

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	March 31, 2018	September 30, 2017
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 1,729,924	\$ 1,632,235
Property, plant and equipment	5,314	5,235
Intangible assets	555	564
	<u>1,735,793</u>	<u>1,638,034</u>
Current assets		
Prepaid assets	3,184	1,639
Prepaid current income tax	110	110
Trade and other receivables	1,344	1,004
Restricted cash	2,852	2,730
Inventory	220	244
Cash and cash equivalents	24,147	24,767
	<u>31,857</u>	<u>30,494</u>
Total Assets	\$ 1,767,650	\$ 1,668,528
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	\$ 881,521	\$ 826,116
Deferred tax liabilities	144,889	140,554
	<u>1,026,410</u>	<u>966,670</u>
Current liabilities		
Mortgages payable [Note 5]	39,821	13,865
Trade and other payables	6,086	6,912
Refundable security deposits	4,230	4,108
	<u>50,137</u>	<u>24,885</u>
Total Liabilities	1,076,547	991,555
Equity		
Share capital [Note 7]	24,215	24,225
Contributed surplus	2,382	2,382
Retained earnings	664,506	650,366
Total Equity	691,103	676,973
Total Liabilities and Equity	\$ 1,767,650	\$ 1,668,528

See accompanying notes to these condensed consolidated financial statements.

(SIGNED)

“Bob Dhillon”
Director
May 3, 2018

(SIGNED)

“Joe Amantea”
Director

CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

Unaudited

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

	Three months ended March 31, 2018	Three months ended March 31, 2017	Six months ended March 31, 2018	Six months ended March 31, 2017
Rental revenue	\$ 27,940	\$ 25,579	\$ 54,704	\$ 51,078
Ancillary rental income	389	469	684	813
	28,329	26,048	55,388	51,891
Property operating expenses	11,408	11,234	22,045	21,387
Net operating income	16,921	14,814	33,343	30,504
Interest income	134	174	273	289
	17,055	14,988	33,616	30,793
Mortgage interest	7,164	6,802	13,976	15,107
Amortization of deferred financing cost	703	676	1,332	1,483
General and administrative expenses	2,652	2,702	5,423	5,101
Depreciation	109	97	210	186
	10,628	10,277	20,941	21,877
Profit before fair value gain (loss) and income tax	6,427	4,711	12,675	8,916
Fair value gain (loss) [Note 4]	7,100	(8,545)	5,925	(16,293)
Insurance Settlement	–	2,400	–	2,400
Profit (loss) before income tax	13,527	(1,434)	18,600	(4,977)
Deferred income tax expense	2,700	785	4,335	941
Net profit (loss) and total comprehensive income (loss)	\$ 10,827	\$ (2,219)	\$ 14,265	\$ (5,918)
Profit (loss) per share				
– basic [Note 8]	\$ 1.23	\$ (0.25)	\$ 1.62	\$ (0.67)
– diluted [Note 8]	\$ 1.13	\$ (0.25)	\$ 1.49	\$ (0.67)

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, 2016	\$ 24,315	\$ 2,404	\$ 561,257	\$ 587,976
Shares purchased for cancellation	(6)	–	(77)	(83)
Exercise of Stock Option	57	(22)	–	35
Loss for the period	–	–	(5,918)	(5,918)
Balance, March 31, 2017	\$ 24,366	\$ 2,382	\$ 555,262	\$ 582,010
Shares purchased for cancellation	(141)	–	(1,749)	(1,890)
Exercise of stock option	–	–	–	–
Profit for the period	–	–	96,853	96,853
Balance, September 30, 2017	\$ 24,225	\$ 2,382	\$ 650,366	\$ 676,973
Balance, October 1, 2017	\$ 24,225	\$ 2,382	\$ 650,366	\$ 676,973
Shares purchased for cancellation	(10)	–	(125)	(135)
Profit for the period	–	–	14,265	14,265
Balance, March 31, 2018	\$ 24,215	\$ 2,382	\$ 664,506	\$ 691,103

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(\$000s of Canadian dollars)

	Six months ended March 31, 2018	Six months ended March 31, 2017
Cash obtained from (used in) operating activities		
Net profit (loss)	\$ 14,265	\$ (5,918)
Adjustments for:		
Amortization of deferred financing cost	1,332	1,483
Depreciation	210	186
Fair value (loss) gain	(5,925)	16,293
Deferred income tax expense	4,335	941
Mortgage interest	13,976	15,107
Interest paid on mortgages payable	(13,976)	(15,107)
	14,217	12,985
Change in working capital		
Prepaid assets	(1,545)	(1,432)
Trade and other receivables	(340)	538
Inventory	24	79
Restricted cash	(122)	135
Trade and other payables	(531)	(145)
Refundable security deposits	122	(33)
Cash from operating activities	11,825	12,127
Financing activities		
Bank indebtedness	–	(40,148)
Financing of investment properties	24,691	193,468
Mortgage payments upon refinancing	–	(60,447)
Mortgage principal repayments	(8,536)	(7,610)
Deferred financing costs incurred	(896)	(4,103)
Excess of stock option	–	(22)
Repurchase of shares	(135)	(26)
Cash from financing activities	15,124	81,112
Investing activities		
Purchase of and additions to investment properties	(27,289)	(38,330)
Purchase of and additions to property, plant and equipment	(280)	(248)
Purchase of and additions to intangible assets	–	(37)
Mortgage receivable	–	2,500
Cash used in investing activities	(27,569)	(36,115)
Net (decrease) increase in cash and cash equivalents	(620)	57,124
Cash and cash equivalents, beginning of period	24,767	1,095
Cash and cash equivalents, end of period	\$ 24,147	\$ 58,219
Cash and cash equivalents are comprised of:		
Cash	\$ 952	\$ 2,380
Short-term deposits	23,195	55,839
	\$ 24,147	\$ 58,219

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 six months ended March 31, 2018 and 2017

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.

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 financial statements should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended September 30, 2017.

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, 2017.

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 condensed 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 of mortgages 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 and expected dividend rates;
- iv) Allocation of purchase cost in the acquisition of investment properties, 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

Certain new IFRSs related to accounting periods beginning on January 1, 2018 or later have not yet been adopted by Mainstreet.

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

On October 1, 2018, the Corporation will be required to adopt IFRS 9 “Financial Instruments”, which is the result of the first phase of the International Accounting Standards Board (“IASB”) project to replace IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives”. 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. Amendments to IFRS 7 “Financial Instruments: Disclosures” will also be required to be adopted by the Corporation simultaneously with IFRS 9. The Corporation is currently evaluating the impact of the new standard on its financial statements.

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

On October 1, 2018, the Corporation will be required to adopt IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 was issued in May 2014 and will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue Recognition”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements”. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Corporation’s ordinary activities. 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

	Six months ended March 31, 2018	Year ended Sept. 30, 2017
Balance, beginning of period	\$ 1,632,235	\$ 1,460,080
Additions	81,186	65,630
Building improvements	10,578	23,636
Fair value gain	5,925	82,889
Balance, end of period	\$ 1,729,924	\$ 1,632,235

The fair value of investment properties held by the Corporation as of September 30, 2017, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation’s investment properties in relevant locations. 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.

Except for the investment properties acquired during the six months ended March 31, 2018 for which the cost of acquisition was used as the best estimate of the fair market value as of March 31, 2018, the Corporation grouped its investment properties in each city by their types and geographic locations. Samples were selected in each group for independent appraisal. The appraised values of the samples selected were compared with their appraised values as of September 30, 2017. 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 March 31, 2018.

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

	March 31, 2018	Sept. 30, 2017
Surrey, BC	4.05%	4.05%
Abbotsford, BC	4.70%	4.70%
Calgary, AB	4.83%	4.81%
Edmonton, AB	5.66%	5.74%
Saskatoon, SK	6.73%	6.64%
Regina, SK	5.95%	N/A
Investment properties	5.20%	5.17%

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 March 31, 2018

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	87,219	\$ 89,017	\$ 89,916	\$ 90,815	\$ 92,613
Capitalization rate						
-0.25%	4.95%	32,066	68,396	86,561	104,726	141,055
Cap rate used	5.20%	(52,645)	(18,062)	1,729,924	16,521	51,104
+0.25%	5.45%	(129,584)	(96,587)	(80,089)	(63,591)	(30,594)

As at September 30, 2017

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	81,930	\$ 83,619	\$ 84,464	\$ 85,309	\$ 86,998
Capitalization rate						
-0.25%	4.92%	33,011	67,345	84,513	101,680	136,015
Cap rate used	5.17%	(47,514)	(14,839)	1,632,235	17,835	50,510
+0.25%	5.42%	(120,610)	(89,442)	(73,859)	(58,275)	(27,107)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.01% (September 30, 2017 – 3.07%) per annum and are payable in monthly principal and interest installments totaling \$3.8 million (September 30, 2017 – \$3.6 million), maturing from 2018 to 2027 and are secured by specific charges against specific investment properties, having a fair value of \$1,584 million (September 30, 2017 – \$1,478 million).

	March 31, 2018	Sept. 30, 2017
Non-current	\$ 881,521	\$ 826,116
Current	39,821	13,865
	\$ 921,342	\$ 839,981

Estimated principal payments required to retire the mortgage obligations as of March 31, 2018 are as follows:

12 months ending March 31, 2018	Amount
2019	\$ 42,767
2020	68,859
2021	91,996
2022	89,960
2023	48,803
Subsequent	597,703
	940,088
Deferred financing costs	(18,746)
	\$ 921,342

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a new 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 1.25%. 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 6, 2019. As at March 31, 2018, the Corporation has drawn \$Nil (September 30, 2017 – \$Nil) 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 March 31, 2018, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.3, respectively.

Overall funded debt to gross book value ratio

As at March 31, 2018

(\$000s)

Total funded debt

Mortgages payable \$ 921,342

Bank indebtedness –

\$ 921,342

Gross book value of assets

Investment properties \$ 1,729,924

Property, plant and equipment 5,314

\$ 1,735,238

Overall funded debt to gross book value ratio 53%

Debt service coverage ratio

Earnings before interest, tax, depreciation and amortization

For 12 months ended March 31, 2018

Net income \$ 111,118

Add (deduct):

Mortgage interest 27,271

Income tax 20,786

Depreciation 439

Amortization of finance cost 2,677

Fair value gain (105,108)

\$ 57,183

Principal and interest payments \$ 44,086

Debt service coverage ratio 1.30

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:

	Six months ended March 31, 2018		Year ended September 30, 2017	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	8,835,964	\$ 24,225	8,883,333	\$ 24,315
Shares purchased for cancellation	(3,659)	(10)	(53,569)	(147)
Exercise of stock option	–	–	6,200	57
Issued and outstanding,				
– end of the period	8,832,305	\$ 24,215	8,835,964	\$ 24,225

All common shares have an equal right to dividends.

In the fiscal year 2017, a director of the Corporation exercised 6,200 stock options to purchase 6,200 common shares at the exercise price of \$5.51 per common share.

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 six months ended March 31, 2018 and 2017, the Corporation purchased and cancelled 3,659 common shares and 2,400 common shares respectively, at an average price of \$37.02 and \$34.82 per common share. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

8. PROFIT (LOSS) PER SHARE

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

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

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Numerator				
Net profit (loss)	\$ 10,827	\$ (2,219)	\$ 14,264	\$ (5,918)
Denominator				
For basic profit (loss) per share				
Weighted average shares	8,832,305	8,882,957	8,832,639	8,883,147
Dilutive effect	712,351	–	710,913	–
For diluted loss per share	9,544,656	8,882,957	9,543,552	8,883,147
Profit (loss) per share				
– basic	\$ 1.23	\$ (0.25)	\$ 1.61	\$ (0.67)
– diluted	\$ 1.13	\$ (0.25)	\$ 1.49	\$ (0.67)

Due to reported loss in the three and six months ended March 31, 2017, the dilution calculation does not include 822,000 common shares and 828,200 common shares, respectively issuable upon proper exercise of outstanding stock options. If included, these items would be anti-dilutive and therefore are not included in the computation of diluted loss per share.

9. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of March 31, 2018 and September 30, 2017 and changes during the periods are presented below:

Stock option	March 31, 2018		September 30, 2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, – beginning of the period	822,000	\$ 5.51	828,200	\$ 5.51
Exercised	–	–	(6,200)	\$ 5.51
Outstanding and exercisable, – end of the period	822,000	\$ 5.51	822,000	\$ 5.51
Weighted average contractual life-years	0.94		1.44	
Prices	\$ 5.51		\$ 5.51	

During the six months ended March 31, 2018, no stock options were granted, exercised or cancelled. 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, 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 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)

	March 31, 2018		September 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Restricted cash	\$ 2,852	\$ 2,852	\$ 2,730	\$ 2,730
Cash and cash equivalents	24,147	24,147	24,767	24,767
Trade and other receivables	1,344	1,344	1,004	1,004
Financial liabilities:				
Mortgages payable	921,342	926,077	839,981	844,147
Trade and other payables	6,086	6,086	6,912	6,912
Refundable security deposits	4,230	4,230	4,108	4,108

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

		March 31, 2018		September 30, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$1,729,924	\$1,729,924	\$1,632,235	\$1,632,235

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. No Mortgages are subject to renewal during the financial year ending September 30, 2018. 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 any change of interest expense for the six months ended March 31, 2018 due to the primarily fixed rate nature of the Corporation's mortgages.

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 March 31, 2018, rents due from current tenants amounted to \$319,291 (September 30, 2017 – \$355,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.2 million (September 30, 2017 – \$4.1 million) and provisions for bad debts of \$140,000 (September 30, 2017 – \$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, 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 are outlined in the table below:

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 42,767	68,859	91,996	89,960	646,506	\$ 940,088
Mortgage interest payable	28,284	26,398	24,688	21,199	62,277	162,846
Trade and other payables	6,086	–	–	–	–	6,086
Refundable security deposits	\$ 4,230	–	–	–	–	\$ 4,230

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 March 31, 2018 and September 30, 2017, 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. Except in limited circumstances, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the three and six months ended March 31, 2018 were \$41,745 (2017 – \$51,600) and \$806,745 (2017 – \$51,600) respectively 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 three and six months ended March 31, 2018 amounting to \$39,344 (2017 – \$240,000) and \$95,344 (2017 – \$240,000) to a law firm of which a director and officer of the Corporation is a partner. As at March 31, 2018, the amounts payable to the law firm were \$3,727 (September 30, 2017 – \$Nil).

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

(\$000s of dollars)

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
BRITISH COLUMBIA				
Rental revenue	\$ 7,631	\$ 7,252	\$ 15,201	\$ 14,458
Ancillary rental income	144	172	241	287
Fair value gain or (loss)	6,540	(919)	6,717	(1,984)
Property operating expenses	2,476	2,827	4,956	5,457
ALBERTA				
Rental revenue	\$ 15,387	\$ 15,050	\$ 30,734	\$ 30,122
Ancillary rental income	223	257	395	464
Fair value gain or (loss)	3,525	(3,817)	1,196	(9,425)
Property operating expenses	6,775	6,868	13,320	13,105
SASKATCHEWAN				
Rental revenue	\$ 4,922	\$ 3,277	\$ 8,769	\$ 6,498
Ancillary rental income	22	40	48	62
Fair value (loss)	(2,965)	(3,809)	(1,988)	(4,884)
Property operating expenses	2,157	1,539	3,769	2,825
TOTAL				
Rental revenue	\$ 27,940	\$ 25,579	\$ 54,704	\$ 51,078
Ancillary rental income	389	469	684	813
Fair value gain or (loss)	7,100	(8,545)	5,925	(16,293)
Property operating expenses	11,408	11,234	22,045	21,387
Unallocated revenue*	134	2,574	273	2,689
Unallocated expenses**	13,328	11,062	25,276	22,818
Profit (loss) for the period	\$ 10,827	\$ (2,219)	\$ 14,265	\$ (5,918)

* 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

(\$000s of dollars)

	March 31, 2018	Sept. 30, 2017
BRITISH COLUMBIA		
Investment properties	\$ 490,995	\$ 482,825
Property, plant and equipment	11	14
Mortgages payable	238,288	240,236
Refundable security deposits	1,330	1,330
ALBERTA		
Investment properties	\$ 972,005	\$ 954,710
Property, plant and equipment	5,263	5,208
Mortgages payable	516,241	494,080
Refundable security deposits	2,141	2,160
SASKATCHEWAN		
Investment properties	\$ 266,924	\$ 194,700
Property, plant and equipment	40	13
Mortgages payable	166,813	105,665
Refundable security deposits	759	618
TOTAL		
Investment properties	\$ 1,729,924	\$ 1,632,235
Property, plant and equipment	5,314	5,235
Mortgages payable	921,342	839,981
Refundable security deposits	4,230	4,108

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

	Six months ended March 31, 2018	Year ended Sept. 30, 2017
BRITISH COLUMBIA	\$ 1,452	\$ 4,162
ALBERTA	16,348	61,540
SASKATCHEWAN	74,242	24,535
TOTAL	\$ 92,042	\$ 90,237

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 March 31, 2018 amounted to \$1,612 million (September 30, 2017 – \$1,517 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:

	March 31, 2018	Sept. 30, 2017
Mortgages payable	\$ 921,342	\$ 839,981
Total equity	691,103	676,973
Total capital	\$ 1,612,445	\$ 1,516,954

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 March 31, 2018 is approximately 53% (September 30, 2017 – 51%) 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:

	March 31, 2018	Sept. 30, 2017
Mortgages payable	\$ 921,342	\$ 839,981
Total debts	921,342	839,981
Investment properties	1,729,924	1,632,235
Property, plant and equipment	5,314	5,235
	1,735,238	1,637,470
Debt to fair value ratio	53%	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.

16. SUBSEQUENT EVENTS

Subsequent to the quarter ended March 31, 2018, the Corporation has also financed seven clear-title properties for \$20 million at an interest rate of 2.99%.

Subsequent to the quarter ended March 31, 2018, the Corporation acquired additional 169 residential units in the provinces of Alberta and Saskatchewan for a total consideration of \$17.8 million.

17. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on May 3, 2018.