

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 6, 2021

[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, 2021 and 2020, 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, 2021 and 2020;
- 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 significant accounting policies and other explanatory information.

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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended September 30, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties</p> <p><i>Refer to note 2 – Significant accounting policies and note 3 – Investment properties to the consolidated financial statements.</i></p> <p>The Company's total investment properties as at September 30, 2021, were valued at \$2.6 billion. Investment properties are initially measured at cost and subsequently recorded at fair value.</p> <p>The fair value is determined through internal and external valuation processes. External valuations are obtained from independent qualified real estate appraisers (management's experts). Internal valuations are based on the same assumptions and valuation techniques used by management's experts. The Company groups its investment properties in each city by their types and geographic locations and selects samples in each group for independent appraisal. The fair values of the samples selected are compared with their carrying values.</p> <p>The fair value of investment properties is determined using the direct capitalization method, which requires that an estimated forecasted net operating income (NOI) be divided by a capitalization rate (cap rate). The model requires certain key assumptions and estimates, which include cap rates and NOI for the property. Critical judgments were made by management in respect of these key assumptions and estimates.</p>	<p>Our approach to addressing the matter included the following procedures:</p> <ul style="list-style-type: none">• Used the work of management's experts in performing the procedures to evaluate the reasonableness of the fair value of investment properties. As a basis for using this work, the management experts' competence, capability and objectivity were evaluated, their work performed was understood, and the appropriateness of the experts' work as audit evidence was evaluated by considering the relevance and reasonableness of the assumptions and methods and findings.• For a sample of investment properties, tested how management determined the fair value, which included the following:<ul style="list-style-type: none">– Evaluated the appropriateness of the method used.– Tested the underlying data used in the model.– Evaluated the reasonableness of key assumptions used in determining the grouping of investment properties and inspected management's appraisal schedule to assess the coverage of appraisals across each grouping throughout the year.



We considered this a key audit matter due to the critical judgments required by management, including the use of management's experts, in determining the fair values of the investment properties and the high degree of complexity in assessing audit evidence related to the key assumptions made by management. In addition, the audit effort required the use of professionals with specialized skill and knowledge in the field of real estate valuations.

- Evaluated the reasonableness of cap rates by comparing them to external market and industry data.
- Compared the NOI used in the model to accounting records and evaluated as applicable whether the forecasted NOI is reasonable considering (i) the current and past leasing activity of the investment properties; (ii) the comparability with external market and industry data; and (iii) whether this assumption was aligned with evidence obtained in other areas of the audit.
- Professionals with specialized skill and knowledge in the field of real estate valuations further assisted us in assessing the cap rates by (i) comparing them to externally available market data; and (ii) evaluating whether the allocation of cap rates to investment properties is reasonable based on location, current leases in place and the type of investment property.

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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ashley Yanke.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
December 6, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

Year Ended September 30,	2021	2020
Assets		
Non-current assets		
Investment properties [Note 3]	\$ 2,616,154	\$ 2,182,965
Property and equipment [Note 4]	6,765	6,574
Intangible assets [Note 5]	1,193	1,399
	2,624,112	2,190,938
Current assets		
Property held for sale [Note 6]	22,292	1,250
Prepaid assets [Note 7]	2,092	1,941
Prepaid current income tax	110	110
Trade and other receivables [Note 8]	1,195	1,308
Restricted cash [Note 9]	3,645	3,298
Inventory [Note 10]	1,899	994
Cash and cash equivalents	19,224	38,472
	50,457	47,373
Total Assets	\$ 2,674,569	\$ 2,238,311
Liabilities		
Non-current liabilities		
Mortgages payable [Note 11]	\$ 1,274,762	\$ 1,082,406
Deferred tax liabilities [Note 12]	210,929	177,561
	1,485,691	1,259,967
Current liabilities		
Mortgages payable [Note 11]	82,415	97,115
Trade and other payables [Note 13]	8,767	9,386
Refundable security deposits [Note 14]	5,387	4,754
	96,569	111,255
Total Liabilities	1,582,260	1,371,222
Equity		
Share capital [Note 16]	26,494	26,507
Retained earnings	1,065,815	840,582
Total Equity	1,092,309	867,089
Total Liabilities and Equity	\$ 2,674,569	\$ 2,238,311

See accompanying notes to these consolidated financial statements.

[Signed]

[Signed]

"Bob Dhillon"
Director

"Joe Amantea"
Director

December 6, 2021

CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

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

Year Ended September 30,	2021	2020
Rental revenue [Note 17]	\$ 157,742	\$ 147,770
Ancillary revenue	2,183	2,000
Total rental and ancillary revenue	159,925	149,770
Property operating expenses [Note 18]	62,077	56,737
Net operating income	97,848	93,033
Financing costs [Note 19]	38,343	36,861
General and administrative expenses [Note 18]	12,240	12,477
Depreciation	905	871
Interest income	(426)	(206)
Profit before Fair value gain and income tax	46,786	43,030
Change in fair value [Note 3]	212,003	37,211
Gain from disposal of assets	113	–
Profit before income tax	258,902	80,241
Deferred income tax expense (recovery) [Note 12]	33,368	11,691
Net profit and total comprehensive income	\$ 225,534	\$ 68,550
Profit per share		
– basic and fully diluted [Note 20]	\$ 24.13	\$ 7.32

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$000s of Canadian dollars)

		Share Capital	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2019	\$	26,597	\$ 773,708	\$ 800,305
Shares purchased for cancellation		(90)	(1,676)	(1,766)
Profit for the period		–	68,550	68,550
Balance, September 30, 2020	\$	26,507	\$ 840,582	\$ 867,089
Shares purchased for cancellation [Note 16]		(13)	(301)	(314)
Profit for the period		–	225,534	225,534
Balance, September 30, 2021	\$	26,494	\$ 1,065,815	\$ 1,092,309

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s of Canadian dollars)

Year Ended September 30,	2021	2020
Cash obtained from (used in) operating activities		
Net profit	\$ 225,685	\$ 68,550
Adjustments for:		
Depreciation	905	871
Change in fair value [Note 3]	(212,003)	(37,211)
Deferred income tax expense [Note 12]	33,368	11,691
Gain from disposal of assets	(113)	–
Financing costs [Note 19]	38,343	36,861
Deferred financing costs incurred	(15,015)	(13,550)
Interest paid on mortgages [Note 19]	(33,477)	(32,967)
Cash from operating activities before changes in non-cash working capital	37,542	34,245
Change in working capital		
Prepaid assets	(151)	92
Trade and other receivables	113	570
Inventory	(905)	(31)
Restricted cash	(347)	89
Trade and other payables	(1,276)	508
Refundable security deposits	633	(20)
Cash from operating activities	35,609	35,453
Financing activities		
Bank indebtedness	–	(56,442)
Financing of investment properties	291,797	308,914
Mortgage principal repayments	(24,426)	(21,292)
Mortgage payments upon refinancing	(81,510)	(119,512)
Repurchase of shares	(314)	(1,766)
Cash from financing activities	185,547	109,902
Investing activities		
Purchase of and additions to investment properties [Note 3]	(218,586)	(105,643)
Purchase of and additions to property and equipment [Note 4]	(702)	(693)
Purchase of and additions to intangible assets [Note 5]	(181)	(617)
Proceeds from disposal	1,240	–
Purchase of Property held for sale	(22,175)	–
Cash used in investing activities	(240,404)	(106,953)
Net (decrease) increase in cash and cash equivalents	(19,248)	38,402
Cash and cash equivalents, beginning of period	38,472	70
Cash and cash equivalents, end of period	\$ 19,224	\$ 38,472
Cash and cash equivalents are comprised of:		
Short-term deposits	\$ 19,224	\$ 38,472

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, 2021 and 2020

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 an estimate of 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, 2021.

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) Current assets held for sale

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 a current asset held for sale if the disposal is expected to take place within one year of the acquisition. Assets held for sale are valued at the lower of their carrying amount and fair value less costs to sell, unless they are investment properties accounted for in accordance with the fair value model, in which case they remain at fair value. 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% – 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 other than equity instruments

Under IFRS 9, Financial assets other than equity instruments 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	Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest.	Measured at amortized cost using the effective interest rate method less any expected credit loss. (See footnote 1 and 2).
FVTPL	Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial assets.	Measured at fair value with gains or losses recognized in profit or loss.
FVTOCI	Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest.	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 cost or FVTPL. Currently, Mainstreet carries all non-derivative financial liabilities at amortized cost. Derivative financial liabilities, if any, are measured at FVTPL.:

Classification – IFRS 9	Definition	Measurement – IFRS 9
Amortized cost	If a financial liability is not held-for-trading, a derivative, or designated as FVTPL on initial recognition then it is measured at amortized cost. The classification of a financial liability is irrevocable.	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:

<u>Financial liabilities</u>	<u>Classification – IFRS 9</u>
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 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 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 3 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. Please refer to Note 21;
- 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. Although these impacts appear to be slowly lessening over time, there still remains uncertainty associated with the unprecedented nature of the pandemic, which uncertainty may impact certain of the Corporation's significant assumptions. 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. Given the uncertainty which has existed, some of which still remains, the full long-term impact of COVID-19 on the valuation of the Corporation's properties may not be completely known at this time. Further, due to the previous high uncertainty associated with the pandemic, lower weight can be applied to previous market evidence to inform fairness of opinions. Assumptions are also required in assessing the collectability of any outstanding tenant rent receivable balances and the consideration of applying an allowance for doubtful accounts to these balances. As government financial supports, which have assisted the Corporation's tenants with their essential needs such as rental payments throughout the pandemic, begin to be reduced or eliminated, the Corporation anticipates that it may see an increase in its bad debt expense and be exposed to an increased credit risk.

3. Investment properties

(000s of dollars)

Year ended September 30,	2021	2020
Balance, beginning of year	\$ 2,182,965	\$ 2,040,051
Additions related to acquisitions	219,055	90,182
Building improvements	24,423	16,771
Property held for Sale	(22,292)	(1,250)
Change in fair value	212,003	37,211
Balance, end of year	\$ 2,616,154	\$ 2,182,965

The fair value of investment properties held by the Corporation as of September 30, 2021 and September 30, 2020, 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 groups its investment properties in each city by their types and geographic locations. Samples are selected in each group for independent appraisal. The appraised values of the samples selected are 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, 2021 and September 30, 2020. Properties are selected on a rotational basis and approximately 40% of the Corporation's portfolio is externally valued annually. For the year ended September 30, 2021, a fair value gain of \$212.0 million, including \$57 million in Q4 2021, was recorded on the financial statement as a result of changes in the fair value of investment properties based on most recent market conditions in the reporting periods.

The fair value of Mainstreet's investment properties as of September 30, 2021, was determined by the following qualified appraisers:

Location	Name of Appraisers	Qualification	Firm
British Columbia (including Lower Mainland, Vancouver Island, and Okanagan)	Chris Marlyn Sean Bliss	AACI, P.App, MRICS AACI, P.App	CBRE Limited
Calgary (including Airdrie, Cochrane & Lethbridge)	Chris Marlyn Sean Bliss	AACI, P.App, MRICS AACI, P.App	CBRE Limited
Edmonton (including Fort. Saskatchewan)	Chris Marlyn Sean Bliss	AACI, P.App, MRICS AACI, P.App	CBRE Limited
Saskatoon	Chris Marlyn Sean Bliss	AACI, P.App, MRICS AACI, P.App	CBRE Limited
Regina	Chris Marlyn Sean Bliss	AACI, P.App, MRICS AACI, P.App	CBRE Limited

In arriving at an appropriate capitalization rate for each property, the Corporation has applied qualitative adjustments to the recent sales of comparable properties in a similar market. The average capitalization rates used in determining the fair value of investment properties are set out below:

Year ended September 30,	2021	2020
Surrey, BC	3.29%	4.39%
Abbotsford, BC	3.68%	4.80%
Calgary, AB	4.87%	5.09%
Edmonton, AB	5.46%	5.67%
Saskatoon, SK	5.84%	6.62%
Regina, SK	5.57%	6.33%
Winnipeg, MB	5.79%	–
Investment properties	4.69%	5.34%

The Corporation uses the direct capitalization method to determine a fair value, which requires that an estimated forecasted net operating income ("NOI") be divided by a capitalization rate ("Cap Rate"). 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, 2021

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 118,919	\$ 121,371	\$ 122,597	\$ 123,823	\$ 126,275
Capitalization rate						
-0.25%	4.44%	\$ 62,204	\$ 117,428	\$ 145,040	\$ 172,652	\$ 227,876
Cap rate used	4.69%	\$ (80,566)	\$ (28,286)	\$ 2,616,154	\$ 23,995	\$ 76,275
+0.25%	4.94%	\$ (208,885)	\$ (159,251)	\$ (134,433)	\$ (109,616)	\$ (59,982)

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)

Investment properties with a fair value of \$2,335 million (September 30, 2020 – \$2,010 million) are pledged as security against the Corporation's mortgages payable.

For the year ended September 30, 2021, investment properties earned rental income (excluding ancillary revenue) of \$157.8 million (2020 – \$147.8 million).

For the year ended September 30, 2021, operating expenses relating to investment properties were \$62.1 million (2020 – \$56.7 million).

4. PROPERTY AND EQUIPMENT

The carrying amounts of property and equipment were as follows:

(000s of dollars)

	September 30, 2021			September 30, 2020		
	Cost	Accum. Deprec.	Net book value	Cost	Accum. Deprec.	Net book value
Land	\$ 2,397	\$ –	\$ 2,397	\$ 2,397	\$ –	\$ 2,397
Building	4,777	1,546	3,231	4,515	1,351	3,164
Equipment	402	206	196	299	175	124
Furniture	940	480	460	757	381	376
Vehicles	445	337	108	413	290	123
Computers	2,506	2,133	373	2,391	2,001	390
	\$ 11,467	\$ 4,702	\$ 6,765	\$ 10,772	\$ 4,198	\$ 6,574

The changes of the carrying amount of the property and equipment for the year ended September 30, 2021 were as follows:

(000s of dollars)

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Land	\$ 2,397	\$ –	\$ –	\$ –	\$ 2,397
Building	3,164	262	–	(195)	3,231
Equipment	124	103	–	(31)	196
Furniture	376	183	–	(99)	460
Vehicles	123	54	(22)	(47)	108
Computers	390	115	–	(132)	373
	\$ 6,574	\$ 718	\$ (7)	\$ (518)	\$ 6,765

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

5. INTANGIBLE ASSETS

The carrying amount of the intangible asset was as follows:

(000s of dollars)

Year ended September 30,	2021	2020
Balance, beginning of year	\$ 1,399	\$ 1,145
Additions related to software development	181	617
Depreciation	(387)	(363)
Balance, end of year	\$ 1,193	\$ 1,399

6. PROPERTY HELD FOR SALE

During the year ended September 30, 2021, the Corporation acquired a property with 136 units for resale purposes in Calgary, Alberta. The Corporation has sold 2 units as at September 30, 2021. Consequently, the asset is presented within the non-current asset section. The Corporation expects to dispose of the remaining units within the next 12 months.

7. PREPAID ASSETS

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

(000s of dollars)

Year ended September 30,	2021	2020
Prepaid expenses	\$ 2,088	\$ 1,937
Utility deposits	4	4
	\$ 2,092	\$ 1,941

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,	2021	2020
Trade receivables	\$ 772	\$ 779
Other receivables	423	529
	\$ 1,195	\$ 1,308

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,	2021	2020
Restricted refundable security deposits	\$ 3,596	\$ 3,249
Restricted cash	49	49
	\$ 3,645	\$ 3,298

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, 2021 and 2020:

(000s of dollars)

Year ended September 30,	2021	2020
Inventory	\$ 1,899	\$ 994

11. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.52% (September 30, 2020 – 2.72%) per annum and are payable in monthly principal and interest installments totaling \$5.2 million (September 30, 2020 – \$4.7 million), maturing from 2021 to 2031 and are secured by specific charges against specific investment properties, having a fair value of \$2,335 million (September 30, 2020 – \$2,010 million).

(000s of dollars)

Year ended September 30,	2021	2020
Non-current	\$ 1,274,762	\$ 1,082,406
Current	82,415	97,115
	\$ 1,357,177	\$ 1,179,521

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

(000s of dollars)

Years ending September 30,	2021	2020
Opening balance	\$ 1,179,521	\$ 1,019,723
Financing of investment properties	291,797	308,914
Mortgage assumed to purchase investment properties	1,943	1,344
Mortgage principal repayments	(24,426)	(21,292)
Mortgage payments upon refinancing	(81,510)	(119,512)
Deferred financing cost	(10,148)	(9,656)
Closing balance	\$ 1,357,177	\$ 1,179,521

Estimated principal payments required to retire the mortgage obligations as of September 30, 2021 are as follows:

(000s of dollars)

Years ending September 30,	Amount
2022	\$ 87,973
2023	116,455
2024	150,130
2025	82,124
2026	262,816
Subsequent	695,884
	1,395,382
Deferred financing cost	(38,205)
	\$ 1,357,177

12. DEFERRED INCOME TAX

Income tax expense comprises:

(000s of dollars)

Year ended September 30,	2021	2020
Deferred Income Tax	\$ 33,368	\$ 11,691

No current or deferred income taxes were recognized in equity for the years ended September 30, 2021 and 2020. 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 2021 is mainly due to a reduction in the Alberta corporate tax rate.

Non-taxable income includes the non-taxable portion of capital gains. This difference results from the following:

(000s of dollars)

Year ended September 30,	2021	2020
Profit from operations before income tax	\$ 258,902	\$ 80,241
Statutory tax rate	24.67%	26.10%
Computed expected tax	63,871	20,943
Increase (decrease) in deferred tax liabilities for non-taxable portion of capital gain	(26,243)	(4,832)
Increase (decrease) in deferred tax liabilities for changes in future tax rate	(4,020)	(4,512)
Other	(240)	92
	\$ 33,368	\$ 11,691

As of September 30, 2021, and September 30, 2020, 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, 2020	Recognized in profit	September 30, 2021
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 174,169	\$ 32,694	\$ 206,863
Differences in tax and book carrying amounts of deferred financing cost	3,392	674	4,066
Deferred tax liabilities	\$ 177,561	\$ 33,368	\$ 210,929

(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,	2021	2020
Trade payables and accrued liabilities	\$ 7,491	\$ 8,396
Deferred revenue	1,276	990
	\$ 8,767	\$ 9,386

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,	2021		2020	
Refundable Security Deposit	\$	5,387	\$	4,754

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, 2021, the Corporation has drawn \$Nil (September 30, 2020 – \$Nil) against this credit facility.

Additionally, in 2021, the Corporation entered into a \$15 million revolving credit facility with a third-party financial institution, which carries an interest rate equal to the prime rate. As at September 30, 2021, the Corporation has drawn \$Nil against this credit facility.

Both facilities contain 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, 2021, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% 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, 2021		Year ended September 30, 2020	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	9,349,830	\$ 26,507	9,381,730	\$ 26,597
Shares purchased for cancellation	(4,612)	(13)	(31,900)	(90)
Issued and outstanding,				
– end of the period	9,345,218	\$ 26,494	9,349,830	\$ 26,507

All common shares have an equal right to dividends.

On May 28, 2021, Mainstreet obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 476,008 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2021. The current NCIB expires on May 31, 2022. The Corporation's previous NCIB expired on May 31, 2021.

During 2021 and 2020, the Corporation purchased and cancelled 4,612 (2020 – 31,900) common shares at an average price of \$68.10 (2020 – \$55.37) per common share under the NCIB.

Given the discount between its current trading share price and net asset value ("NAV"), Management believes that the acquisition of its common shares for cancellation is in the best interest of Mainstreet, as it returns capital to shareholders in a tax-efficient manner that is accretive to NAV. Mainstreet will continue to assess on an ongoing basis whether purchases of its common shares is warranted.

17. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

Year ended September 30,	2021	2020
Rental revenue	\$ 156,696	\$ 146,780
Other rental revenue (1)	1,046	990
	<u>\$ 157,742</u>	<u>\$ 147,770</u>

(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,	2021	2020
Salaries, wages and employee benefits	\$ 23,875	\$ 23,138
Utility	18,808	17,046
Property tax	15,552	14,399
Repair and maintenance	5,181	4,858
Other	3,085	3,227
Insurance	4,689	3,076
Legal and other professional expenses	1,657	1,742
Advertising and Marketing	1,470	1,728
Total Operating and G&A expenses	<u>\$ 74,317</u>	<u>\$ 69,214</u>

19. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

Year ended September 30,	2021	2020
Mortgage interest	\$ 33,477	\$ 32,968
Amortization of deferred financing cost	4,866	3,893
Financing costs	<u>\$ 38,343</u>	<u>\$ 36,861</u>

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,	2021	2020
Numerator		
Net profit	\$ 225,534	\$ 68,550
Denominator		
For basic profit per share		
Weighted average shares	9,345,350	9,367,358
Dilutive effect of stock options	–	–
For diluted profit per share	9,345,350	9,367,358
Profit per share		
– basic	\$ 24.13	\$ 7.32
– diluted	\$ 24.13	\$ 7.32

21. 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, 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, 2021		September 30, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 2	\$ 3,645	\$ 3,645	\$ 3,298	\$ 3,298
Cash and cash equivalents	Level 2	19,224	19,224	38,472	38,472
Trade and other receivables	Level 2	1,195	1,195	1,308	1,308
Financial liabilities:					
Mortgages payable	Level 2	1,357,177	1,381,878	1,179,521	1,259,831
Trade and other payables	Level 2	8,767	8,767	9,386	9,386
Refundable security deposits	Level 1	\$ 5,387	\$ 5,387	\$ 4,754	\$ 4,754

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

		September 30, 2021		September 30, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$ 2,616,154	\$ 2,616,154	\$ 2,182,965	\$ 2,182,965

22. 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

Beginning in 2020, the COVID-19 pandemic has had a substantial impact on the economy. Although these impacts appear to be slowly lessening over time, there still remains uncertainty associated with the unprecedented nature of the pandemic. Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, have a materially adverse impact on the Corporation's tenants and/or debt and equity markets, both of which could materially adversely affect the Corporation's operations and financial performance. Although significant progress has been made in vaccinating the Canadian population and many restrictions have been lifted in certain provinces of Canada, barriers to travel still remain in effect and it remains difficult to reliably estimate the impact on the financial results and condition of the Corporation in future periods.

The Corporation saw a material decrease in new rentals during the fourth quarter of its 2020 fiscal year, a period that usually is one of the Corporation's busiest rental seasons. This decrease continued into the Corporation's 2021 fiscal year, and has resulted in a decrease in the Corporation's operations and financial performance as fewer new tenants are moving into the Corporation's properties resulting in an increase in vacancy rates. The Corporation believes that this decrease has resulted from the government's implementation of travel bans in response to the pandemic, and post-secondary institutions limiting in person classes, which vastly decreased the number of foreign students and other immigrants arriving in Canada. Historically, such foreign students and immigrants have comprised a material portion of the Corporation's renters. Although certain travel bans have been lifted in recent months, there still remain significant impediments to international travel and limitations on class rooms. In the event that these impediments and limitations remain in effect through the Corporation's calendar 2021 fourth quarter, the Corporation anticipates that it will suffer continued material decreases in its operations and financial performance.

To date the Corporation has not suffered a material increase in bad debt expense and higher credit risk for the Corporation as a result of increased difficulty in the collection of rent, a requirement to defer the eviction of tenants who do not pay their rent, and an inability by the Corporation to increase rent in certain of its markets. However, as government financial supports, which have assisted the Corporation's tenants with their essential needs such as rental payments throughout the pandemic, begin to be reduced or eliminated, the Corporation anticipates that it may see an increase in its bad debt expense and be exposed to an increased credit risk.

The Corporation's properties are measured at fair value based on assumptions influenced by market conditions. Given the uncertainty which has existed, some of which still remains, the full long term impact of COVID-19 on the valuation of the Corporation's properties may not be completely known at this time. Further, due to the previous high uncertainty associated with the pandemic, lower weight can be applied to previous market evidence to inform fairness of opinions.

There is also continuing risk that the Corporation could be adversely affected due to market changes particularly in supply, interest rates and regional rent controls. Further, as social distancing practices are maintained, and labour and material shortages persist, the expected onset of new supply of rental housing may take longer as construction completion times are extended. There has also been significant disruption to the global supply chain in recent months. All of this increases the supply risk to the Corporation.

To date, the Corporation has seen the mortgage interest rate for a 10-year fixed CHMC mortgage remain at a low level which has provided an opportunity for the Corporation to obtain financing at lower interest rates when mortgages mature and need to be renewed. To date, governments have responded quickly to ensure capital remains available, and currently, Mainstreet still remains able to access capital.

The Corporation, in coordination with its Board of Directors, continues 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. Such alterations or modifications have caused and may continue to cause interruption to the Corporation's business and include increased administration, maintenance and repair expenses, related to property modifications, increased cleaning and maintenance of the property, increased communication and technology costs and increased costs related to obtaining personal protection equipment for team members, temporary closures of 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 enacted its COVID-19 business continuity plan in March 2020 and to date has experienced only minimal disruptions to its business operations as a result.

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, 2021, rents due from current tenants amounted to \$854,000 (September 30, 2020 – \$574,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$5.4 million (September 30, 2020 – \$4.8 million) and provisions for bad debts of \$160,000 (September 30, 2020 – \$200,000).

The aging bands of rents due from current tenants as at September 30, 2021 and 2020 are outlined in the table below:

(000s of dollars)

	Sep. 30, 2021	Sep. 30, 2020
0-30 days	\$ 610	\$ 420
31-60 days	142	81
61-90 days	22	7
Over 90 days	80	66
Total rents due from current tenants	\$ 854	\$ 574

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.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial 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, 2021 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 87,973	116,455	150,130	82,124	958,700	\$1,395,382
Mortgage interest payable	35,146	32,708	28,997	24,169	82,159	203,179
Trade and other payables	8,567	–	–	–	–	8,567
Refundable security deposits	\$ 5,387	–	–	–	–	\$ 5,387

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
Trade and other payables	9,386	–	–	–	–	9,386
Refundable security deposits	\$ 4,754	–	–	–	–	\$ 4,754

23. 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, 2021, and September 30, 2020, no amounts have been recorded and none are required to be disclosed in the consolidated financial statements with respect to guarantees, contingencies and commitments.

24. 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, 2021 amounted to \$684,113 (2020 – \$221,756). 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, 2021 amounting to \$373,389 (2020 – \$485,641) to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2021, the amounts payable to the law firm were \$1,848 (September 30, 2020 – \$Nil). 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.

25. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, 2021, were:

Navjeet (Bob) Dhillon, President and Chief Executive 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,	2021	2020
Short-term benefits	\$ 2,557	\$ 4,033

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, 2021 which amounted to \$684,113 (2020 – \$221,756).

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.

26. 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,	2021	2020
BRITISH COLUMBIA		
Rental revenue	\$ 38,800	\$ 35,347
Other rental revenue	442	359
Ancillary revenue	718	612
Property operating expenses	10,576	9,623
Net operating income	29,384	26,695
Fair value gain	202,107	32,385
ALBERTA		
Rental revenue	\$ 86,580	\$ 81,827
Other rental revenue	569	605
Ancillary revenue	1,062	1,008
Property operating expenses	36,475	33,101
Net operating income	51,736	50,339
Fair value gain (loss)	(28,999)	2,415
SASKATCHEWAN		
Rental revenue	\$ 30,862	\$ 29,606
Other rental revenue	35	26
Ancillary revenue	398	380
Property operating expenses	14,802	14,013
Net operating income	16,493	15,999
Fair value gain	39,124	2,411
MANITOBA		
Rental revenue	\$ 454	N/A
Other rental revenue	–	N/A
Ancillary revenue	5	N/A
Property operating expenses	224	N/A
Net operating income	235	N/A
Fair value loss	(229)	N/A
TOTAL		
Rental revenue	\$ 156,696	\$ 146,780
Other rental revenue	1,046	990
Ancillary revenue	2,183	2,000
Property operating expenses	62,077	56,737
Net operating income	97,848	93,033
Fair value gain	212,003	37,211
Gain from disposal of assets	113	–
Unallocated revenue*	426	206
Unallocated expenses**	84,856	61,900
Profit for the period	\$ 225,534	\$ 68,550

* 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,	2021	2020
BRITISH COLUMBIA		
Investment properties	\$ 859,057	\$ 590,900
Property and equipment	40	38
Mortgages payable	315,623	244,254
Refundable security deposits	1,764	1,505
ALBERTA		
Investment properties	\$ 1,330,199	\$ 1,227,131
Property and equipment	6,488	6,471
Mortgages payable	781,380	681,929
Refundable security deposits	2,919	2,543
SASKATCHEWAN		
Investment properties	\$ 419,568	\$ 364,934
Property and equipment	237	65
Mortgages payable	260,174	253,338
Refundable security deposits	677	706
MANITOBA		
Investment properties	\$ 7,330	–
Property and equipment	–	–
Mortgages payable	–	–
Refundable security deposits	27	–
TOTAL		
Investment properties	\$ 2,616,154	\$ 2,182,965
Property and equipment	6,765	6,574
Mortgages payable	1,357,177	1,179,521
Refundable security deposits	5,387	4,754

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

(000s of dollars)

Year ended September 30,	2021	2020
BRITISH COLUMBIA	\$ 66,069	\$ 9,294
ALBERTA	155,099	89,520
SASKATCHEWAN	15,713	8,777
MANITOBA	7,559	–
TOTAL	\$ 244,440	\$ 107,591

27. 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, 2021 amounted to \$2,449 million (September 30, 2020 – \$2,047 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,	2021	2020
Mortgages payable	\$ 1,357,177	\$ 1,179,521
Total equity	1,092,309	867,089
Total capital	\$ 2,449,486	\$ 2,046,610

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, 2021 is approximately 51% (September 30, 2020 – 52%) 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,	2021	2020
Mortgages payable	\$ 1,357,177	\$ 1,179,521
Cash and cash equivalents	19,224	38,472
Total debts	\$ 1,337,953	\$ 1,141,049
Investment properties	\$ 2,616,154	\$ 2,182,965
Debt to fair value ratio	51%	52%

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.

28. SUBSEQUENT EVENTS

Subsequent to year-end September 30, 2021, the Corporation also financed 2 clear-title properties for \$39.5 million at an interest rate of 2.58%.

Subsequent to the year ended September 30, 2021, the Corporation acquired additional 257 residential units, 2 commercial buildings and 2 vacant lands in the Province of Alberta for a total consideration of \$23 million.

29. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on December 6, 2021.