

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (\$000s of Canadian dollars)

	Note	December 31, 2017	September 30, 2017
Non-current assets			
Investment properties	4	\$ 1,718,066	\$ 1,632,235
Property, plant and equipment		5,225	5,235
Intangible assets		571	564
		1,723,862	1,638,034
Current assets			
Prepaid assets		3,174	1,639
Prepaid current income tax		110	110
Trade and other receivables		1,665	1,004
Restricted cash		2,793	2,730
Inventory		219	244
Cash and cash equivalents		23,521	24,767
		31,482	30,494
Total assets		\$ 1,755,344	\$ 1,668,528
Liabilities			
Non-current liabilities			
Mortgages payable	5	\$ 881,300	\$ 826,116
Deferred tax liabilities		142,189	140,554
		1,023,489	966,670
Current liabilities			
Mortgages payable	5	40,448	13,865
Trade and other payables		6,963	6,912
Refundable security deposits		4,167	4,108
		51,578	24,885
Total liabilities		1,075,067	991,555
Equity			
Share capital	7	24,215	24,225
Contributed surplus		2,382	2,382
Retained earnings		653,680	650,366
Total equity		680,277	676,973
Total liabilities and equity		\$ 1,755,344	\$ 1,668,528

See accompanying notes to these condensed consolidated financial statements.

(Signed)

"Bob Dhillon"
Director
February 7, 2018

(Signed)

"Joe Amantea"
Director

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

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

Three months ended December 31,	Note	2017	2016
Rental revenue		\$ 26,764	\$ 25,499
Ancillary rental income		295	344
		27,059	25,843
Property operating expenses		\$ 10,637	\$ 10,153
Net operating income		16,422	15,690
Interest income		139	114
		16,561	15,804
Mortgage interest		6,812	8,305
Amortization of deferred financing cost		629	807
General and administrative expenses		2,771	2,398
Depreciation		101	88
		10,313	11,598
Profit before fair value loss and income tax		6,248	4,206
Fair value loss	4	(1,174)	(7,748)
Profit (loss) before income tax		5,074	(3,542)
Deferred income tax expense		1,635	156
Net profit (loss) and total comprehensive income		\$ 3,439	\$ (3,698)
Net profit per share			
Basic	8	\$ 0.39	\$ (0.42)
Diluted	8	\$ 0.36	\$ (0.42)

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (\$000s of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Total shareholders equity
Balance, October 1, 2016		\$ 24,315	\$ 2,404	\$ 561,257	\$ 587,976
Loss for the period		–	–	(3,698)	(3,698)
Balance, December 31, 2016		24,315	2,404	557,559	584,278
Shares purchased for cancellation		(147)	–	(1,826)	(1,973)
Exercise of stock option		57	(22)	–	35
Profit for the period		–	–	94,633	94,633
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		–	–	3,439	3,439
Balance, December 31, 2017		\$ 24,215	\$ 2,382	\$ 653,680	\$ 680,277

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

Unaudited (\$000s of Canadian dollars)

Three months ended December 31,	Note	2017	2016
Cash obtained from (used in) operating activities			
Net profit (loss)		\$ 3,439	\$ (3,698)
Adjustments for:			
Amortization of deferred financing cost		629	807
Depreciation		101	88
Fair value loss		1,174	7,748
Deferred income tax expense		1,635	156
Mortgage interest		6,812	8,305
Interest paid on mortgages payable		(6,812)	(8,305)
		6,978	5,101
Change in working capital			
Prepaid assets		(1,535)	(802)
Trade and other receivables		(661)	233
Inventory		25	34
Restricted cash		(63)	184
Trade and other payables		383	(875)
Refundable security deposits		59	(93)
Cash from operating activities		5,186	3,782
Financing activities			
Bank indebtedness		–	(40,148)
Financing of investment properties		21,203	145,282
Mortgage payments upon refinancing		–	(49,547)
Mortgage principal repayments		(4,074)	(3,340)
Deferred financing costs incurred		(761)	(4,206)
Repurchase of shares		(135)	–
Cash from financing activities		16,233	48,041
Investing activities			
Purchase of and additions to investment properties		(22,567)	(10,591)
Purchase of and additions to property, plant and equipment		(91)	(106)
Purchase of and additions to intangible assets		(7)	(14)
Mortgage receivable		–	2,500
Cash used in investing activities		(22,665)	(8,211)
Net (decrease) increase in cash and cash equivalents		(1,246)	43,612
Cash and cash equivalents, beginning of period		24,767	1,095
Cash and cash equivalents, end of period		\$ 23,521	\$ 44,707
Cash and cash equivalents are comprised of:			
Cash		\$ 1,493	\$ 1,524
Short-term deposits		22,028	43,183
		\$ 23,521	\$ 44,707

See accompanying notes to these condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2017 and 2016

Unaudited (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.

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 which are related to accounting periods beginning on January 1, 2018 or later are not expected to have a significant effect on the condensed 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

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

	Three months ended Dec. 31, 2017	Year ended Sep. 30, 2017
Balance, beginning of period	\$ 1,632,235	\$ 1,460,080
Additions	81,186	65,630
Building improvements	5,819	23,636
Fair value (loss) gain	(1,174)	82,889
Balance, end of period	\$ 1,718,066	\$ 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 three months ended December 31, 2017 for which the cost of acquisition was used as the best estimate of the fair market value as of December 31, 2017, 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 December 31, 2017.

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

	Dec. 31, 2017	Sep. 30, 2017
Surrey, BC	4.05%	4.05%
Abbotsford, BC	4.70%	4.70%
Calgary, AB	4.84%	4.81%
Edmonton, AB	5.74%	5.74%
Regina, SK	5.95%	N/A
Saskatoon, SK	6.67%	6.64%
Investment properties	5.22%	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 December 31, 2017

		-3%	-1%	As estimated	+1%	+3%
Net operating income	\$	87,028	\$ 88,823	\$ 89,720	\$ 90,617	\$ 92,412
Capitalization rate						
-0.25%	4.97%	\$ 33,008	\$ 69,113	\$ 87,165	\$ 105,218	\$ 141,322
Cap rate used	5.22%	\$ (50,855)	\$ (16,480)	\$ 1,718,066	\$ 17,896	\$ 52,271
+25%	5.47%	\$ (127,053)	\$ (94,249)	\$ (77,847)	\$ (61,444)	\$ (28,640)

As at September 30, 2017

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

	Dec. 31, 2017	Sep. 30, 2017
Non-current	\$ 881,300	\$ 826,116
Current	40,448	13,865
	\$ 921,748	\$ 839,981

Estimated principal payments required to retire the mortgage obligations as of December 31, 2017 are as follows:

12 months ended December 31,	Amount
2018	\$ 43,410
2019	76,172
2020	88,093
2021	62,592
2022	55,317
Subsequent	615,478
	941,062
Deferred financing costs	(19,314)
	\$ 921,748

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 December 31, 2017, 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 December 31, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.28, respectively.

Overall funded debt to gross book value ratio as of December 31, 2017

(000s of dollars except per share amounts)

Total funded debt

Mortgages payable	\$ 921,748
Bank indebtedness	—
	\$ 921,748

Gross book value of assets

Investment properties	\$ 1,718,066
Property, plant and equipment	5,225
	\$ 1,723,291
Overall funded debt to gross book value ratio	53%

Debt service coverage ratio

(000s of dollars)

Earnings before interest, tax, depreciation and amortization for 12 months ended December 31, 2017

Net income	\$ 98,072
Add (deduct):	
Mortgage interest	26,909
Income tax	18,871
Depreciation	427
Amortization of finance cost	2,650
Insurance settlement	(2,400)
Fair value (gain)	(89,463)
	\$ 55,066
Principal and interest payments	\$ 42,969
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:

	Three months ended Dec. 31, 2017		Year ended Sep. 30, 2017	
	Number of common shares	Amount	Number of common shares	Amount
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 year	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 three months ended December 31, 2017 and 2016, the Corporation purchased and cancelled 3,659 common shares and Nil common shares, respectively at an average price of \$37.02 per common share and Nil. 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:

(In 000s, except share and per share amounts)

Three months ended December 31,	2017	2016
Numerator		
Net profit (loss)	\$ 3,439	\$ (3,698)
Denominator		
For basic profit (loss) per share		
Weighted average shares	8,832,966	8,883,333
Dilutive effect	709,436	–
For diluted loss per share	9,542,402	8,883,333
Profit (loss) per share		
Basic	\$ 0.39	\$ (0.42)
Diluted	\$ 0.36	\$ (0.42)

Due to reported loss for the three months ended December 31, 2016, the dilution calculation does not include 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 December 31, 2017 and September 30, 2017 and changes during the periods are presented below:

Stock option	December 31, 2017		September 30, 2017	
	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	828,200	\$ 5.51	822,000	\$ 5.51
Weighted average contractual life – years	1.19		1.44	
The range of exercise prices	\$ 5.51		\$ 5.51	

During the quarter ended December 31, 2017, 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:

<i>in 000s</i>		December 31, 2017		September 30, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Restricted cash	Level 1	\$ 2,793	\$ 2,793	\$ 2,730	\$ 2,730
Cash and cash equivalents	Level 1	23,521	23,521	24,767	24,767
Trade and other receivables	Level 2	1,665	1,665	1,004	1,004
Financial liabilities					
Mortgages payable	Level 2	921,748	931,968	839,981	844,147
Trade and other payables	Level 2	6,963	6,963	6,912	6,912
Refundable security deposits	Level 1	\$ 4,167	\$ 4,167	\$ 4,108	\$ 4,108

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

<i>in 000s</i>		December 31, 2017		September 30, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets					
Investment properties	Level 3	\$ 1,718,066	\$ 1,718,066	\$ 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 three months ended December 31, 2017 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 December 31, 2017, rents due from current tenants amounted to \$315,000 (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 \$130,000 (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, 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:

<i>in 000s</i>	1 Year	2 Years	3 Years	4 Years	Beyond 4 years	Total
Mortgages payable	\$ 43,410	\$ 76,172	\$ 88,093	\$ 62,592	\$ 670,795	\$ 941,062
Mortgage interest payable	27,722	25,832	23,989	20,660	67,001	165,204
Trade and other payables	6,963	–	–	–	–	6,963
Refundable security deposits	\$ 4,167	\$ –	\$ –	\$ –	\$ –	\$ 4,167

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 December 31, 2017 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 months ended December 31, 2017 were \$765,000 (2017 – \$51,600) 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 months ended December 31, 2017 amounting to \$56,000 (2017 - \$240,000) to a law firm of which a director and officer of the Corporation is a partner. As at December 31, 2017, the amounts payable to the law firm were \$3,800 (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 December 31,	2017	2016
BRITISH COLUMBIA		
Rental revenue	\$ 7,571	\$ 7,206
Ancillary rental income	96	115
Fair value gain (loss)	178	(1,065)
Property operating expenses	\$ 2,480	\$ 2,630
ALBERTA		
Rental revenue	\$ 15,346	\$ 15,071
Ancillary rental income	172	207
Fair value gain (loss)	(2,329)	(5,608)
Property operating expenses	\$ 6,545	\$ 6,237
SASKATCHEWAN		
Rental revenue	\$ 3,847	\$ 3,222
Ancillary rental income	27	22
Fair value gain (loss)	977	(1,075)
Property operating expenses	\$ 1,612	\$ 1,286
TOTAL		
Rental revenue	\$ 26,764	\$ 25,499
Ancillary rental income	295	344
Fair value (loss)	(1,174)	(7,748)
Property operating expenses	10,637	10,153
Unallocated revenue*	139	114
Unallocated expenses**	\$ 11,948	\$ 11,754
Profit (loss) for the period	\$ 3,439	\$ (3,698)

* Unallocated revenue represents interest income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(\$000s of dollars)

	Dec. 31, 2017	Sep. 30, 2017
BRITISH COLUMBIA		
Investment properties	\$ 483,795	\$ 482,825
Property, plant and equipment	12	14
Mortgages payable	239,263	240,236
Refundable security deposits	\$ 1,326	\$ 1,330
ALBERTA		
Investment properties	\$ 965,257	\$ 954,710
Property, plant and equipment	5,195	5,208
Mortgages payable	514,553	494,080
Refundable security deposits	\$ 2,135	\$ 2,160
SASKATCHEWAN		
Investment properties	\$ 269,014	\$ 194,700
Property, plant and equipment	18	13
Mortgages payable	167,553	105,665
Refundable security deposits	\$ 706	\$ 618
TOTAL		
Investment properties	\$ 1,718,066	\$ 1,632,235
Property, plant and equipment	5,225	5,235
Mortgages payable	921,748	839,981
Refundable security deposits	\$ 4,167	\$ 4,108

IDENTIFIABLE CAPITAL EXPENDITURES

(\$000s of dollars)

	Three months ended Dec. 31, 2017	Year ended Sep. 30, 2017
BRITISH COLUMBIA	\$ 792	\$ 4,162
ALBERTA	12,968	61,540
SASKATCHEWAN	73,343	24,535
TOTAL	\$ 87,103	\$ 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 December 31, 2017 amounted to \$1,602 million (September 30, 2017 - \$1,516 million).

The Corporation aims to manage its capital resources to maintain financial strength and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity and mortgages.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the Corporation is summarized below:

(\$000s of dollars)

	Dec. 31, 2017	Sep. 30, 2017
Mortgages payable	\$ 921,748	\$ 839,981
Bank indebtedness	–	–
Total equity	680,277	676,973
Total Capital	\$ 1,602,025	\$ 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 December 31, 2017 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:

\$000s of dollars)

	Dec. 31, 2017	Sep. 30, 2017
Mortgages payable	\$ 921,748	\$ 839,981
Bank indebtedness	–	–
Total debts	921,748	839,981
Investment properties	\$ 1,718,066	\$ 1,632,235
Property, plant and equipment	5,225	5,235
	\$ 1,723,291	\$ 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. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on February 7, 2018.