CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

($000s of Canadian dollars)

	June 30, 2017	September 30, 2016
Assets		
Non-current assets		
Investment properties [Note 4]	$ 1,485,636	$ 1,460,080
Property, plant and equipment	5,210	4,822
Intangible assets	464	423
	1,491,310	1,465,325
Current assets		
Prepaid assets	1,980	1,774
Prepaid current income tax	451	1,261
Trade and other receivables	906	1,614
Restricted cash	2,675	2,858
Inventory	379	338
Mortgage receivable	–	2,500
Cash and cash equivalents	41,938	1,095
	48,329	11,440
Total Assets	$ 1,539,639	$ 1,476,765
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	$ 818,381	$ 666,824
Deferred tax liabilities	123,670	123,162
	942,051	789,986
Current liabilities		
Mortgages payable [Note 5]	16,229	47,657
Trade and other payables	6,626	6,898
Refundable security deposits	4,040	4,100
Bank indebtedness [Note 6]	–	40,148
	26,895	98,803
Total Liabilities	968,946	888,789
Equity		
Share capital [Note 7]	24,284	24,315
Contributed surplus	2,382	2,404
Retained earnings	544,027	561,257
Total Equity	570,693	587,976
Total Liabilities and Equity	$ 1,539,639	$ 1,476,765

See accompanying notes to these condensed consolidated financial statements.

Bob Dhillon
Director

Joe Amantea
Director

July 18, 2017

CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS

Unaudited

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Rental revenue	$ 25,952	$ 24,225	$ 77,032	$ 74,108
Ancillary rental income	428	291	1,240	1,078
	26,380	24,516	78,272	75,186
Property operating expenses	9,760	8,970	31,148	27,031
Net operating income	16,620	15,546	47,124	48,155
Interest income	152	40	440	174
	16,772	15,586	47,564	48,329
Mortgage interest	6,655	6,369	21,763	19,227
Amortization of deferred financing cost	672	599	2,154	1,745
General and administrative expenses	2,702	2,327	7,803	6,549
Depreciation	110	93	295	264
	10,139	9,388	32,015	27,785
Profit before other items and income tax	6,633	6,198	15,549	20,544
Fair value loss [Note 4]	(17,282)	(5,273)	(33,575)	(57,758)
Insurance settlement	–	–	2,400	–
(Loss) profit before income tax	(10,649)	925	(15,626)	(37,214)
Current income tax	–	84	–	204
Deferred income tax (recovery) expense	(433)	1,100	508	(1,576)
Net loss and total comprehensive loss	$ (10,216)	$ (259)	$ (16,134)	$ (35,842)
Loss per share				
– basic [Note 8]	$ (1.15)	$ (0.03)	$ (1.82)	$ (3.66)
– diluted [Note 8]	$ (1.15))	$ (0.03)	$ (1.82)	$ (3.66)

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

($000s of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2015	$ 28,114	$ 2,404	$ 589,888	$ 620,406
Shares purchased for cancellation	(3,750)	–	(45,212)	(48,962)
Loss for the period	–	–	(35,842)	(35,842)
Balance, June 30, 2016	$ 24,364	$ 2,404	$ 508,834	$ 535,602
Shares purchased for cancellation	(49)	–	(590)	(639)
Profit for the period	–	–	53,013	53,013
Balance, September 30, 2016	$ 24,315	$ 2,404	$ 561,257	$ 587,976
Balance, October 1, 2016	$ 24,315	$ 2,404	$ 561,257	$ 587,976
Shares purchased for cancellation	(31)	–	(1,096)	(1,127)
Exercise of stock option	–	(22)	–	(22)
Loss for the period	–	–	(16,134)	(16,134)
Balance, June 30, 2017	$ 24,284	$ 2,382	$ 544,027	$ 570,693

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

($000s of Canadian dollars)

	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Cash obtained from (used in) operating activities		
Net loss	$ (16,134)	$ (35,842)
Adjustments for:		
Amortization of deferred financing cost	2,154	1,745
Depreciation	295	264
Fair value loss	33,575	57,758
Deferred income tax expense	508	(1,576)
Mortgage interest	21,763	19,227
Interest paid on mortgages payable	(21,763)	(19,220)
	20,398	22,356
Change in working capital		
Prepaid assets	(206)	(2,094)
Prepaid current income tax	810	(1,149)
Trade and other receivables	708	(424)
Inventory	(41)	140
Restricted cash	183	448
Mortgage receivables	2,500	–
Trade and other payables	(340)	(1,128)
Current income tax payable	–	(1,671)
Refundable security deposits	(60)	(280)
Cash from operating activities	23,952	16,198
Financing activities		
Bank indebtedness	(40,148)	(19,411)
Financing of investment properties	193,468	119,620
Repayment of mortgages payable	(76,219)	(47,420)
Repurchase of shares	(1,127)	(48,962)
Exercise of stock option	(22)	–
Cash from financing activities	75,952	3,827
Investing activities		
Purchase of and additions to investment properties	(58,337)	(19,759)
Purchase of and additions to property, plant and equipment	(683)	(299)
Purchase of and additions to intangible assets	(41)	(109)
Cash used in investing activities	(59,061)	(20,167)
Net increase in cash and cash equivalents	40,843	(142)
Cash and cash equivalents, beginning of period	1,095	1,526
Cash and cash equivalents, end of period	$ 41,938	$ 1,384
Cash and cash equivalents are comprised of:		
Cash (Overdraft)	$ 490	$ (164)
Short-term deposits	41,448	1,548
	41,938	1,384

See accompanying notes to these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited
(Thousands of Canadian dollars, except share and per share amounts and amounts within narrative)
For the three and nine months ended June 30, 2017 and 2016

1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation, incorporated under the Canada Business Corporations Act, 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.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The 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 condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended September 30, 2016

b) Basis of presentation

These condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2016.

These condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value. The condensed consolidated financial statements are prepared on a going concern basis and have been prepared in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects.

c) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned controlled subsidiary, Mainstreet Equity USA 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 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 for similar loans with similar credit ratings and the same maturities;

iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock options, expected volatility rate of and expected dividend rates;

iv) Allocation of purchase cost in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; 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.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

The new IFRS policies which are effective for annual periods beginning on or after January 1, 2018 are discussed below:

Certain new IFRSs which are related to accounting periods beginning on January 1, 2018 or later are not expected to have a significant effect on the consolidated financial statements. The following accounting policies have not yet been adopted by Mainstreet.

IFRS 9 – Financial Instruments – Effective for periods beginning on or after January 1, 2018

The IASB has undertaken a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") with IFRS 9 Financial Instruments ("IFRS 9"). In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. IFRS 9 is still available for early adoption. The full impact of the standard on the Corporation's financial statements will not be known until the assessment by the Corporation is complete.

IFRS 15 – Revenue from Contracts with Customers – Effective for periods beginning on or after January 1, 2018

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new Standard on its financial statements.

IFRS 16 – Leases – Effective for periods beginning on or after January 1, 2019

The new standard on leases supersedes IAS 17, Leases and Related Interpretations. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17. From a lessor perspective, the accounting remains similar to current practice of classifying leases as finance and operating leases. The Corporation is currently evaluating the impact of the new Standard on its financial statements.

4. INVESTMENT PROPERTIES

	Nine months ended June 30, 2017	Year ended Sept. 30, 2016
Balance, beginning of period	$ 1,460,080	$ 1,386,035
Additions	41,454	63,938
Building improvements	17,677	13,142
Fair value loss	(33,575)	(3,035)
Balance, end of period	$ 1,485,636	$ 1,460,080

The fair value of investment properties held by the Corporation as of September 30, 2016, was determined by independent qualified real estate appraisers who are members of the Appraisal nstitute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The appraisers also reviewed changes in market conditions affecting the underlying assumptions used for the fair value assessment during the period and management estimated the fair value of the investment properties based on the current market conditions at June 30, 2017 except for four properties acquired during the nine months ended June 30, 2017 for which the cost of acquisition was used as the best estimate of the fair market value as of June 30, 2017.

The average capitalization rates used in determining the fair value of investment properties are set out below:

	June 30, 2017	Sept. 30, 2016
Surrey, BC	4.41%	4.56%
Abbotsford, BC	5.13%	5.13%
Calgary, AB	4.98%	4.86%
Edmonton, AB	5.92%	5.92%
Saskatoon, SK	6.89%	6.77%
Investment properties	5.34%	5.41%

The direct capitalization method requires that an estimated forecasted net operating income ("NOI") be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such changes in both NOI and Cap Rate would significantly alter the fair value of investment properties. The tables below set out the impact of changes in both NOI and Cap Rate on the Corporation's fair values.

As at June 30, 2017

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 76,953	$ 78,540	$ 79,333	$ 80,126	$ 81,713
Capitalization rate						
-0.25%	5.09%	$ 26,210	$ 57,382	$ 72,968	$ 88,554	$ 119,727
Cap rate used	5.34%	$ (44,569)	$ (14,856)	$1,485,636	$ 14,856	$ 44,569
+0.25%	5.59%	$ (109,018)	$ (80,634)	$ (66,442)	$ (52,250)	$ (23,866)

As at September 30, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 76,621	$ 78,200	$ 78,990	$ 79,780	$ 81,360
Capitalization rate						
-0.25%	5.16%	$ 24,816	$ 55,432	$ 70,740	$ 86,049	$ 116,665
Cap rate used	5.41%	$ (43,802)	$ (14,601)	$1,460,080	$ 14,601	$ 43,802
+0.25%	5.66%	$ (106,359)	$ (78,447)	$ (64,491)	$ (50,535)	$ (22,624)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.07% (September 30, 2016 – 3.39%) per annum and are payable in monthly principal and interest installments totaling $3.5 million (September 30, 2016 - $3.2 million), maturing from 2017 to 2027 and are secured by specific charges against specific investment properties, having a fair value of $1,354 million (September 30, 2016 - $1,282 million).

	June 30, 2017	Sept. 30, 2016
Non-current	$ 818,381	$ 666,824
Current	16,229	47,657
	$ 834,610	$ 714,481

Estimated principal payments required to retire the mortgage obligations as of June 30, 2017 are as follows:

12 months ending June 30	Amount
2018	$ 19,172
2019	44,074
2020	57,995
2021	84,733
2022	59,403
Subsequent	589,087
	854,464
Deferred financing costs	(19,854)
	$ 834,610

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a new banking facility to a maximum amount 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 1.75%. 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 obtained and extension of the maturity date to December 6, 2019. As at June 30, 2017, the Corporation has drawn $Nil (September 30, 2016 - $40.1 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 56% and 1.28, respectively.

Overall funded debt to gross book value ratio as of June 30, 2017

(000s of dollars)	
Total funded debt	
Mortgages payable	$ 834,610
Bank indebtedness	–
	$ 834,610
Gross book value of assets	
Investment properties	$ 1,485,636
Property, plant and equipment	5,210
	$ 1,490,846
Overall funded debt to gross book value ratio	56%

Debt service coverage ratio

Earnings before interest, tax, depreciation, amortization, fair value loss, and nonrecurring earnings and gain

For 12 months ended June 30, 2017	
Net loss	$ 36,879
Add (deduct):	
Mortgage interest	26,137
Income tax	7,526
Depreciation	398
Amortization of deferred financing cost	2,789
Fair value loss	(21,148)
	$ 52,581
Principal and interest payments	$ 41,038
Debt service coverage ratio	1.28

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, 2017		Year ended September 30, 2016	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	8,883,333	$ 24,315	10,271,251	$ 28,114
Shares purchased for cancellation	(32,225)	(88)	(1,387,918)	(3,799)
Exercise of stock options	6,200	57	–	–
Issued and outstanding,				
– end of the period	8,857,308	$ 24,284	8,883,333	$ 24,315

All common shares have an equal right to dividends.

On May 30, 2017, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 479,437 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2017. The current NCIB expires on May 31, 2018. The Corporation's previous NCIB expired on May 30, 2017. During the three and nine months ended June 30, 2017 and 2016, the Corporation purchased and cancelled 29,825 (2016-31,792) and 32,225 (2016-170,128) common shares under the NCIB at an average price of $36.87 per common share (2016-$35.72), and $36.72 per common share (2016-$32.47), respectively. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

On April 22, 2016, Mainstreet purchased for cancellation 1.2 million of its common shares at a purchase price of $36 per common share for an aggregate purchase price of $43.2 million (not including fees and expenses), pursuant to a substantial issuer bid made in accordance with applicable securities laws.

8. LOSS PER SHARE

Basic (loss) 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 (loss) profit per share is used.

The following table sets forth the computation of basic and diluted (loss) profit per share:

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Numerator				
Net loss	$ (10,216)	$ (259)	$ (16,134)	$ (35,842)
Denominator				
For basic loss per share and diluted loss per share				
– Weighted average shares	8,868,574	9,086,815	8,878,319	9,798,525
Loss per share				
– basic	$ (1.15)	$ (0.03)	$ (1.82)	$ (3.66)
– diluted	$ (1.15)	$ (0.03)	$ (1.82)	$ (3.66)

Due to reported losses, the dilution calculation does not include 822,000 common shares and 828,200 common shares, respectively issuable upon proper exercise of outstanding stock options, for the nine months ended June 30, 2017 and 2016. If included, these items would be anti-dilutive and therefore are not included in the computation of diluted loss per common share.

9. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of June 30, 2017 and September 30, 2016 and changes during the periods are presented below:

	June 30, 2017		September 30, 2016	
Stock option	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning of the period	828,200	$ 5.51	828,200	$ 5.51
Exercised	(6,200)	$ 5.51	–	–
Outstanding and exercisable,				
– end of the period	822,000	$ 5.51	828,200	$ 5.51
Weighted average contractual life-years	1.69		2.44	
Prices	$ 5.51		$ 5.51	

During the nine months ended June 30, 2017, a director of the Corporation exercised 6,200 stock options. No stock options may be granted under the Corporation's stock option plan after March 24, 2017.

10. 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, mortgage receivable, bank indebtedness, mortgages payable, trade and other payables, and refundable security deposits. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows.

The fair values of restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, trade and other payables, and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

The fair values of mortgages receivable and 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, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	$ 2,675	$ 2,675	$ 2,858	$ 2,858
Cash and cash equivalents	Level 1	41,938	41,938	1,095	1,095
Trade and other receivables	Level 2	906	906	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
Financial liabilities:					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	834,610	855,738	714,481	769,086
Trade and other payables	Level 2	6,626	6,626	6,898	6,898
Refundable security deposits	Level 1	4,040	4,040	4,100	4,100

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

(000s of dollars)

		June 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	$1,485,636	$1,485,636	$1,460,080	$1,460,080

11. 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. Most of the Corporation's financial assets and liabilities are short term in nature and, accordingly, the fluctuation in the fair value is therefore minimal.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totaling approximately $3 million are subject to renewal during the financial year ending September 30, 2017. Changes 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 the Corporation's mortgages 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 not have resulted in any change in interest expense for the nine months ended June 30, 2017.

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, 2017, rents due from current tenants amounted to $335,000 (September 30, 2016 - $336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.0 million (September 30, 2016 - $4.1 million) and provisions for bad debts of $130,000 (September 30, 2016 - $130,000).

In relation to cash, cash equivalents and restricted cash, the Corporation believes that its exposure to credit risk is low. The Corporation places its cash, cash equivalents, and restricted cash only with reputable Canadian chartered financial institutions.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk by monitoring forecast and cash flows on a regular basis to meet expected operational expenses, by maintaining adequate banking facilities, and by matching the maturity profiles of financial assets and liabilities.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	$ 19,172	44,074	57,995	84,733	648,490	$ 854,464
Mortgage interest payable	$ 26,211	25,560	23,650	21,641	70,709	$ 167,771
Trade and other payables	$ 6,626	–	–	–	–	$ 6,626
Refundable security deposits	$ 4,040	–	–	–	–	$ 4,040

12. 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 condensed 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, 2017 and September 30, 2016, no amounts have been recorded and none are required to be disclosed in the condensed consolidated financial statements with respect to guarantees, contingencies and commitments.

13. RELATED PARTY TRANSACTIONS

a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the three and nine months ended June 30, 2017 were $21,000 (2016 – $Nil) and $143,100 (2016 – $53,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.

b) The Corporation paid legal and professional fees and reimbursements for the transactions conducted by the Corporation in its normal course of business for the three and nine months ended June 30, 2017 amounting to $11,000 (2016 - $18,000) and $208,500 (2016 - $147,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As at June 30, 2017, the amounts payable to the law firm were $1,200 (September 30, 2016 - $600).

14. SEGMENTED INFORMATION

The Corporation specializes in multi-family residential housing and operates primarily within one business segment in three provinces located in Canada. The following summary presents segmented financial information for the Corporation's continuing operations by geographic location:

RENTAL OPERATIONS

	Three months ended June 30		Nine months ended June 30	
	2017	2016	2017	2016
BRITISH COLUMBIA				
Rental revenue	$ 7,399	$ 6,987	$ 21,857	$ 20,358
Ancillary rental income	124	76	411	256
Fair value gain or (loss)	10,365	(2,074)	8,381	9,044
Property operating expenses	2,136	2,435	7,593	7,223
ALBERTA				
Rental revenue	$ 15,319	$ 14,867	$ 45,443	$ 46,569
Ancillary rental income	279	201	742	779
Fair value (loss)	(26,101)	(2,695)	(35,527)	(65,551)
Property operating expenses	6,389	5,615	19,495	16,905
SASKATCHEWAN				
Rental revenue	$ 3,234	$ 2,371	$ 9,732	$ 7,181
Ancillary rental income	25	14	87	43
Fair value (loss)	(1,545)	(504)	(6,429)	(1,251)
Property operating expenses	1,235	920	4,060	2,903
TOTAL				
Rental revenue	$ 25,952	$ 24,225	$ 77,032	$ 74,108
Ancillary rental income	428	291	1,240	1,078
Fair value (loss)	(17,281)	(5,273)	(33,575)	(57,758)
Property operating expenses	9,760	8,970	31,148	27,031
Unallocated revenue*	152	40	2,840	174
Unallocated expenses**	9,707	10,572	32,523	26,413
Loss for the period	$ (10,216)	$ (259)	$ (16,134)	$ (35,842)

* Unallocated revenue represents interest income and insurance settlement.

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

IDENTIFIABLE ASSETS AND LIABILITIES

	June 30, 2017	Sept. 30, 2016
BRITISH COLUMBIA		
Investment properties	$ 411,952	$ 400,400
Property, plant and equipment	15	19
Mortgages payable	241,200	156,543
Refundable security deposits	1,318	1,290
ALBERTA		
Investment properties	$ 908,671	$ 892,480
Property, plant and equipment	5,182	4,794
Mortgages payable	499,103	467,555
Refundable security deposits	2,177	2,218
SASKATCHEWAN		
Investment properties	$ 165,013	$ 167,200
Property, plant and equipment	13	9
Mortgages payable	94,307	90,383
Refundable security deposits	545	592
TOTAL		
Investment properties	$ 1,485,636	$ 1,460,080
Property, plant and equipment	5,210	4,822
Mortgages payable	834,610	714,481
Refundable security deposits	4,040	4,100

IDENTIFIABLE CAPITAL EXPENDITURES

	Nine months ended June 30, 2017	Year ended Sept. 30, 2016
BRITISH COLUMBIA	$ 3,171	$ 9,917
ALBERTA	52,438	28,044
SASKATCHEWAN	4,249	39,736
TOTAL	$ 59,858	$ 77,697

15. 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, 2017 amounted to

$1,405 million (September 30, 2016 - $1,343 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:

	June 30, 2017	Sept. 30, 2016
Mortgages payable	$ 834,610	$ 714,481
Bank indebtedness	–	40,148
Total equity	570,693	587,976
Total capital	$ 1,405,303	$ 1,342,605

The Corporation's policy for capital risk management is to keep a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at June 30, 2017 is approximately 56% (September 30, 2016 – 52%) which management believes leaves a sufficient capacity to raise additional funds from refinancing before the Corporation reaches its internal policy target ratio of 70%.

As at the dates set forth below, the debt to market value ratios were as follows:

	June 30, 2017	Sept. 30, 2016
Mortgages payable	$ 834,610	$ 714,481
Bank indebtedness	–	40,148
Total debts	$ 834,610	$ 754,629
Investment properties	$ 1,485,636	$ 1,460,080
Debt to fair value ratio	56%	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.

16. SUBSEQUENT EVENTS

Subsequent to the quarter ended June 30, 2017, the Corporation acquired 28 residential units in Calgary, Alberta for total consideration of $4.3 million.

17. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on July 18, 2017.