

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	June 30, 2022	Sep. 30, 2021
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties [Note 3]	\$ 2,752,182	\$ 2,616,154
Property and equipment	7,130	6,765
Intangible assets	1,020	1,193
	<u>2,760,332</u>	<u>2,624,112</u>
<b>Current assets</b>		
Property held for sale [Note 4]	12,671	22,292
Prepaid assets	4,308	2,092
Prepaid current income tax	110	110
Trade and other receivables	5,653	1,195
Restricted cash	3,828	3,645
Inventory	2,018	1,899
Cash and cash equivalents	43,502	19,224
	<u>72,090</u>	<u>50,457</u>
<b>Total Assets</b>	<b>\$ 2,832,422</b>	<b>\$ 2,674,569</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Mortgages payable [Note 5]	\$ 1,392,446	\$ 1,274,762
Deferred tax liabilities	223,592	210,929
	<u>1,616,038</u>	<u>1,485,691</u>
<b>Current liabilities</b>		
Mortgages payable [Note 5]	47,070	82,415
Trade and other payables	8,114	8,767
Refundable security deposits	5,709	5,387
	<u>60,893</u>	<u>96,569</u>
<b>Total Liabilities</b>	<b>1,676,931</b>	<b>1,582,260</b>
<b>Equity</b>		
Share capital [Note 7]	26,468	26,494
Retained earnings	1,129,023	1,065,815
<b>Total Equity</b>	<b>1,155,491</b>	<b>1,092,309</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,832,422</b>	<b>\$ 2,674,569</b>

See accompanying notes to these interim condensed consolidated financial statements.

[SIGNED]

"Bob Dhillon"  
Director  
July 21, 2022

[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, 2022	Three months ended June 30, 2021	Nine months ended June 30, 2022	Nine months ended June 30, 2021
Rental revenue [Note 8]	\$ 44,959	\$ 39,455	\$ 131,357	\$ 115,772
Ancillary revenue	538	485	1,813	1,697
Total rental and ancillary revenue	45,497	39,940	133,170	117,469
Property operating expenses [Note 9]	17,585	15,250	53,614	47,063
Net operating income	27,912	24,690	79,556	70,406
Financing costs [Note 10]	10,844	9,672	31,538	28,321
General and administrative expenses [Note 9]	3,756	3,040	10,934	8,845
Depreciation	241	223	678	645
Interest income	(220)	(103)	(351)	(396)
	14,621	12,832	42,799	37,415
Profit before change in fair value and income tax	13,291	11,858	36,757	32,991
Change in fair value [Note 3]	10,896	195,800	36,180	179,088
Gain from disposal of assets	3,219	–	3,947	–
Profit before income tax	27,406	207,658	76,884	212,079
Deferred income tax expense	5,571	26,656	12,663	26,197
Net profit and total comprehensive income	\$ 21,835	\$ 181,002	\$ 64,221	\$ 185,882
Profit per share				
– basic and fully diluted [Note 11]	\$ 2.34	\$ 19.37	\$ 6.87	\$ 19.89

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, 2020	\$ 26,507	\$ 840,582	\$ 867,089
Shares purchased for cancellation	(13)	(301)	(314)
Profit for the period	–	225,534	225,534
Balance, September 30, 2021	\$ 26,494	\$ 1,065,815	\$ 1,092,309
Shares purchased for cancellation	(26)	(1,013)	(1,039)
Profit for the period	–	64,221	64,221
Balance, June 30, 2022	\$ 26,468	\$ 1,129,023	\$ 1,155,491

See accompanying notes to these interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASHFLOWS

Unaudited

(\$000s of Canadian dollars)

Nine months ended June 30,	2022	2021
<b>Cash obtained from (used in) operating activities</b>		
Net profit	\$ 64,221	\$ 185,882
Adjustments for:		
Depreciation	678	645
Change in fair value	(36,180)	(179,088)
Deferred income tax expense	12,663	26,197
Gain from disposal of assets	(3,947)	–
Financing costs [Note 10]	31,538	28,321
Deferred financing costs incurred	(6,184)	(10,409)
Interest paid on mortgages [Note 10]	(27,217)	(24,768)
Cash from operating activities before changes in non-cash working capital	35,572	26,780
Change in working capital		
Prepaid assets	(2,216)	(2,427)
Trade and other receivables	(4,458)	(228)
Inventory	(119)	263
Restricted cash	(183)	(114)
Trade and other payables	699	(2,350)
Refundable security deposits	322	356
Cash from operating activities	29,617	22,280
<b>Financing activities</b>		
Bank indebtedness	–	5,181
Financing of investment properties	144,688	191,879
Mortgage principal repayments	(20,133)	(18,272)
Mortgage payments upon refinancing	(40,353)	(55,659)
Repurchase of shares	(1,039)	(314)
Cash from financing activities	83,163	122,815
<b>Investing activities</b>		
Purchase of and additions to investment properties [Note 3]	(101,524)	(161,679)
Purchase of and additions to property and equipment	(776)	(400)
Purchase of and additions to intangible assets	(98)	(234)
Proceeds from disposal	14,081	1,240
Property held for sale	(185)	(22,494)
Cash used in investing activities	(88,502)	(183,567)
<b>Net increase (decrease) in cash and cash equivalents</b>	24,278	(38,472)
<b>Cash and cash equivalents, beginning of period</b>	19,224	38,472
<b>Cash and cash equivalents, end of period</b>	\$ 43,502	\$ –
<b>Cash and cash equivalents are comprised of:</b>		
Cash	\$ –	\$ –
Short-term deposits	43,502	–
	\$ 43,502	\$ –

See accompanying notes to these interim condensed consolidated financial statements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the three and nine months ended June 30, 2022 and 2021

### 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 approximately 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, 2021.

#### 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 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 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.

At this time, the duration and future impact of the COVID-19 pandemic still remains uncertain, given the unprecedented nature of the pandemic, which uncertainty may impact certain of the Corporation's significant assumptions. Specifically, the Corporation has had to make assumptions with respect to the length and severity of the recovery period, as well as the severity and duration of future waves of the pandemic, in estimating the ongoing impact on the Corporation. 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 assisted the Corporation's tenants with their essential needs such as rental payments throughout the pandemic, are reduced or eliminated, and as inflation continues to rise, the Corporation 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, 2022	Year ended Sept. 30, 2021
Balance, beginning of period	\$ 2,616,154	\$ 2,182,965
Additions related to acquisitions	84,651	219,055
Building improvements	15,706	24,423
Gain on disposal	(324)	–
Property held for Sale	(185)	(22,292)
Change in fair value	36,180	212,003
Balance, end of period	\$ 2,752,182	\$ 2,616,154

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 fair value of the sampled investment properties held by the Corporation as of June 30, 2022 and September 30, 2021, 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. 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, 2022 and September 30, 2021. Properties are selected on a rotational basis and approximately 40% of the Corporation's portfolio is externally valued annually. For the three month period ended June 30, 2022, a fair value gain of \$10.9 million was recorded on the financial statement as a result of changes in the fair value of investment properties based on the most recent market conditions in the reporting periods.

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, 2022	Sep. 30, 2021
Lower Mainland, BC [Note 1]	3.67%	3.41%
BC excluding Lower Mainland [Note 2]	4.35%	4.09%
Calgary, Alberta	4.98%	4.87%
Edmonton, Alberta	5.42%	5.46%
Saskatoon, Saskatchewan	5.49%	5.84%
Regina, Saskatchewan	5.45%	5.57%
Winnipeg, Manitoba	5.79%	5.79%
Investment properties	4.76%	4.69%

Note (1) – includes the City of Abbotsford, the City of Chilliwack, the City of New Westminister and the City of Surrey

Note (2) – includes the City of Courtenay, the City of Kamloops, the City of Penticton, the City of Prince George and the City of Venon

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. 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, 2022**

		-3%	-1%	As estimated	+1%	+3%
Net operating income		\$ 126,833	\$ 129,448	\$ 130,756	\$ 132,064	\$ 134,679
Capitalization rate						
-0.25%	4.51%	\$ 60,087	\$ 118,072	\$ 147,064	\$ 176,057	\$ 234,042
Cap rate used	4.76%	\$ (87,616)	\$ (32,677)	\$ 2,752,182	\$ 22,263	\$ 77,202
+0.25%	5.01%	\$ (220,579)	\$ (168,381)	\$ (142,282)	\$ (116,183)	\$ (63,985)

**As at September 30, 2021**

		-3%	-1%	As estimated	+1%	+3%
Net operating income		\$ 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)

**4. 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 66 units as of June 30, 2022. Consequently, the asset is presented within the current asset section. The Corporation expects to dispose of the remaining units within the next 12 months.

**5. MORTGAGES PAYABLE**

Mortgages payable bear interest at a weighted average interest rate of 2.54% (September 30, 2021 – 2.52%) per annum and are payable in monthly principal and interest installments totaling \$5.3 million (September 30, 2021 – \$5.2 million), maturing from 2022 to 2032 and are secured by specific charges against specific investment properties, having a fair value of \$2,441 million (September 30, 2021 – \$2,335 million).

(000s of dollars)

	Jun. 30, 2022	Sep. 30, 2021
Non-current	\$ 1,392,446	\$ 1,274,762
Current	47,070	82,415
	\$ 1,439,516	\$ 1,357,177

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

(000s of dollars)

	Jun. 30, 2022	Sep. 30, 2021
Opening balance	\$ 1,357,177	\$ 1,179,521
Financing of investment properties	144,688	291,797
Mortgage assumed to purchase investment properties	–	1,943
Mortgage principal repayments	(20,133)	(24,426)
Mortgage payments upon refinancing	(40,353)	(81,510)
Deferred financing cost	(1,863)	(10,148)
Closing balance	\$ 1,439,516	\$ 1,357,177

Estimated principal payments required to retire the mortgage obligations as of June 30, 2022 are as follows:

(000s of dollars)

12 months ending June 30,	Amount
2023	\$ 53,249
2024	239,337
2025	84,497
2026	130,716
2027	222,603
Subsequent	749,182
	1,479,584
Deferred financing cost	(40,068)
	\$ 1,439,516

## 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, 2022, the Corporation has drawn \$Nil (September 30, 2021 – \$Nil) against this credit facility.

Additionally, in 2022, the Corporation entered into a \$45 million revolving credit facility with a third-party financial institution, which carries an interest rate equal to the prime rate. As at June 30, 2022, the Corporation has drawn \$Nil (September 30, 2021 – \$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 June 30, 2022, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% and 1.52, 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, 2022		Year ended September 30, 2021	
	Number of common shares	Amount	Number of common shares	Amount
Issued and outstanding, – beginning of the period	9,345,218	\$ 26,494	9,349,830	\$ 26,507
Shares purchased for cancellation	(9,200)	(26)	(4,612)	(13)
Issued and outstanding, – end of the period	9,336,018	\$ 26,468	9,345,218	\$ 26,494

All common shares have an equal right to dividends.

On May 25, 2022, Mainstreet obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 477,109 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2022. The current NCIB expires on May 31, 2023. The Corporation's previous NCIB expired on May 31, 2022.

During the three and nine months ended June 30, 2022 and 2021, the Corporation purchased and cancelled 9,200 (2021 – Nil) and 9,200 (2021 – 4,612) common shares at an average price of \$112.94 (2021 – \$68.10) 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.

## 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	
	2022	2021	2022	2021
Rental revenue	\$ 44,623	\$ 39,198	\$ 130,378	\$ 115,018
Other rental revenue (1)	336	257	979	754
	\$ 44,959	\$ 39,455	\$ 131,357	\$ 115,772

(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	
	2022	2021	2022	2021
Salaries, wages and employee benefits	\$ 6,942	\$ 6,029	\$ 20,235	\$ 17,393
Utilities	5,649	4,474	18,193	14,754
Property tax	4,092	3,941	12,354	12,007
Repair and maintenance	1,541	1,170	4,603	3,632
Insurance	1,341	1,130	3,926	3,513
Other	1,000	765	2,918	2,245
Legal and other professional expenses	496	355	1,519	1,218
Advertising and Marketing	280	426	800	1,146
Total Operating and G&A expenses	\$ 21,341	\$ 18,290	\$ 64,548	\$ 55,908

## 10. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2022	2021	2022	2021
Mortgage interest	\$ 9,363	\$ 8,425	\$ 27,217	\$ 24,768
Amortization of deferred financing cost	1,481	1,247	4,321	3,553
Financing costs	\$ 10,844	\$ 9,672	\$ 31,538	\$ 28,321

## 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	
	2022	2021	2022	2021
<b>Numerator</b>				
Net profit	\$ 21,835	\$ 181,002	\$ 64,221	\$ 185,882
<b>Denominator</b>				
For basic profit per share				
Weighted average shares	9,341,202	9,345,218	9,343,879	9,345,395
Dilutive effect of stock options	–	–	–	–
For diluted profit per share				
	9,341,202	9,345,218	9,343,879	9,345,395
Profit per share				
– basic and diluted	\$ 2.34	\$ 19.37	\$ 6.87	\$ 19.89

## 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, 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, and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

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

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

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

(000s of dollars)

		June 30, 2022		September 30, 2021	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>					
Restricted cash	Level 1	\$ 3,828	\$ 3,828	\$ 3,645	\$ 3,645
Cash and cash equivalents	Level 1	43,502	43,502	19,224	19,224
Trade and other receivables	Level 2	5,653	5,653	1,195	1,195
<b>Financial liabilities:</b>					
Mortgages payable	Level 2	1,439,516	1,354,783	1,357,177	1,381,878
Trade and other payables	Level 2	8,114	8,114	8,767	8,767
Refundable security deposits	Level 1	\$ 5,709	\$ 5,709	\$ 5,387	\$ 5,387

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

(000s of dollars)

		June 30, 2022		September 30, 2021	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-financial assets:</b>					
Investment properties	Level 3	\$2,752,182	\$2,752,182	\$2,616,154	\$2,616,154

### 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 and Other Risks*

The COVID-19 pandemic has had a substantial impact on the economy. Although these impacts appear to be 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, continue to have a materially adverse impact on the Corporation's tenants and/or capital 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 while restrictions have relaxed in the provinces where the Corporation operates, the emergence of new variants have resulted in new waves of the pandemic which might result in certain restrictions being reinstated in certain jurisdictions. It remains unclear as to when the pandemic will fully be under control, and when public health measures will be fully lifted, as the frequency, duration and severity of future waves of the pandemic remain unknown. Barriers to travel still remain, including in respect of short staffing at airports and by airlines, 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 and 2021 fiscal years, a period that usually is one of the Corporation's busiest rental seasons. This decrease has resulted in a decrease in the Corporation's operations and financial performance as fewer new tenants were moving into the Corporation's properties resulting in an increase in vacancy rates. The Corporation believes that this decrease 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.

The Corporation has seen improvement in its overall vacancy trend in Q3 2022 and subsequent thereto, mainly as a result of an increase in rentals in the Alberta and Saskatchewan market, and is cautiously optimistic that this trend will continue in 2022.

However, there still remain significant impediments to international travel and limitations on class rooms, including new restrictions in response to the emergence of new variants, and in the event that these impediments and limitations remain in effect through the Corporation's 2022 fiscal year, this may negatively affect the Corporation's 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, are reduced or eliminated, in connection with continued inflation, 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, inflation, interest rates and regional rent controls. Canada has seen significant inflation in recent months, against the backdrop of sustained higher housing process, substantial supply constraints and geopolitical conflicts, which have increased process for energy and agricultural markets. There has also been significant disruption to the global supply chain in recent months, as a result of Russia's ongoing invasion of Ukraine, further disrupting global recovery as economies start emerging from the impact of the pandemic. 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. All of this increases the supply risk to the Corporation.

Previously, the Corporation had 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 matured and needed to be renewed. The Corporation took advantage of this opportunity and fixed 100% of its long term debt into fixed rate debts, of which 99% are fixed as CMHC insured mortgages at an average interest rate of 2.53%. However, the mortgage rate for a 10-year fixed CHMC mortgage has increased by almost 150 basis points during the current quarter. The Corporation will continue to cautiously monitor this trend in interest rates, and will need to consider the same in making decisions when its 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 Corporation 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, such as those seen in March, April, June and July of 2022, have the potential to adversely affect the profitability of the Corporation. 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 June 30, 2022, rents due from current tenants amounted to \$983,000 (September 30, 2021 – \$854,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$5.7 million (September 30, 2021 – \$5.4 million) and provisions for bad debts of \$221,955 (September 30, 2021 – \$160,000).

The aging bands of rents due from current tenants as at June 30, 2022 and September 30, 2021 are outlined in the table below:

(000s of dollars)

	Jun.30, 2022	Sep. 30, 2021
0-30 days	\$ 634	\$ 610
31-60 days	145	142
61-90 days	65	22
Over 90 days	139	80
<b>Total rents due from current tenants</b>	<b>\$ 983</b>	<b>\$ 854</b>

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, 2022 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 53,249	239,337	84,497	130,716	971,785	\$1,479,584
Mortgage interest payable	37,611	36,292	28,458	26,275	83,816	212,452
Trade and other payables	8,114	–	–	–	–	8,114
Refundable security deposits	\$ 5,709	–	–	–	–	\$ 5,709

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

## 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 consolidated financial statements with respect to these indemnification commitments.

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

As of June 30, 2022, and September 30, 2021, no amounts have been recorded and none are required to be disclosed in the 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 six months ended June 30, 2022 amounted to \$76,250 (2021 – \$392,740) and \$300,368 (2021 – \$549,688). 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 be reduced by the amount of third party paid commission 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, 2022 amounting to \$50,307 (2021 – \$31,811) and \$368,319 (2021 – \$192,196) to a law firm of which a director and officer of the Corporation is a partner. As at June 30, 2022, the amounts payable to the law firm were \$480 (September 30, 2021 – \$1,848). 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 three provinces located in Canada. The following summary presents segmented financial information for the Corporation's continuing operations by geographic location:

(000s of dollars)

### RENTAL OPERATIONS

	Three months ended June 30,		Nine months ended June 30,	
	2022	2021	2022	2021
<b>BRITISH COLUMBIA</b>				
Rental revenue	\$ 11,363	\$ 10,012	\$ 32,815	\$ 28,405
Other rental revenue	135	114	396	320
Ancillary revenue	201	172	619	523
Property operating expenses	2,971	2,761	9,274	8,209
Net operating income	8,728	7,537	24,556	21,039
Change in fair value	7,231	189,608	29,480	194,847
<b>ALBERTA</b>				
Rental revenue	\$ 24,923	\$ 21,336	\$ 72,670	\$ 63,471
Other rental revenue	194	134	559	409
Ancillary revenue	247	236	845	877
Property operating expenses	10,894	8,779	32,512	27,366
Net operating income	14,470	12,927	41,562	37,391
Change in fair value	3,229	(13,118)	1,776	(32,138)
<b>SASKATCHEWAN</b>				
Rental revenue	\$ 8,109	\$ 7,702	\$ 24,372	\$ 22,829
Other rental revenue	7	9	24	25
Ancillary revenue	83	76	339	293
Property operating expenses	3,646	3,636	11,551	11,337
Net operating income	4,553	4,151	13,184	11,810
Change in fair value	529	19,313	5,077	16,574
<b>MANITOBA</b>				
Rental revenue	\$ 228	\$ 148	\$ 521	\$ 313
Other rental revenue	–	–	–	–
Ancillary revenue	7	1	10	4
Property operating expenses	74	74	277	151
Net operating income	161	75	254	166
Change in fair value	(93)	(3)	(153)	(195)
<b>TOTAL</b>				
Rental revenue	\$ 44,623	\$ 39,198	\$ 130,378	\$ 115,018
Other rental revenue	336	257	979	754
Ancillary revenue	538	485	1,813	1,697
Property operating expenses	17,585	15,250	53,614	47,063
Net operating income	27,912	24,690	79,556	70,406
Change in fair value	10,896	195,800	36,180	179,088
Unallocated revenue*	3,439	103	4,298	396
Unallocated expenses**	20,412	39,591	55,813	64,008
Profit for the period	\$ 21,835	\$ 181,002	\$ 64,221	\$ 185,882

\* Unallocated revenue represents interest income, other income and gains from disposal of assets.

\*\* Unallocated expenses include general and administrative expenses, financing costs, depreciation and deferred income taxes.

(000s of dollars)

## IDENTIFIABLE ASSETS AND LIABILITIES

	June 30, 2022	Sept. 30, 2021
<b>BRITISH COLUMBIA</b>		
Investment properties	\$ 911,417	\$ 859,057
Property and equipment	31	40
Mortgages payable	338,596	315,623
Refundable security deposits	1,889	1,764
<b>ALBERTA</b>		
Investment properties	\$ 1,401,609	\$ 1,330,199
Property and equipment	6,487	6,488
Mortgages payable	821,993	781,380
Refundable security deposits	3,091	2,919
<b>SASKATCHEWAN</b>		
Investment properties	\$ 429,215	\$ 419,568
Property and equipment	611	237
Mortgages payable	278,927	260,174
Refundable security deposits	687	677
<b>MANITOBA</b>		
Investment properties	\$ 9,941	\$ 7,330
Property and equipment	1	–
Mortgages payable	–	–
Refundable security deposits	42	27
<b>TOTAL</b>		
Investment properties	\$ 2,752,182	\$ 2,616,154
Property and equipment	7,130	6,765
Mortgages payable	1,439,516	1,357,177
Refundable security deposits	5,709	5,387

## IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

	Nine months ended June 30, 2022	Year ended Sept. 30, 2021
BRITISH COLUMBIA	\$ 22,883	\$ 66,069
ALBERTA	70,162	155,099
SASKATCHEWAN	5,299	15,713
MANITOBA	2,765	7,559
TOTAL	\$ 101,109	\$ 244,440

## 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, 2022 amounted to \$2,595 million (September 30, 2021 – \$2,449 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, 2022	Sep. 30, 2021
Mortgages payable	\$ 1,439,516	\$ 1,357,177
Total equity	1,155,491	1,092,309
Total capital	\$ 2,595,007	\$ 2,449,486

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, 2022 is approximately 51% (September 30, 2021 – 51%) 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, 2022	Sep. 30, 2021
Mortgages payable	\$ 1,439,516	\$ 1,357,177
Cash and cash equivalents	43,502	19,224
Total debts	\$ 1,396,014	\$ 1,337,953
Investment properties	\$ 2,752,812	\$ 2,616,154
Debt to fair value ratio	51%	51%

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

## 18. SUBSEQUENT EVENTS

Subsequent to quarter-end June 30, 2022, the Corporation acquired an additional 31 residential units in the Province of Saskatchewan for a total consideration of \$2.7 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 21st.