

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	June 30, 2020	Sep. 30, 2019
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 2,093,196	\$ 2,040,051
Property and equipment	6,599	6,389
Intangible assets	1,390	1,145
Property held for sale	1,200	–
	<u>2,102,385</u>	<u>2,047,585</u>
Current assets		
Prepaid assets	3,036	2,032
Prepaid current income tax	110	110
Trade and other receivables	1,998	1,878
Restricted cash	3,309	3,387
Inventory	1,470	963
Cash and cash equivalents	20,798	70
	<u>30,721</u>	<u>8,440</u>
Total Assets	\$ 2,133,106	\$ 2,056,025
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	\$ 1,037,903	\$ 898,645
Deferred tax liabilities	162,489	165,870
	<u>1,200,392</u>	<u>1,064,515</u>
Current liabilities		
Mortgages payable [Note 5]	98,461	121,078
Trade and other payables	10,835	8,911
Refundable security deposits	4,750	4,774
Bank indebtedness [Note 6]	–	56,442
	<u>114,046</u>	<u>191,205</u>
Total Liabilities	1,314,438	1,255,720
Equity		
Share capital [Note 7]	26,507	26,597
Retained earnings	792,161	773,708
Total Equity	818,668	800,305
Total Liabilities and Equity	\$ 2,133,106	\$ 2,056,025

See accompanying notes to these interim condensed consolidated financial statements.

[Signed]

“Bob Dhillon”
Director
August 6, 2020

[Signed]

“Joe Amantea”
Director

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

Unaudited

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Nine months ended June 30, 2020	Nine months ended June 30, 2019
Rental revenue [Note 8]	\$ 36,972	\$ 34,273	\$ 109,882	\$ 99,665
Ancillary revenue	498	420	1,515	1,373
Total rental and ancillary revenue	37,470	34,693	111,397	101,038
Property operating expenses [Note 9]	13,959	13,366	42,894	38,762
Net operating income	23,511	21,327	68,503	62,276
Financing costs [Note 10]	9,152	8,891	27,487	25,823
General and administrative expenses [Note 9]	3,406	3,128	9,603	9,543
Depreciation	223	130	615	368
Interest income	(37)	(53)	(109)	(139)
Other income	–	(25)	–	(260)
	12,744	12,071	37,596	35,335
Profit before Fair value gain and income tax	10,767	9,256	30,907	26,941
Change in fair value [Note 4]	(2,527)	5,344	(14,159)	11,341
Profit before income tax	8,240	14,600	16,748	38,282
Deferred income tax expense	(2,633)	3,243	(3,381)	8,794
Net profit and total comprehensive income	\$ 10,873	\$ 11,357	\$ 20,129	\$ 29,488
Profit per share				
– basic [Note 11]	\$ 1.16	\$ 1.21	\$ 2.15	\$ 3.25
– diluted [Note 11]	\$ 1.16	\$ 1.21	\$ 2.15	\$ 3.12

See accompanying notes to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(\$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	(90)	–	(1,676)	(1,766)
Profit for the period	–	–	20,129	20,129
Balance, June 30, 2020	\$ 26,507	\$ –	\$ 792,161	\$ 818,668

See accompanying notes to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(\$000s of Canadian dollars)

Nine months ended June 30,	2020	2019
Cash obtained from (used in) operating activities		
Net profit	\$ 20,129	\$ 29,488
Adjustments for:		
Depreciation	615	368
Change in fair value	14,159	(11,341)
Deferred income tax expense	(3,381)	8,794
Financing costs [Note 10]	27,487	25,823
Deferred financing costs incurred	(11,254)	(2,974)
Interest paid on mortgages [Note 10]	(24,699)	(23,532)
Cash from operating activities before changes in non-cash working capital	23,056	26,626
Change in working capital		
Prepaid assets	(1,004)	(672)
Trade and other receivables	(120)	(350)
Inventory	(507)	175
Restricted cash	78	(321)
Trade and other payables	2,514	2,915
Refundable security deposits	(24)	372
Cash from operating activities	23,993	28,745
Financing activities		
Bank indebtedness	(56,442)	56,865
Financing of investment properties	246,712	83,863
Mortgage principal repayments	(15,686)	(14,530)
Mortgage payments upon refinancing	(107,264)	(2,935)
Exercise of stock options	–	(7,941)
Repurchase of shares	(1,766)	–
Cash from financing activities	65,554	115,322
Investing activities		
Purchase of and additions to investment properties [Note 4]	(67,749)	(141,176)
Purchase of and additions to property and equipment	(579)	(1,407)
Purchase of and additions to intangible assets	(491)	(773)
Proceeds from disposal	–	935
Cash used in investing activities	(68,819)	(142,421)
Net increase (decrease) in cash and cash equivalents	20,728	1,646
Cash and cash equivalents, beginning of period	70	384
Cash and cash equivalents, end of period	\$ 20,798	\$ 2,030
Cash and cash equivalents are comprised of:		
Cash	\$ –	\$ 151
Short-term deposits	20,798	1,879
	\$ 20,798	\$ 2,030

See accompanying notes to these interim condensed consolidated financial statements.

NOTES TO THE INTERIM 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, 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 interim 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, 2019.

b) Basis of presentation

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value. The interim 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 interim condensed 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) 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, 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 13;
- 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 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.

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. 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

Certain new IFRSs which are related to accounting periods beginning on or after January 1, 2019 are not expected to have a significant effect on the 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 concludes the adoption of IFRS 16 does not have material impact on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(000s of dollars)

	Nine months ended June 30, 2020	Year ended Sept. 30, 2019
Balance, beginning of year	\$ 2,040,051	\$ 1,865,897
Additions related to acquisitions	57,742	129,389
Building improvements	10,762	18,792
Disposal	–	(935)
Property held for sale	(1,200)	–
Change in fair value	(14,159)	26,908
Balance, end of period	\$ 2,093,196	\$ 2,040,051

The fair value of investment properties held by the Corporation as of June 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 June 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 average capitalization rates used in determining the fair value of investment properties are set out below:

	June 30, 2020	Sep. 30, 2019
Surrey, BC	4.23%	4.19%
Abbotsford, BC	4.72%	4.66%
Calgary, Alberta	4.83%	4.85%
Edmonton, Alberta	5.61%	5.59%
Saskatoon, Saskatchewan	6.69%	6.64%
Regina, Saskatchewan	6.18%	6.08%
Investment properties	5.22%	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 June 30, 2020

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 105,829	\$ 108,011	\$ 109,102	\$ 110,193	\$ 112,375
Capitalization rate						
-0.25%	4.97%	\$ 36,159	\$ 80,063	\$ 102,015	\$ 123,967	\$ 167,872
Cap rate used	5.22%	\$ (65,822)	\$ (24,020)	\$ 2,093,196	\$ 17,781	\$ 59,583
+0.25%	5.47%	\$ (158,480)	\$ (118,589)	\$ (98,644)	\$ (78,698)	\$ (38,807)

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%	\$ 40,432	\$ 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)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.80% (September 30, 2019 – 2.97%) per annum and are payable in monthly principal and interest installments totaling \$4.6 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 \$1,915 million (September 30, 2019 – \$1,823 million) has been provided as security for the mortgage payable.

(000s of dollars)

	June 30, 2020	Sep. 30, 2019
Non-current	\$ 1,037,903	\$ 898,645
Current	98,461	121,078
	\$ 1,136,364	\$ 1,019,723

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

(000s of dollars)

	June 30, 2020	Sep. 30, 2019
Opening balance	\$ 1,019,723	\$ 956,965
Financing of investment properties	246,712	83,863
Mortgage assumed to purchase investment properties	1,345	1,395
Mortgage principal repayments	(15,686)	(19,690)
Mortgage payments upon refinancing	(107,264)	(2,935)
Deferred financing cost	(8,466)	125
Closing Balance	\$ 1,136,364	\$ 1,019,723

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

(000s of dollars)

12 months ended June 30,	Amount
2021	\$ 102,783
2022	95,105
2023	24,133
2024	231,210
2025	76,101
Subsequent	633,899
	1,163,231
Deferred financing cost	(26,867)
	\$ 1,136,364

6. 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. Security for the facility includes 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 5, 2022. As at June 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 June 30, 2020, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.44, respectively.

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, 2020		Year ended September 30, 2019	
	Number of common shares	Amount	Number of common shares	Amount
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 the three and nine months ended June 30, 2020 and 2019, the Corporation purchased and cancelled 31,900 (2019 – Nil) common shares at an average price of \$55.37 (2019 – Nil) under the NCIB for total consideration of \$1.8 million (2019 – NIL).

8. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Rental revenue ⁽¹⁾	\$ 36,763	\$ 34,002	\$ 109,124	\$ 98,877
Other rental revenue ⁽²⁾	209	271	758	788
	\$ 36,972	\$ 34,273	\$ 109,882	\$ 99,665

(1) \$215,000 is received from government subsidies.

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

9. EXPENSES BY NATURE

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

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Salaries, wages and employee benefits	\$ 5,793	\$ 5,348	\$ 17,094	\$ 15,530
Utilities	4,190	4,430	13,509	13,099
Property tax	3,582	3,297	10,476	9,439
Repair and maintenance	1,259	1,360	3,892	3,826
Other	712	742	2,414	2,646
Insurance	787	546	2,284	1,607
Legal and other professional expenses	522	389	1,352	1,151
Advertising and Marketing	520	382	1,476	1,007
Total Operating and G&A expenses	\$ 17,365	\$ 16,494	\$ 52,497	\$ 48,305

10. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Mortgage interest	\$ 8,150	\$ 8,098	\$ 24,699	\$ 23,532
Amortization of deferred financing cost	1,002	793	2,788	2,291
Financing costs	\$ 9,152	\$ 8,891	\$ 27,487	\$ 25,823

11. 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)

	Three months ended June 30		Nine months ended June 30	
	2020	2019	2020	2019
Numerator				
Net profit	\$ 10,873	\$ 11,357	\$ 20,129	\$ 29,488
Denominator				
For basic profit per share				
Weighted average shares	9,356,177	9,381,730	9,373,244	9,077,836
Dilutive effect of stock options	–	–	–	361,318
For diluted profit per share	9,356,177	9,381,730	9,373,244	9,439,154
Profit per share				
– basic	\$ 1.16	\$ 1.21	\$ 2.15	\$ 3.25
– diluted	\$ 1.16	\$ 1.21	\$ 2.15	\$ 3.12

12. STOCK OPTION PLAN

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

Stock option	June 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 average 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.

13 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)

		June 30, 2020		September 30, 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,309	\$ 3,309	\$ 3,387	\$ 3,387
Cash and cash equivalents	Level 1	20,798	20,798	70	70
Trade and other receivables	Level 2	1,998	1,998	1,878	1,878
Financial liabilities:					
Bank indebtedness	Level 1	–	–	56,442	56,442
Mortgages payable	Level 2	1,136,364	1,222,168	1,019,723	1,057,210
Trade and other payables	Level 2	10,835	10,835	8,911	8,911
Refundable security deposits	Level 1	\$ 4,750	\$ 4,750	\$ 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)

		June 30, 2020		September 30, 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$2,093,196	\$2,093,196	\$2,040,051	\$2,040,051

14. 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 pandemic risk, interest rates risk, 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. Mortgages totaling \$1.6 million are subject to renewal before the financial year ending September 30, 2020. 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 in the current economic environment. 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, 2020, rents due from current tenants amounted to \$632,000 (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 \$350,000 (September 30, 2019 – \$145,000).

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

(000s of dollars)

	June 30, 2020	Sep. 30, 2019
0-30 days	\$ 283	\$ 290
31-60 days	97	69
61-90 days	52	22
Over 90 days	200	120
Total rents due from current tenants	\$ 632	\$ 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 June 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	\$ 102,783	95,105	24,133	231,210	710,000	\$1,163,231
Mortgage interest payable	32,514	28,701	25,880	25,200	65,722	178,017
Bank indebtedness	-	-	-	-	-	-
Trade and other payables	10,835	-	-	-	-	10,835
Refundable security deposits	\$ 4,750	-	-	-	-	\$ 4,750

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

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

16. 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 parties to the transaction. The commissions received by the President and Chief Executive Officer during the three and nine months ended June 30, 2020 amounted to \$9,524 (2019 – \$151,090) and \$69,257 (2019 – \$300,426). 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 fees, professional fees and reimbursements for the three and nine months ended June 30, 2020 amounting to \$65,892 (2019 – \$145,801) and \$389,810 (2019 – \$337,441) to a law firm of which a director and officer of the Corporation is a senior associate. As at June 30, 2020, the amounts payable to the law firm were \$46,952 (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.

17. 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,	
	2020	2019	2020	2019
BRITISH COLUMBIA				
Rental revenue	\$ 8,908	\$ 8,299	\$ 26,346	\$ 24,471
Other rental revenue	90	80	264	225
Ancillary rental income	159	141	464	439
Property operating expenses	2,417	2,501	7,592	7,284
Net operating income	6,740	6,019	19,482	17,851
Fair value gain	1,447	(5,436)	12,048	18,513
ALBERTA				
Rental revenue	\$ 20,491	\$ 18,883	\$ 60,594	\$ 54,972
Other rental revenue	112	186	475	546
Ancillary rental income	249	229	763	756
Property operating expenses	8,073	7,796	24,710	22,937
Net operating income	12,779	11,502	37,122	33,337
Fair value loss	(1,384)	10,758	(21,866)	(6,963)
SASKATCHEWAN				
Rental revenue	\$ 7,364	\$ 6,820	\$ 22,184	\$ 19,434
Other rental revenue	7	5	19	17
Ancillary rental income	90	50	288	178
Property operating expenses	3,469	3,069	10,592	8,541
Net operating income	3,992	3,806	11,899	11,088
Fair value loss	(2,590)	22	(4,341)	(209)
TOTAL				
Rental revenue	\$ 36,763	\$ 34,002	\$ 109,124	\$ 98,877
Other rental revenue	209	271	758	788
Ancillary rental income	498	420	1,515	1,373
Property operating expenses	13,959	13,366	42,894	38,762
Net operating income	23,511	21,327	68,503	62,276
Change in fair value	(2,527)	5,344	(14,159)	11,341
Unallocated revenue*	37	78	109	399
Unallocated expenses**	10,148	15,392	34,324	44,528
Profit for the period	\$ 10,873	\$ 11,357	\$ 20,129	\$ 29,488

* Unallocated revenue represents interest income and other income.

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

(000s of dollars)

IDENTIFIABLE ASSETS AND LIABILITIES

	June 30, 2020	Sept. 30, 2019
BRITISH COLUMBIA		
Investment properties	\$ 569,890	\$ 549,228
Property and equipment	43	51
Mortgages payable	255,888	237,631
Refundable security deposits	1,489	1,435
ALBERTA		
Investment properties	\$ 1,167,709	\$ 1,137,047
Property and equipment	6,490	6,279
Mortgages payable	662,683	597,738
Refundable security deposits	2,532	2,568
SASKATCHEWAN		
Investment properties	\$ 355,597	\$ 353,776
Property and equipment	66	59
Mortgages payable	217,793	184,354
Refundable security deposits	729	771
TOTAL		
Investment properties	\$ 2,093,196	\$ 2,040,051
Property and equipment	6,599	6,389
Mortgages payable	1,136,364	1,019,723
Refundable security deposits	4,750	4,774

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

	Nine months ended June 30, 2020	Year ended Sept. 30, 2019
BRITISH COLUMBIA	\$ 8,620	\$ 3,352
ALBERTA	54,276	88,936
SASKATCHEWAN	6,187	57,509
TOTAL	\$ 69,083	\$ 149,797

18. 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, 2020 amounted to \$1,955 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)

	Jun. 30, 2020	Sep. 30, 2019
Mortgages payable	\$ 1,136,364	\$ 1,019,723
Bank indebtedness	–	56,442
Total equity	818,668	773,708
Total capital	\$ 1,955,032	\$ 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 June 30, 2020 is approximately 54% (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)

	Jun. 30, 2020	Sep. 30, 2019
Mortgages payable	\$ 1,136,364	\$ 1,019,723
Bank indebtedness	–	56,442
Cash and cash equivalents	\$ 20,798	\$ 70
Total debts	\$ 1,115,566	\$ 1,076,095
Investment properties	\$ 2,093,196	\$ 2,040,051
Debt to fair value ratio	53%	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.

19. SUBSEQUENT EVENTS

Subsequent to June 30, 2020, the Corporation also financed 1 maturing mortgage and 7 clear title properties raising additional \$62.2 million at an interest rate of 1.65%.

Subsequent to June 30, 2020, the Corporation acquired an additional 204 residential units in the Province of Alberta for a total consideration of \$32.2 million.

20. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on August 6, 2020.