken and may take additional actions that alter its business operations as may be required by federal, provincial or local authorities or that the Corporation determines are in the best interests of its tenants, employees, suppliers, shareholders and other stakeholders. However, any such alterations or modifications could cause substantial interruption to the Corporation's business, any of which could have a material adverse effect on the Corporation's operations or financial results, and could include increased administration, maintenance and repair expenses related to property modifications, increased cleaning and maintenance of the property, increased communication and technology costs increased costs related to obtaining personal protection equipment for team members, temporary closures the Corporation's administrative offices and moves to remote working, temporary or long-term adverse impacts on the Corporation's supply chain and labour and the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Corporation's facilities. Management of the Company has enacted its COVID-19 business continuity plan and currently only has experienced minimal disruptions to its business operations.

In addition, there is an increased risk of loss to the Corporation due to the failure of its tenants to fulfill their obligations of required payments, resulting in increased bad debt expense and decreased revenue for the Corporation. To date, Canada has experienced unprecedented unemployment rates which could hamper a tenant's ability to pay rent. In addition, upon expiry of a lease, there can be no assurance that the lease will be renewed or the tenant replaced. Governments have implemented support programs which should mitigate this risk; however, the impact of the risk remains unknown.

There is also risk that the Corporation could be adversely affected due to market changes particularly in supply, interest rates and regional rent controls. With the COVID-19 pandemic, certain provincial governments have frozen rent increases indefinitely, which could adversely impact the Corporation's cash flows from operating activities. To date, we have seen a decrease in mortgage interest rates. This may provide an opportunity for the Corporation to obtain financing at lower interest rates when mortgages mature and need to be renewed. Lastly, as social distancing practices are maintained, the expected onset of new supply of rental housing may take longer as construction completion times are extended. This decreases the supply risk to the Corporation.

The real estate industry is highly capital intensive and accessing capital may be more difficult during a global health pandemic, including the COVID-19 pandemic. To date, governments have responded quickly to ensure capital remains available, and currently, Mainstreet still remains able to access capital.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Increases 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 Mainstreet's mortgages and fixed-rate mortgage financings 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.

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 September 30, 2020, rents due from current tenants amounted to \$574,000 (September 30, 2019 – \$501,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.8 million (September 30, 2019 – \$4.8 million) and provisions for bad debts of \$200,000 (September 30, 2019 – \$145,000).

The aging bands of rents due from current tenants as at September 30, 2020 and 2019 are outlined in the table below:

(000s of dollars)	Sep. 30, 2020	Sep. 30, 2019
0-30 days	\$ 420	\$ 290
31-60 days	81	69
61-90 days	7	22
Over 90 days	66	120
Total rents due from current tenants	\$ 574	\$ 501

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

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 as at September 30, 2020 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 101,569	85,821	111,458	145,073	763,657	\$ 1,207,578
Mortgage interest payable	32,854	29,130	26,732	23,124	65,954	177,794
Bank indebtedness	–	–	–	–	–	–
Trade and other payables	9,386	–	–	–	–	9,386
Refundable security deposits	\$ 4,754	–	–	–	–	\$ 4,754

The timing of cash outflows relating to financial liabilities as at September 30, 2019 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 124,182	96,914	94,124	106,264	616,640	\$ 1,038,124
Mortgage interest payable	30,861	26,935	23,300	20,504	49,960	151,560
Bank indebtedness	56,442	–	–	–	–	56,442
Trade and other payables	8,911	–	–	–	–	8,911
Refundable security deposits	\$ 4,774	–	–	–	–	\$ 4,774

24. 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 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 September 30, 2020, and September 30, 2019, no amounts have been recorded and none are required to be disclosed in the consolidated financial statements with respect to guarantees, contingencies and commitments.

25. RELATED PARTY TRANSACTIONS

- a) The President and Chief Executive Officer is paid a commission at commercial rates in his capacity as a licensed broker for certain property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in very limited circumstances, these commissions are paid by the selling third party or third parties to the transaction. The commissions received by the President and Chief Executive Officer during the year-ended September 30, 2020 amounted to \$221,756 (2019 – \$406,775). Each year the Chief Executive Officer is entitled to receive an annual performance bonus based upon pre-determined performance goals and discretionary bonus amounts determined by the board of directors. In making such determination, the board of directors takes in consideration the amount of commission paid to the Chief Executive Officer during each year, such that once determined, that portion of the annual performance bonus paid by the Corporation amounts to the difference between the amount of annual performance bonus determined by the board of directors, if any, less the amount of commissions paid to the Chief Executive Officer during that year. As a result, the actual portion of the discretionary bonus, if any, paid by the Corporation each year to the Chief Executive Officer will vary, depending on how much commission was paid to the Chief Executive Officer during that year.
- b) The Corporation paid legal and professional fees and reimbursements for the year-ended September 30, 2020 amounting to \$485,641 (2019 – \$374,077) to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2020, the amounts payable to the law firm were \$Nil (September 30, 2019 – \$5,623). These fees were incurred at amounts which in management’s opinion approximate fair market value that would be incurred by a third party law firm.

26. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, 2020, were:

Navjeet (Bob) Dhillon, President and Chief Executive Officer

Johnny C.S. Lam, Chief Operating Officer

Trina Cui, Chief Financial Officer

Sheena Keslick, Vice President, Operations

Anthony Lam, Assistant Chief Operating Officer

The remuneration of the Corporation’s key management personnel was as follows:

(000s of dollars)

Year ended September 30,	2020	2019
Short-term benefits	\$ 4,033	\$ 3,680

The remuneration paid by the Corporation to the Corporation’s key management personnel excludes the commissions received by the President and Chief Executive Officer during the year ended September 30, 2020 which amounted to \$221,756 (2019 – \$406,775).

Unless Mr. Dhillon’s employment is terminated for cause, as defined under the employment agreement, the Corporation shall, upon termination, or within two (2) years if he voluntarily resigns after a change of control or if he becomes permanently disabled:

- pay, in lieu of reasonable notice an amount equal to his monthly salary at the highest rate in effect during the twenty (24) months immediately preceding the date of termination multiplied by 36 months;
- cause all outstanding options to purchase shares of the Corporation granted to Mr. Dhillon pursuant to any stock option plan of the Corporation to vest and become exercisable;
- pay reasonable cost of financial, estate and career counseling and related expenses in connection with such termination to a maximum amount of \$10,000.

27. 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:

RENTAL OPERATIONS

(000s of dollars)

Year ended September 30,	2020	2019
BRITISH COLUMBIA		
Rental revenue	\$ 35,347	\$ 32,909
Other rental revenue	359	308
Ancillary revenue	612	614
Property operating expenses	9,623	9,357
Net operating income	26,695	24,474
Fair value gain	32,385	21,461
ALBERTA		
Rental revenue	\$ 81,827	\$ 74,890
Other rental revenue	605	739
Ancillary revenue	1,008	1,076
Property operating expenses	33,101	30,433
Net operating income	50,339	46,272
Fair value gain	2,415	6,615
SASKATCHEWAN		
Rental revenue	\$ 29,606	\$ 26,773
Other rental revenue	26	23
Ancillary revenue	380	281
Property operating expenses	14,013	11,515
Net operating income	15,999	15,562
Fair value gain (loss)	2,411	(1,168)
TOTAL		
Rental revenue	\$ 146,780	\$ 134,572
Other rental revenue	990	1,070
Ancillary revenue	2,000	1,971
Property operating expenses	56,737	51,305
Net operating income	93,033	86,308
Fair value gain	37,211	26,908
Unallocated revenue*	206	439
Unallocated expenses**	61,990	54,970
Profit for the period	\$ 68,550	\$ 58,685

* Unallocated revenue represents interest income, and other income.

** Unallocated expenses include general and administrative expenses, mortgage interest, financing cost, depreciation and deferred income taxes.

IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

Year ended September 30,	2020	2019
BRITISH COLUMBIA		
Investment properties	\$ 590,900	\$ 549,228
Property and equipment	38	51
Mortgages payable	244,254	237,631
Refundable security deposits	1,505	1,435
ALBERTA		
Investment properties	\$ 1,227,131	\$ 1,137,047
Property and equipment	6,471	6,279
Mortgages payable	681,929	597,738
Refundable security deposits	2,543	2,568
SASKATCHEWAN		
Investment properties	\$ 364,934	\$ 353,776
Property and equipment	65	59
Mortgages payable	253,338	184,354
Refundable security deposits	706	771
TOTAL		
Investment properties	\$ 2,182,965	\$ 2,040,051
Property and equipment	6,574	6,389
Mortgages payable	1,179,521	1,019,723
Refundable security deposits	4,754	4,774

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

(000s of dollars)

Year ended September 30,	2020	2019
BRITISH COLUMBIA	\$ 9,294	\$ 3,352
ALBERTA	\$ 89,520	\$ 88,936
SASKATCHEWAN	\$ 8,777	\$ 57,509
TOTAL	\$ 107,591	\$ 149,797

28. 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 September 30, 2020 amounted to \$2,020 million (September 30, 2019 – \$1,850 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:

(000s of dollars)

Year ended September 30,	2020	2019
Mortgages payable	\$ 1,179,521	\$ 1,019,723
Bank indebtedness	–	56,442
Total equity	840,582	773,708
Total capital	\$ 2,020,103	\$ 1,849,873

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 September 30, 2020 is approximately 52% (September 30, 2019 – 53%) which leaves a sufficient additional capacity for the Corporation to raise additional funds from refinancing before it reaches its internal target ratio of 70%.

The debt to fair value ratios were as follows:

(000s of dollars)

Year ended September 30,	2020	2019
Mortgages payable	\$ 1,179,521	\$ 1,019,723
Bank indebtedness	–	56,442
Cash and cash equivalents	(38,472)	(70)
Total debts	\$ 1,141,049	\$ 1,076,095
Investment properties	\$ 2,182,965	\$ 2,040,051
Debt to fair value ratio	52%	53%

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.

29 SUBSEQUENT EVENTS

Subsequent to year-end September 30, 2020, the Corporation also financed 3 maturing mortgages and 8 clear-title properties for \$43.1 million at an interest rate of 1.61%.

Subsequent to the year ended September 30, 2020, the Corporation acquired additional 91 residential units in the Provinces of British Columbia and Saskatchewan for a total consideration of \$9.8 million.

30. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on December 7, 2020.