

INTERM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	Jun. 30, 2023	Sep. 30, 2022
Assets		
Non-current assets		
Investment properties [Note 3]	\$ 2,998,132	\$ 2,817,905
Property and equipment	7,039	7,346
Intangible assets	1,115	1,031
	3,006,286	2,826,282
Current assets		
Property held for sale [Note 4]	12,302	12,508
Prepaid assets	8,278	2,725
Prepaid current income tax	110	110
Trade and other receivables	2,008	1,547
Restricted cash	4,599	3,901
Inventory	2,170	1,859
Cash and cash equivalents	49,106	44,560
	78,573	67,210
Total Assets	\$ 3,084,859	\$ 2,893,492
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	\$ 1,304,693	\$ 1,321,072
Deferred tax liabilities	249,771	233,559
	1,554,464	1,554,631
Current liabilities		
Mortgages payable [Note 5]	233,895	112,381
Trade and other payables	9,734	9,909
Refundable security deposits	6,762	5,821
Bank indebtedness [Note 6]	255	–
	250,646	128,111
Total Liabilities	1,805,110	1,682,742
Equity		
Share capital [Note 7]	26,419	26,441
Retained earnings	1,253,330	1,184,309
Total Equity	1,279,749	1,210,750
Total Liabilities and Equity	\$ 3,084,859	\$ 2,893,492

See accompanying notes to these interim condensed consolidated financial statements.

[Signed]

[Signed]

"Bob Dhillon, Director"

"Joe Amantea, Director "

July 20, 2023

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, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Rental revenue [Note 8]	\$ 52,991	\$ 44,959	\$ 151,989	\$ 131,357
Ancillary revenue	907	538	2,324	1,813
Total rental and ancillary revenue	53,898	45,497	154,313	133,170
Property operating expenses [Note 9]	19,899	17,585	59,854	53,614
Net operating income	33,999	27,912	94,459	79,556
Financing costs [Note 10]	12,293	10,844	35,023	31,538
General and administrative expenses [Note 9]	4,690	3,756	13,167	10,934
Depreciation	198	241	587	678
Interest income	(876)	(220)	(1,528)	(351)
	16,305	14,621	47,249	42,799
Profit before change in fair value and income tax	17,694	13,291	47,210	36,757
Change in fair value [Note 3]	23,821	10,896	38,730	36,180
Gain from disposal of assets	190	3,219	190	3,947
Profit before income tax	41,705	27,406	86,130	76,884
Deferred income tax expense (recovery)	7,509	5,571	16,212	12,663
Net profit and total comprehensive income	\$ 34,196	\$ 21,835	\$ 69,918	\$ 64,221
Profit per share				
– basic and fully diluted [Note 11]	\$ 3.67	\$ 2.34	\$ 7.50	\$ 6.87

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, 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
Balance, October 1, 2022	\$ 26,441	\$ 1,184,309	\$ 1,210,750
Shares purchased for cancellation [Note 7]	(22)	(897)	(919)
Profit for the period	–	69,918	69,918
Balance, June 30, 2023	\$ 26,419	\$ 1,253,330	\$ 1,279,749

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,	2023	2022
Cash obtained from (used in) operating activities		
Net profit	\$ 69,918	\$ 64,221
Adjustments for:		
Depreciation	587	678
Change in fair value	(38,730)	(36,180)
Deferred income tax expense	16,212	12,663
Gain from disposal of assets	(190)	(3,947)
Financing costs [Note 10]	35,023	31,538
Deferred financing costs incurred	(3,011)	(6,184)
Interest paid on mortgages [Note 10]	(30,042)	(27,217)
Cash from operating activities before changes in non-cash working capital	49,767	35,572
Change in working capital		
Prepaid assets	(5,553)	(2,216)
Trade and other receivables	(461)	(4,458)
Inventory	(311)	(119)
Restricted cash	(698)	(183)
Trade and other payables	1,307	699
Refundable security deposits	941	322
Cash from operating activities	44,992	29,617
Financing activities		
Bank indebtedness	255	–
Financing of investment properties	122,908	144,688
Mortgage principal repayments	(21,332)	(20,133)
Mortgage payments upon refinancing	(4,478)	(40,353)
Repurchase of shares	(919)	(1,039)
Cash from financing activities	96,434	83,163
Investing activities		
Purchase of and additions to investment properties [Note 3]	(136,912)	(101,524)
Purchase of and additions to property and equipment	(73)	(776)
Purchase of and additions to intangible assets	(291)	(98)
Proceeds from disposal	520	14,081
Purchase of and additions to property held for sale	(124)	(185)
Cash used in investing activities	(136,880)	(88,502)
Net (decrease) increase in cash and cash equivalents	4,546	24,278
Cash and cash equivalents, beginning of period	44,560	19,224
Cash and cash equivalents, end of period	\$ 49,106	\$ 43,502
Cash and cash equivalents are comprised of:		
Cash	\$ –	\$ –
Short-term deposits	49,106	43,502
	\$ 49,106	\$ 43,502

See accompanying notes to these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended June 30, 2023 and 2022

(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 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, 2022.

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) 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.

e) Government Grant

The Corporation receives government supplement to assist in providing affordable rental suites to low income-earning individuals. Government supplements are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received. In accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20"), the supplement is being recognized in rental revenue on a consistent basis and evenly over the periods of the grant that offered to the affordable suites.

3. Investment properties

(000s of dollars)

	Nine months ended Jun. 30, 2023	Year ended Sep. 30, 2022
Balance, beginning of year	\$ 2,817,905	\$ 2,616,154
Additions related to acquisitions	124,656	91,772
Building improvements	16,965	23,873
Reclass to property and equipment	–	(580)
Property held for resale	(124)	(204)
Change in fair value	38,730	86,890
Balance, end of year	\$ 2,998,132	\$ 2,817,905

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, 2023 and September 30, 2022, 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, 2023 and September 30, 2022. 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, 2023, a fair value gain of \$23.8 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, 2023	Sep. 30, 2022
Lower Mainland, BC	3.78%	3.68%
BC excluding Lower Mainland	4.32%	4.35%
Calgary, Alberta	5.38%	5.07%
Edmonton, Alberta	5.69%	5.42%
Saskatoon, Saskatchewan	5.55%	5.47%
Regina, Saskatchewan	6.07%	5.48%
Winnipeg, Manitoba	5.79%	5.79%
Investment properties-weighted average capitalization rate	5.01%	4.79%

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 Jun 30, 2023

Net operating income	-3%	-1%	As estimated	+1%	+3%
	\$ 145,522	\$ 148,523	\$ 150,023	\$ 151,523	\$ 154,524
Capitalization rate					
-0.25%	4.76%	\$ 59,059	\$ 122,094	\$ 153,612	\$ 185,129
Cap rate used	5.01%	\$ (93,495)	\$ (33,606)	\$ 2,998,132	\$ 26,284
+0.25%	5.26%	\$ (231,548)	\$ (174,505)	\$ (145,984)	\$ (117,462)
		\$ (60,419)			

As at September 30, 2022

		-3%	-1%	As estimated	+1%	+3%
Net operating income		\$ 130,682	\$ 133,377	\$ 134,724	\$ 136,071	\$ 138,766
Capitalization rate						
-0.25%	4.54%	\$ 60,559	\$ 119,909	\$ 149,584	\$ 179,259	\$ 238,609
Cap rate used	4.79%	\$ (89,674)	\$ (33,421)	\$ 2,817,905	\$ 22,831	\$ 79,083
+0.25%	5.04%	\$ (225,003)	\$ (171,541)	\$ (144,810)	\$ (118,079)	\$ (64,617)

Investment properties with a fair value of \$2,656 million (September 30, 2022 – \$2,486 million) are pledged as security against the Corporation's mortgages payable.

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 69 units as of June 30, 2023. The Corporation expects to dispose of the remaining units within the next 12 months, and consequently, the asset is presented within the current assets section.

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.69% (September 30, 2022 – 2.57%) per annum and are payable in monthly principal and interest installments totaling \$5.9 million (September 30, 2022 – \$5.4 million), maturing from 2023 to 2032 and are secured by specific charges against specific investment properties, having a fair value of \$2,656 million (September 30, 2022 – \$2,486 million).

(000s of dollars)

	Jun. 30, 2023	Sep. 30, 2022
Non-current	\$ 1,304,693	\$ 1,321,072
Current	233,895	112,381
	\$ 1,538,588	\$ 1,433,453

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

(000s of dollars)

	Jun. 30, 2023	Sep. 30, 2022
Opening balance	\$ 1,433,453	\$ 1,357,177
Financing of investment properties	122,908	144,688
Mortgage assumed to purchase investment properties	6,067	–
Mortgage principal repayments	(21,332)	(27,354)
Mortgage payments upon refinancing	(4,478)	(40,353)
Deferred financing cost	1,970	(705)
Closing balance	\$ 1,538,588	\$ 1,433,453

Estimated principal payments required to retire the mortgage obligations as of June 30, 2023 are as follows:

(000s of dollars)

Years ending June 30,	Amount
2024	\$ 240,536
2025	160,967
2026	131,515
2027	223,411
2028	119,472
Subsequent	699,627
	1,575,528
Deferred financing cost	(36,940)
	\$ 1,538,588

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 2, 2025. As at June 30, 2023, the Corporation has drawn \$Nil (September 30, 2022 – \$Nil) against this credit facility.

Additionally, in 2022, the Corporation entered 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, 2023, the Corporation has drawn \$0.3 million (September 30, 2022 – \$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, 2023, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 50% and 1.62, 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, 2023		Year ended September 30, 2022	
	Number of common shares	Amount	Number of common shares	Amount
Issued and outstanding				
– beginning of the period	9,326,718	\$ 26,441	9,345,218	\$ 26,494
Shares purchased for cancellation	(7,900)	(22)	(18,500)	(53)
Issued and outstanding				
– end of the period	9,318,818	\$ 26,419	9,326,718	\$ 26,441

All common shares have an equal right to dividends.

On June 1, 2023, Mainstreet announced that it had obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 474,499 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 3, 2023. The current NCIB expires on June 2, 2024. The Corporation's previous NCIB expired on May 31, 2023.

During the three and nine months ended June 30, 2023 and 2022, the Corporation purchased and cancelled Nil (2022 – 9,200) and 7,900 (2022 – 9,200) common shares at an average price of Nil (2022 – \$112.94) and \$116.33 (2022 – \$112.94) respectively, per common share under its NCIB.

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	
	2023	2022	2023	2022
Rental revenue	\$ 52,597	\$ 44,623	\$ 150,847	\$ 130,378
Other rental revenue (1) (2)	394	336	1,142	979
	\$ 52,991	\$ 44,959	\$ 151,989	\$ 131,357

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

(2) The Corporation recognized a government grant of \$150,000 for rental supplement purposes from The Manitoba Housing and Renewal Corporation during the quarter. The rental supplement is recognized as other rental revenue on a consistent basis and recognized evenly over the periods.

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	
	2023	2022	2023	2022
Salaries, wages and employee benefits	\$ 8,363	\$ 6,942	\$ 23,768	\$ 20,235
Utility	6,897	5,649	21,322	18,193
Property tax	4,456	4,092	13,346	12,354
Repair and maintenance	1,551	1,541	5,045	4,603
Insurance	1,345	1,341	3,687	3,926
Other	987	1,000	3,234	2,918
Legal and other professional expenses	696	496	1,724	1,519
Advertising and Marketing	294	280	895	800
Total Operating and G&A expenses	\$ 24,589	\$ 21,341	\$ 73,021	\$ 64,548

10. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2023	2022	2023	2022
Mortgage interest	\$ 10,634	\$ 9,363	\$ 30,042	\$ 27,217
Amortization of deferred financing cost	1,659	1,481	4,981	4,321
Financing costs	\$ 12,293	\$ 10,844	\$ 35,023	\$ 31,538

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	
	2023	2022	2023	2022
Numerator				
Net profit	\$ 34,196	\$ 21,835	\$ 69,918	\$ 64,221
Denominator				
For basic profit per share				
Weighted average shares	9,318,818	9,341,202	9,320,996	9,343,879
Dilutive effect of stock options	–	–	–	–
For diluted profit per share	9,318,818	9,341,202	9,320,996	9,343,879
Profit per share				
– basic	\$ 3.67	\$ 2.34	\$ 7.50	\$ 6.87
– diluted	\$ 3.67	\$ 2.34	\$ 7.50	\$ 6.87

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, 2023		September 30, 2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 2	\$ 4,599	\$ 4,599	\$ 3,901	\$ 3,901
Cash and cash equivalents	Level 2	49,106	49,106	44,560	44,560
Trade and other receivables	Level 2	2,008	2,008	1,547	1,547
Financial liabilities:					
Mortgages payable	Level 2	1,538,588	1,465,688	1,433,453	1,359,828
Trade and other payables	Level 2	9,734	9,734	9,909	9,909
Refundable security deposits	Level 1	\$ 6,762	\$ 6,762	\$ 5,821	\$ 5,821

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

(000s of dollars)

		June 30, 2023		September 30, 2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$2,998,132	\$2,998,132	\$ 2,817,905	\$ 2,817,905

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.

Inflation, Labour Shortages and Supply Chain Risk

There is a risk that the Corporation could be adversely affected due to market changes particularly in supply, inflation, interest rates and regional rent controls. Canada saw significant inflation in the latter part of 2022 with the effects of inflation continuing to be felt in the first half of 2023, against the backdrop of sustained higher housing process, substantial supply constraints and geopolitical conflicts, all of which have increased prices for energy and agricultural markets. There has also been significant disruption to the global supply chain in the past year, including as a result of Russia's ongoing invasion of Ukraine, further disrupting global recovery as economies emerge from the impact of the pandemic. Further, as 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.

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 throughout 2022 and 2023, 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.

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 2.69%. However, the mortgage rate for a 10-year fixed CHMC mortgage has increased by almost 150 basis points since the beginning of the financial year. 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.

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, 2023, rents due from current tenants amounted to \$765,000 (September 30, 2022 – \$1,080,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$6.8 million (September 30, 2022 – \$5.8 million) and provisions for bad debts of \$160,000 (September 30, 2022 – \$160,000).

The aging bands of rents due from current tenants as at June 30, 2023 and September 30, 2022 are outlined in the table below:

(000s of dollars)

	Jun. 30, 2023	Sep. 30, 2022
0-30 days	\$ 543	\$ 699
31-60 days	104	171
61-90 days	53	24
Over 90 days	65	186
Total rents due from current tenants	\$ 765	\$ 1,080

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, 2023 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 240,536	160,967	131,515	223,411	819,099	\$1,575,528
Mortgage interest payable	42,455	34,576	29,004	25,738	63,872	195,645
Trade and other payables	9,734	–	–	–	–	9,734
Refundable security deposits	\$ 6,762	–	–	–	–	\$ 6,762

The timing of cash outflows relating to financial liabilities as at September 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	\$ 118,619	152,357	84,429	265,178	851,780	\$1,472,363
Mortgage interest payable	37,828	34,050	29,154	26,970	79,230	207,232
Trade and other payables	9,909	–	–	–	–	9,909
Refundable security deposits	\$ 5,821	–	–	–	–	\$ 5,821

Pandemic and Other Disease Risk

The COVID-19 pandemic has illustrated the substantial impact a pandemic can have on the economy. Uncertain economic conditions resulting from this or any pandemic may, in the short or long term, 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. It remains difficult to reliably estimate the impact of pandemics or other diseases on the financial results and condition of the Corporation in future periods.

14. GUARANTEES, CONTINGENCIES AND 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, 2023, and September 30, 2022, 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 nine months ended June 30, 2023, amounted to \$87,755 (2022 – \$76,250) and \$347,114 (2022 - \$300,368).

These commissions form part of the CEO's annual compensation. 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 commissions paid to the Chief Executive Officer during each year, such that once determined, that portion of the annual performance bonus paid in cash to the CEO by the Corporation amounts to the difference between the amount of the CEO's 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 commissions 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, 2023, amounting to \$82,512 (2022 – \$50,307) and \$298,302 (2022 – \$368,319) to a law firm of which a director and officer of the Corporation is a Senior Associate. As at June 30, 2023, the amounts payable to the law firm were \$811 (September 30, 2022 – \$315). 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,	
	2023	2022	2023	2022
BRITISH COLUMBIA				
Rental revenue	\$ 12,615	\$ 11,363	\$ 36,453	\$ 32,815
Other rental revenue	147	135	432	396
Ancillary revenue	238	201	690	619
Property operating expenses	3,430	2,971	10,381	9,274
Net operating income	9,570	8,728	27,194	24,556
Change in fair value	1,403	7,231	11,018	29,480
ALBERTA				
Rental revenue	\$ 29,860	\$ 24,923	\$ 85,960	\$ 72,670
Other rental revenue	236	194	672	559
Ancillary revenue	379	247	1,118	845
Property operating expenses	12,076	10,894	36,217	32,512
Net operating income	18,399	14,470	51,533	41,562
Change in fair value	18,855	3,229	32,075	1,776
SASKATCHEWAN				
Rental revenue	\$ 9,225	\$ 8,109	\$ 26,741	\$ 24,372
Other rental revenue	11	7	32	24
Ancillary revenue	127	83	340	339
Property operating expenses	3,979	3,646	12,375	11,551
Net operating income	5,384	4,553	14,738	13,184
Change in fair value	3,678	529	(3,773)	5,077
MANITOBA				
Rental revenue	\$ 897	\$ 228	\$ 1,693	\$ 521
Other rental revenue	–	–	6	–
Ancillary revenue	163	7	176	10
Property operating expenses	414	74	881	277
Net operating income	646	161	994	254
Change in fair value	(115)	(93)	(590)	(153)
TOTAL				
Rental revenue	\$ 52,597	\$ 44,623	\$ 150,847	\$ 130,378
Other rental revenue	394	336	1,142	979
Ancillary revenue	907	538	2,324	1,813
Property operating expenses	19,899	17,585	59,854	53,614
Net operating income	33,999	27,912	94,459	79,556
Change in fair value	23,821	10,896	38,730	36,180
Gain from disposal of assets	190	3,219	190	3,947
Unallocated revenue*	876	220	1,528	351
Unallocated expenses**	24,690	20,412	64,989	55,813
Profit for the period	\$ 34,196	\$ 21,835	\$ 69,918	\$ 64,221

* 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, 2023	Sept. 30, 2022
BRITISH COLUMBIA		
Investment properties	\$ 967,569	\$ 925,867
Property and equipment	23	28
Mortgages payable	334,886	337,356
Refundable security deposits	2,073	1,927
ALBERTA		
Investment properties	\$ 1,552,619	\$ 1,437,752
Property and equipment	6,132	6,403
Mortgages payable	928,821	818,649
Refundable security deposits	3,675	3,156
SASKATCHEWAN		
Investment properties	\$ 443,444	\$ 444,315
Property and equipment	881	914
Mortgages payable	274,881	277,448
Refundable security deposits	873	696
MANITOBA		
Investment properties	\$ 34,500	\$ 9,971
Property and equipment	3	1
Mortgages payable	–	–
Refundable security deposits	141	42
TOTAL		
Investment properties	\$ 2,998,132	\$ 2,817,905
Property and equipment	7,039	7,346
Mortgages payable	1,538,588	1,433,453
Refundable security deposits	6,762	5,821

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

	Nine months ended June 30, 2023	Year ended Sept. 30, 2021
BRITISH COLUMBIA	\$ 30,685	\$ 23,752
ALBERTA	82,981	79,863
SASKATCHEWAN	2,904	9,745
MANITOBA	25,122	2,820
TOTAL	\$ 141,692	\$ 116,180

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, 2023 amounted to \$2,818 million (September 30, 2022 – \$2,644 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 adjusts 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, 2023	Sep. 30, 2022
Mortgages payable	\$ 1,538,588	\$ 1,433,453
Total equity	1,279,749	1,210,750
Total capital	\$ 2,818,337	\$ 2,644,203

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, 2023 is approximately 50% (September 30, 2022 – 49%) 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, 2023	Sep. 30, 2022
Mortgages payable	\$ 1,538,588	\$ 1,433,453
Bank indebtedness	255	–
Cash and cash equivalents	49,106	44,560
Total debts	\$ 1,489,737	\$ 1,388,893
Investment properties	\$ 2,998,132	\$ 2,817,905
Debt to fair value ratio	50%	49%

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-ended June 30, 2023, the Corporation acquired additional 3 commercial units in the Province of Alberta for a total consideration of \$3.6 million.

19. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on July 20, 2023.