

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	June 30, 2021	Sep. 30, 2020
Assets		
Non-current assets		
Investment properties [Note 3]	\$ 2,525,194	\$ 2,182,965
Property and equipment	6,599	6,574
Intangible assets	1,363	1,399
Property held for sale [Note 4]	22,494	1,250
	2,555,650	2,192,188
Current assets		
Prepaid assets	4,368	1,941
Prepaid current income tax	110	110
Trade and other receivables	1,536	1,308
Restricted cash	3,412	3,298
Inventory	731	994
Cash and cash equivalents	–	38,472
	10,157	46,123
Total Assets	\$ 2,565,807	\$ 2,238,311
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	\$ 1,185,075	\$ 1,082,406
Deferred tax liabilities	203,758	177,561
	1,388,833	1,259,967
Current liabilities		
Mortgages payable [Note 5]	107,481	97,115
Trade and other payables	6,545	9,386
Refundable security deposits	5,110	4,754
Bank indebtedness [Note 6]	5,181	–
	124,317	111,255
Total Liabilities	1,513,150	1,371,222
Equity		
Share capital [Note 7]	26,494	26,507
Retained earnings	1,026,163	840,582
Total Equity	1,052,657	867,089
Total Liabilities and Equity	\$ 2,565,807	\$ 2,238,311

See accompanying notes to these interim condensed consolidated financial statements.

[SIGNED]

"Bob Dhillon"
Director
July 23, 2021

[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, 2021	Three months ended June 30, 2020	Nine months ended June 30, 2021	Nine months ended June 30, 2020
Rental revenue [Note 8]	\$ 39,455	\$ 36,972	\$ 115,772	\$ 109,882
Ancillary revenue	485	498	1,697	1,515
Total rental and ancillary revenue	39,940	37,470	117,469	111,397
Property operating expenses [Note 9]	15,250	13,959	47,063	42,894
Net operating income	24,690	23,511	70,406	68,503
Financing costs [Note 10]	9,672	9,152	28,321	27,487
General and administrative expenses [Note 9]	3,040	3,406	8,845	9,603
Depreciation	223	223	645	615
Interest income	(103)	(37)	(396)	(109)
Profit before Fair value gain and income tax	11,858	10,767	32,991	30,907
Change in fair value [Note 3]	195,800	(2,527)	179,088	(14,159)
Profit before income tax	207,658	8,240	212,079	16,748
Deferred income tax expense (recovery)	26,656	(2,633)	26,197	(3,381)
Net profit and total comprehensive income	\$ 181,002	\$ 10,873	\$ 185,882	\$ 20,129
Profit per share				
– basic and fully diluted [Note 11]	\$ 19.37	\$ 1.16	\$ 19.89	\$ 2.15

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	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	(13)	(301)	(314)
Profit for the period	–	185,882	185,882
Balance, June 30, 2021	\$ 26,494	\$ 1,026,163	\$ 1,052,657

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,

	2021	2020
Cash obtained from (used in) operating activities		
Net profit	\$ 185,882	\$ 20,129
Adjustments for:		
Depreciation	645	615
Change in fair value	(179,088)	14,159
Deferred income tax expense	26,197	(3,381)
Financing costs [Note 10]	28,321	27,487
Deferred financing costs incurred	(10,409)	(11,254)
Interest paid on mortgages [Note 10]	(24,768)	(24,699)
Cash from operating activities before changes in non-cash working capital	26,780	23,056
Change in working capital		
Prepaid assets	(2,427)	(1,004)
Trade and other receivables	(228)	(120)
Inventory	263	(507)
Restricted cash	(114)	78
Trade and other payables	(2,350)	2,514
Refundable security deposits	356	(24)
Cash from operating activities	22,280	23,993
Financing activities		
Bank indebtedness	5,181	(56,442)
Financing of investment properties	191,879	246,712
Mortgage principal repayments	(18,272)	(15,686)
Mortgage payments upon refinancing	(55,659)	(107,264)
Repurchase of shares	(314)	(1,766)
Cash from financing activities	122,815	65,554
Investing activities		
Purchase of and additions to investment properties [Note 3]	(161,679)	(67,749)
Purchase of and additions to property and equipment	(400)	(579)
Purchase of and additions to intangible assets	(234)	(491)
Proceeds from disposal	1,240	–
Purchase of Property held for sale	(22,494)	–
Cash used in investing activities	(183,567)	(68,819)
Net (decrease) increase in cash and cash equivalents	(38,472)	20,728
Cash and cash equivalents, beginning of period	38,472	70
Cash and cash equivalents, end of period	\$ –	\$ 20,798
Cash and cash equivalents are comprised of:		
Cash	\$ –	\$ –
Short-term deposits	\$ –	\$ 20,798

See accompanying notes to these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine months ended June 30, 2021 and 2020

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

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, 2020.

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 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 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 12;
- 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.

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 assumptions are uncertain at this time. Accordingly, the full long-term impact of COVID-19 on the valuation of the Corporation's properties continues to remain unknown at this time. Further, due to the 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. Currently, the government financial supports have assisted and continue to assist the Corporation's tenants with their essential needs such as rental payments, however, it remains uncertain as to how long such supports will remain in place. In the event that these financial support measures are 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)

	Nine months ended June 30, 2021	Year ended Sept. 30, 2020
Balance, beginning of period	\$ 2,182,965	\$ 2,040,051
Additions related to acquisitions	168,331	90,182
Building improvements	17,304	16,771
Property held for Sale	(22,494)	(1,250)
Change in fair value	179,088	37,211
Balance, end of period	\$ 2,525,194	\$ 2,182,965

The fair value of investment properties held by the Corporation as of June 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 June 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 nine month period ended June 30, 2021, a fair value gain of \$179.1 million 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 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:

	Jun. 30, 2021	Sep. 30, 2020
Surrey, BC	3.36%	4.39%
Abbotsford, BC	3.74%	4.80%
Calgary, Alberta	4.89%	5.09%
Edmonton, Alberta	5.45%	5.67%
Saskatoon, Saskatchewan	5.96%	6.62%
Regina, Saskatchewan	5.69%	6.33%
Winnipeg, Manitoba	5.79%	-
Average capitalization rate of investment property portfolio	4.73%	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 June 30, 2021

	-3%	-1%	As estimated	+1%	+3%
Net operating income					
	\$ 115,815	\$ 118,203	\$ 119,397	\$ 120,591	\$ 122,979
Capitalization rate					
-0.25%	4.48%	\$ 59,964	\$ 113,266	\$ 139,918	\$ 166,569
Cap rate used	4.73%	\$ (76,672)	\$ (26,187)	\$2,525,194	\$ 24,298
+0.25%	4.98%	\$ (199,590)	\$ (151,639)	\$ (127,664)	\$ (103,689)

As at September 30, 2020

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

4. PROPERTY HELD FOR SALE

During the three months ended June 30, 2021, the Corporation acquired a property with 136 units for resale purposes in Calgary, Alberta. Consequently, the asset is presented within non-current asset section. The Corporation expects to dispose these units within 12 months.

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.56% (September 30, 2020 – 2.72%) per annum and are payable in monthly principal and interest installments totaling \$5.0 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 \$2,240 million (September 30, 2020 – \$2,010 million).

(000s of dollars)

	Jun. 30, 2021	Sep. 30, 2020
Non-current	\$ 1,185,075	\$ 1,082,406
Current	107,481	97,115
	\$ 1,292,556	\$ 1,179,521

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

(000s of dollars)

	Jun. 30, 2021	Sep. 30, 2020
Opening balance	\$ 1,179,521	\$ 1,019,723
Financing of investment properties	191,879	308,914
Mortgage assumed to purchase investment properties	1,943	1,344
Mortgage principal repayments	(18,272)	(21,292)
Mortgage payments upon refinancing	(55,659)	(119,512)
Deferred financing cost	(6,856)	(9,656)
Closing balance	\$ 1,292,556	\$ 1,179,521

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

(000s of dollars)

12 months ended June 30,	Amount
2022	\$ 112,692
2023	28,692
2024	235,754
2025	80,809
2026	126,933
Subsequent	742,589
	1,327,469
Deferred financing cost	(34,913)
	\$ 1,292,556

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

Additionally, in Q3 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 June 30, 2021, the Corporation has drawn \$5.2 million 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 June 30, 2021, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% and 1.48, 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, 2021		Year ended September 30, 2020	
	Number of common shares	Amount	Number of common shares	Amount
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 the three and nine months ended June 30, 2021 and 2020, the Corporation purchased and cancelled Nil (2020 – 31,900) and 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 repurchasing of its common shares is returning capital to shareholders in a tax-efficient manner that is accretive to NAV. Mainstreet will continue to assess on an ongoing basis whether increased purchases of its common shares is warranted.

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	
	2021	2020	2021	2020
Rental revenue	\$ 39,198	\$ 36,763	\$ 115,018	\$ 109,124
Other rental revenue (1)	257	209	754	758
	\$ 39,455	\$ 36,972	\$ 115,772	\$ 109,882

(1) 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	
	2021	2020	2021	2020
Salaries, wages and employee benefits	\$ 6,029	\$ 5,793	\$ 17,393	\$ 17,094
Utilities	4,474	4,190	14,754	13,509
Property tax	3,941	3,582	12,007	10,476
Repair and maintenance	1,170	1,259	3,632	3,892
Insurance	1,130	712	3,513	2,414
Other	765	787	2,245	2,284
Legal and other professional expenses	355	522	1,218	1,352
Advertising and Marketing	426	520	1,146	1,476
Total Operating and G&A expenses	\$ 18,290	\$ 17,365	\$ 55,908	\$ 52,497

10. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2021	2020	2021	2020
Mortgage interest	\$ 8,425	\$ 8,150	\$ 24,768	\$ 24,699
Amortization of deferred financing cost	1,247	1,002	3,553	2,788
Financing costs	\$ 9,672	\$ 9,152	\$ 28,321	\$ 27,487

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	
	2021	2020	2021	2020
Numerator				
Net profit	\$ 181,002	\$ 10,873	\$ 185,882	\$ 20,129
Denominator				
For basic profit per share				
Weighted average shares	9,345,218	9,356,177	9,345,395	9,373,244
Dilutive effect of stock options	–	–	–	–
For diluted profit per share	9,345,218	9,356,177	9,345,395	9,373,244
Profit per share				
– basic and diluted	\$ 19.37	\$ 1.16	\$ 19.89	\$ 2.15

12. 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, trade and other payables, bank indebtedness and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

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

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

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

(000s of dollars)

		June 30, 2021		September 30, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,412	\$ 3,412	\$ 3,298	\$ 3,298
Cash and cash equivalents	Level 1	–	–	38,472	38,472
Trade and other receivables	Level 2	1,536	1,536	1,308	1,308
Financial liabilities:					
Bank indebtedness	Level 1	5,181	5,181	–	–
Mortgages payable	Level 2	1,292,556	1,317,946	1,179,521	1,259,831
Trade and other payables	Level 2	6,545	6,545	9,386	9,386
Refundable security deposits	Level 1	\$ 5,110	\$ 5,110	\$ 4,754	\$ 4,754

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

(000s of dollars)

		June 30, 2021		September 30, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$2,525,194	\$2,525,194	\$2,182,965	\$2,182,965

13. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices.

Pandemic Risk

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

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 first three quarters of the Corporation's 2021, 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, which has 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. At this time, the Corporation is unable to predict as to when such travel bans may be relaxed or lifted. In the event that the restrictions on international travel remain in effect through the Corporation's 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, the Corporation expects that increased unemployment in all the markets in which it operates may adversely impact tenant's ability to pay rent resulting in an increase in credit risk and that the main reason it has not yet seen a material increase in bad debt expense and credit risk is that governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The government financial supports have assisted and continue to assist the Corporation's tenants with their essential needs such as rental payments, however, it remains uncertain as to how long such supports will remain in place in their current form or at all. In the event that these financial support measures are reduced or eliminated, the Corporation anticipates that it will see a material 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. The uncertainty created by the COVID-19 pandemic has impacted valuation assumptions and significant uncertainty currently exists with respect to the valuation of the Corporation's properties. Due to the 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, the expected onset of new supply of rental housing may take longer as construction completion times are extended. 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. The real estate industry is highly capital intensive and accessing capital may be more difficult during a global health pandemic, including the COVID-19 pandemic. To date, governments have responded quickly to ensure capital remains available, and currently, Mainstreet still remains able to access capital.

Interest Rate Risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages and fixed-rate mortgage financings are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$50,000 in annual interest expense of the floating rate debt of the credit facility for the period ended June 30, 2021 (2020 – Nil).

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of June 30, 2021, rents due from current tenants amounted to \$582,000 (September 30, 2020 – \$574,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$5.1 million (September 30, 2020 – \$4.8 million) and provisions for expected credit losses of \$150,000 (September 30, 2020 – \$200,000). In addition, please see "Pandemic Risk" above.

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

(000s of dollars)

	Jun. 30, 2021	Sep. 30, 2020
0-30 days	\$ 439	\$ 420
31-60 days	67	81
61-90 days	25	7
Over 90 days	51	66
Total rents due from current tenants	\$ 582	\$ 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 June 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	\$ 112,692	28,692	235,754	80,809	869,522	\$ 1,327,469
Mortgage interest payable	33,960	30,598	29,833	22,094	73,528	190,013
Bank indebtedness	5,181	–	–	–	–	5,181
Trade and other payables	6,545	–	–	–	–	6,545
Refundable security deposits	\$ 5,110	–	–	–	–	\$ 5,110

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

14. 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 interim condensed consolidated financial statements with respect to these indemnification commitments.

In the normal course of operations, the Corporation may 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, 2021, and September 30, 2020, 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.

15. 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 three and nine months ended June 30, 2021 amounted to \$392,740 (2020 – \$9,524) and \$549,688 (2020 – \$69,257). 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 commission 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 three and nine months ended June 30, 2021 amounting to \$31,811 (2020 – \$65,892) and \$192,196 (2020 – \$389,810) to a law firm of which a director and officer of the Corporation is a senior associate. As at June 30, 2021, the amounts payable to the law firm were \$Nil (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.

16. SEGMENTED INFORMATION

The Corporation specializes in multi-family residential housing and operates primarily within one business segment in four 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,	
	2021	2020	2021	2020
BRITISH COLUMBIA				
Rental revenue	\$ 10,012	\$ 8,908	\$ 28,405	\$ 26,346
Other rental revenue	114	90	320	264
Ancillary revenue	172	159	523	464
Property operating expenses	2,761	2,417	8,209	7,592
Net operating income	7,537	6,740	21,039	19,482
Fair value gain	189,608	1,447	194,847	12,048
ALBERTA				
Rental revenue	\$ 21,336	\$ 20,491	\$ 63,471	\$ 60,594
Other rental revenue	134	112	409	475
Ancillary revenue	236	249	877	763
Property operating expenses	8,779	8,073	27,366	24,710
Net operating income	12,927	12,779	37,391	37,122
Fair value loss	(13,118)	(1,384)	(32,138)	(21,866)
SASKATCHEWAN				
Rental revenue	\$ 7,702	\$ 7,364	\$ 22,829	\$ 22,184
Other rental revenue	9	7	25	19
Ancillary revenue	76	90	293	288
Property operating expenses	3,636	3,469	11,337	10,592
Net operating income	4,151	3,992	11,810	11,899
Fair value gain/loss	19,313	(2,590)	16,574	(4,341)
MANITOBA				
Rental revenue	\$ 148	N/A	\$ 313	N/A
Other rental revenue	–	N/A	–	N/A
Ancillary revenue	1	N/A	4	N/A
Property operating expenses	74	N/A	151	N/A
Net operating income	75	N/A	166	N/A
Fair value loss	(3)	N/A	(195)	N/A
TOTAL				
Rental revenue	\$ 39,198	\$ 36,763	\$ 115,018	\$ 109,124
Other rental revenue	257	209	754	758
Ancillary revenue	485	498	1,697	1,515
Property operating expenses	15,250	13,959	47,063	42,894
Net operating income	24,690	23,511	70,406	68,503
Fair value gain	195,800	(2,527)	179,088	(14,159)
Unallocated revenue*	103	37	396	109
Unallocated expenses**	39,591	10,148	64,008	34,324
Profit for the period	\$ 181,002	\$ 10,873	\$ 185,882	\$ 20,129

* 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, 2021	Sept. 30, 2020
BRITISH COLUMBIA		
Investment properties	\$ 840,220	\$ 590,900
Property and equipment	45	38
Mortgages payable	316,699	244,254
Refundable security deposits	1,720	1,505
ALBERTA		
Investment properties	\$ 1,282,725	\$ 1,227,131
Property and equipment	6,480	6,471
Mortgages payable	736,621	681,929
Refundable security deposits	2,703	2,543
SASKATCHEWAN		
Investment properties	\$ 394,919	\$ 364,934
Property and equipment	74	65
Mortgages payable	239,236	253,338
Refundable security deposits	660	706
MANITOBA		
Investment properties	\$ 7,330	\$ –
Property and equipment	–	–
Mortgages payable	–	–
Refundable security deposits	27	–
TOTAL		
Investment properties	\$ 2,525,194	\$ 2,182,965
Property and equipment	6,599	6,574
Mortgages payable	1,292,556	1,179,521
Refundable security deposits	5,110	4,754

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

	Nine months ended June 30, 2021	Year ended Sept. 30, 2020
BRITISH COLUMBIA	\$ 54,493	\$ 9,294
ALBERTA	110,558	89,520
SASKATCHEWAN	13,442	8,777
MANITOBA	7,525	–
TOTAL	\$ 186,018	\$ 107,591

17. 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, 2021 amounted to \$2,350 million (September 30, 2020 – \$2,020 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, 2021	Sep. 30, 2020
Mortgages payable	\$ 1,292,556	\$ 1,179,521
Bank indebtedness	5,181	–
Total equity	1,052,657	840,582
Total capital	\$ 2,350,394	\$ 2,020,103

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, 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)

	Jun. 30, 2021	Sep. 30, 2020
Mortgages payable	\$ 1,292,556	\$ 1,179,521
Bank indebtedness	5,181	–
Cash and cash equivalents	–	38,472
Total debts	\$ 1,297,737	\$ 1,141,049
Investment properties	\$ 2,525,194	\$ 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.

18. SUBSEQUENT EVENTS

Subsequent to quarter-end June 30, 2021, the Corporation also financed 3 clear title assets and 6 maturing mortgages. These financing activities raised additional funds of \$12.8 million at an average interest rate of 2.33%.

Subsequent to quarter end June 30, 2021, the Corporation acquired additional 58 residential units in the Provinces of British Columbia for a total consideration of \$10.4 million.

19. 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 July 23, 2021.