INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

($000s of Canadian dollars)

	Dec. 31, 2019	Sep. 30, 2019
Assets		
Non-current assets		
Investment properties [Note 4]	$ 2,046,569	$ 2,040,051
Property and equipment	6,427	6,389
Intangible assets	1,392	1,145
	2,054,388	2,047,585
Current assets		
Prepaid assets	4,903	2,032
Prepaid current income tax	110	110
Trade and other receivables	1,525	1,878
Restricted cash	3,260	3,387
Inventory	684	963
Cash and cash equivalents	1,686	70
	12,168	8,440
Total Assets	$ 2,066,556	$ 2,056,025
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	$ 907,984	$ 898,645
Deferred tax liabilities	163,218	165,870
	1,071,202	1,064,515
Current liabilities		
Mortgages payable [Note 5]	107,251	121,078
Trade and other payables	7,448	8,911
Refundable security deposits	4,668	4,774
Bank indebtedness [Note 6]	70,106	56,442
	189,473	191,205
Total Liabilities	1,260,675	1,255,720
Equity		
Share capital [Note 7]	26,597	26,597
Retained earnings	779,284	773,708
Total Equity	805,881	800,305
Total Liabilities and Equity	$ 2,066,556	$ 2,056,025

See accompanying notes to these interim condensed consolidated financial statements.

(Signed)
"Bob Dhillon"
Director

(Signed)
"Joe Amantea"
Director

February 5, 2020

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

Unaudited

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

Three months ended December 31,	2019	2018
Rental revenue [Note 8]	$ 36,210	$ 32,192
Ancillary revenue	485	416
Total rental and ancillary revenue	36,695	32,608
Property operating expenses [Note 9]	13,407	11,815
Net operating income	23,288	20,793
Financing costs [Note 10]	9,122	8,377
General and administrative expenses {Note 9]	2,816	3,081
Depreciation	155	113
Interest income	(37)	(43)
Other income	–	(210)
	12,056	11,318
Profit before Fair value gain and income tax	11,232	9,475
Change in fair value [Note 4]	(8,308)	(1,308)
Profit before income tax	2,924	8,167
Deferred income tax expense	(2,652)	2,324
Net profit and total comprehensive income	$ 5,576	$ 5,843
Profit per share		
– basic [Note 11]	$ 0.59	$ 0.66
– diluted [Note 11]	$ 0.59	$ 0.61

See accompanying notes to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

($000s of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2018	$ 24,215	$ 2,382	$ 722,964	$ 749,561
Stock option cash settlement	2,382	(2,382)	(7,941)	(7,941)
Profit for the year	–	–	58,685	58,685
Balance, September 30, 2019	$ 26,597	$ –	$ 773,708	$ 800,305
Profit for the year	–	–	5,576	5,576
Balance, December 31, 2019	$ 26,597	$ –	$ 779,284	$ 805,881

See accompanying notes to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

($000s of Canadian dollars)

Three months ended December 31,		2019		2018
Cash obtained from (used in) operating activities				
Net profit	$	5,576	$	5,843
Adjustments for:				
Depreciation		155		113
Change in fair value		8,308		1,308
Deferred income tax expense		(2,652)		2,324
Financing costs [Note 10]		9,122		8,377
Deferred financing costs incurred		(3,926)		(742)
Interest paid on mortgages [Note 10]		(8,259)		(7,634)
Cash from operating activities before changes in non-cash working capital		8,324		9,589
Change in working capital				
Prepaid assets		(2,871)		(1,334)
Trade and other receivables		353		(250)
Inventory		279		183
Restricted cash		127		(107)
Trade and other payables		(756)		440
Refundable security deposits		(106)		120
Cash from operating activities		5,350		8,641
Financing activities				
Bank indebtedness		13,664		31,888
Financing of investment properties		64,487		20,495
Mortgage principal repayments		(5,198)		(4,738)
Mortgage payments upon refinancing		(60,714)		–
Cash from financing activities		12,239		47,645
Investing activities				
Purchase of and additions to investment properties [Note 4]		(15,533)		(55,101)
Purchase of and additions to property and equipment		(154)		(1,245)
Purchase of and additions to intangible assets		(286)		(433)
Proceeds from disposal		–		935
Cash used in investing activities		(15,973)		(55,844)
Net increase in cash and cash equivalents		1,616		442
Cash and cash equivalents, beginning of period		70		384
Cash and cash equivalents, end of period	$	1,686	$	826
Cash and cash equivalents are comprised of:				
Cash	$	–	$	–
Short-term deposits		1,686		826
	$	1,686	$	826

See accompanying notes to these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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

For the three months ended December 31, 2019 and 2018

1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation, incorporated under the Business Corporations Act (Alberta), focused on acquiring and managing mid-market residential rental apartment buildings in major markets primarily in Western Canada. The registered office and head office of the Corporation are located at 1413 2nd Street SW Calgary, Alberta T2R 0W7 and 305 10th Avenue SE Calgary, Alberta T2G 0W2, respectively. Navjeet (Bob) Dhillon, President and Chief Executive Officer of the Corporation, owns 46% of the outstanding common shares of the Corporation.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The interim condensed consolidated financial statements of the Corporation have been prepared in compliance with International Accounting Standards ("IAS") 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and adopted by the Chartered Professional Accountants of Canada ("CPA"). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed and, therefore, these financial statements should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended September 30, 2019.

b) Basis of presentation

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

c) Basis of consolidation

The interim condensed consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, MEQ Asset Management Corp. All inter-company transactions, balances, revenue and expenses have been eliminated on consolidation.

d) Key accounting estimates and assumptions

The following are the key accounting estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate, net operating income and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 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 are outlined in Note 13;

iii) Allocation of purchase cost in the acquisition of investment properties is based on information from industry practice and entity specific history;

iv) Allocation of purchase cost in the acquisition of property and equipment into different components, estimation of useful life and impairment are based on information from industry practice and entity specific history; and

v) The amount of temporary differences between the 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 or after January 1, 2019 are not expected to have a significant effect on the Mainstreet's 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 believes the adoption of IFRS 16 will not have material impact on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(000s of dollars)

	Three months ended Dec. 31, 2019	Year ended Sep. 30, 2019
Balance, beginning of year	$ 2,040,051	$ 1,865,897
Additions related to acquisitions	11,654	129,389
Building improvements	3,172	18,792
Disposal	–	(935)
Change in fair value	(8,308)	26,908
Balance, end of period	$ 2,046,569	$ 2,040,051

The fair value of investment properties held by the Corporation as of December 31, 2019 and September 30, 2019, were determined through external valuations obtained from independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in the relevant locations. In addition, the Corporation has established an internal valuation model, which is based on the same assumptions and valuation techniques used by the external valuation professionals. The Corporation 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 of the previous corresponding financial quarters. The percentage changes in values of those samples selected were applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of December 31, 2019 and September 30, 2019. Properties are selected on a rotational basis and approximately 40% of the Corporation's portfolio is externally valued annually.

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

	Dec. 31, 2019	Sep. 30, 2019
Surrey, British Columbia	4.74%	4.19%
Abbotsford, British Columbia	4.85%	4.66%
Calgary, Alberta	4.83%	4.85%
Edmonton, Alberta	5.70%	5.59%
Saskatoon, Saskatchewan	6.54%	6.64%
Regina, Saskatchewan	6.32%	6.08%
Investment properties	5.34%	5.20%

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, 2019

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 106,107	$ 108,295	$ 109,389	$ 110,483	$ 112,671
Capitalization rate						
-0.25%	5.09%	$ 38,054	$ 81,036	$ 102,527	$ 124,018	$ 167,000
Cap rate used	5.34%	$ (59,540)	$ (18,571)	$2,046,569	$ 22,399	$ 63,369
+0.25%	5.59%	$ (148,406)	$ (109,268)	$ (89,700)	$ (70,131)	$ (30,994)

As at September 30, 2019

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 102,984	$ 105,107	$ 106,169	$ 107,231	$ 109,354
Capitalization rate						
-0.25%	4.95%	$ 40,432	$83,329	$ 104,777	$ 126,226	$ 169,122
Cap rate used	5.20%	$ (59,591)	$ (18,757)	$2,040,051	$ 22,078	$ 62,912
+0.25%	5.45%	$ (150,438)	$ (111,477)	$ (91,996)	$ (72,515)	$ (33,554)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.99% (September 30, 2019 – 2.97%) per annum and are payable in monthly principal and interest installments totaling $4.3 million (September 30, 2019 – $4.3 million), maturing from 2020 to 2029 and are secured by specific charges against specific investment properties, having a fair value of $1,795 million (September 30, 2019 – $1,823 million) has been provided as security for the mortgage payable.

(000s of dollars)

	Dec. 31, 2019	Sep. 30, 2019
Non-current	$ 907,984	$ 898,645
Current	107,251	121,078
	$ 1,015,235	$ 1,019,723

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

(000s of dollars)

	Dec. 31, 2019	Sep. 30, 2019
Opening balance	$ 1,019,723	$ 956,965
Financing of investment properties	64,487	83,863
Mortgage assumed to purchase investment properties	–	1,395
Mortgage principal repayments	(5,198)	(19,690)
Mortgage payments upon refinancing	(60,714)	(2,935)
Deferred financing cost	(3,063)	125
Closing Balance	$ 1,015,235	$ 1,019,723

Estimated principal payments required to retire the mortgage obligations as of December 31, 2019 are as follows:

(000s of dollars)

Years ending December 31,	Amount
2020	$ 111,051
2021	64,945
2022	84,557
2023	102,320
2024	140,141
Subsequent	533,684
	1,036,698
Deferred financing cost	(21,463)
	$ 1,015,235

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a banking facility to a maximum of $85 million with a syndicate of chartered financial institutions. Security for the facility includes 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 5, 2022. As at December 31, 2019, the Corporation has drawn $70.1 million (September 30, 2019 – $56.4 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 December 31, 2019, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.47, respectively.

7. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Three months ended December 31, 2019			Year ended September 30, 2019		
	Number of common shares		Amount (000s)	Number of common shares		Amount (000s)
Issued and outstanding,						
– beginning of the period	**9,381,730**	**$**	**26,597**	8,832,305	$	24,215
Exercise of stock options	–		–	549,425		2,382
Issued and outstanding,						
– end of the period	**9,381,730**	**$**	**26,597**	9,381,730	$	26,597

All common shares have an equal right to dividends.

On May 21, 2019, Mainstreet obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 478,919 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2019. The current NCIB expires on May 31, 2020. The Corporation's previous NCIB expired on May 31, 2019.

During the three months ended December 31, 2019 and 2018, the Corporation purchased and cancelled Nil (2018 – Nil) common shares under the NCIB.

8. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

Three months ended December 31,		2019		2018
Rental revenue	**$**	**35,978**	$	31,941
Other rental revenue[1]		**232**		251
	$	**36,210**	$	32,192

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

9. EXPENSES BY NATURE

The components of property operating expenses and general and administrative expenses are as follows:

(000s of dollars)

Three months ended December 31,		2019		2018
Salaries, wages and employee benefits	$	5,595	$	5,128
Utilities		3,924		3,588
Property tax		3,451		3,059
Repair and maintenance		1,161		1,108
Other		752		895
Insurance		712		536
Legal and other professional expenses		245		334
Advertising and Marketing		383		248
Total Operating and G&A expenses	$	16,223	$	14,896

10. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

Three months ended December 31,		2019		2018
Mortgage interest	$	8,259	$	7,634
Amortization of deferred financing cost		863		743
Financing costs	$	9,122	$	8,377

11. PROFIT PER SHARE

Basic profit per share is calculated using the weighted average number of common shares outstanding during the period.

The treasury stock method of calculating the diluted profit per share is used.

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

(000s of dollars, except share and per share amounts)

Three months ended December 31,		2019		2018
Numerator				
Net profit	$	5,576	$	5,843
Denominator				
For basic profit per share				
Weighted average shares		9,381,730		8,832,305
Dilutive effect of stock options		–		720,410
For diluted profit per share		9,381,730		9,552,715
Profit per share				
– basic	$	0.59	$	0.66
– diluted	$	0.59	$	0.61

12. STOCK OPTION PLAN

A summary of the Corporation's outstanding stock options plan as of December 31, 2019 and September 30, 2019, and changes during the period are presented below:

	December 31, 2019		September 30, 2019	
Stock option	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning of the year	–	$ –	822,000	$ 5.51
Exercised	–	–	549,425	45.75
Cancelled	–	–	272,575	45.75
Outstanding and exercisable,				
– end of the year	–	$ –	–	$ –
Weighted average contractual life-years	–	–	–	–
Prices	–	$ –	–	$ –

During the fiscal year 2019, the Corporation issued 549,425 common shares pursuant to the exercise of outstanding stock options with an average weighted average price of $5.51 per common share. Also during the fiscal year 2019, four officers and directors of the Corporation jointly elected with the Corporation to receive a cash settlement in respect of a portion of their options to purchase 272,575 common shares on a cash settlement alternative basis whereby the Corporation paid to these officers and directors an amount of $7.9 million representing the in-the-money value of the options on the dates of exercise (being the difference between the weighted average closing price of the common shares of the Corporation on the dates of exercise and the exercise prices of the options multiplied by the number of common shares exercised on such basis) and cancelled the stock options. The amounts paid to the officers and directors were recognized as a stock option settlement change in the statement of changes in equity.

As a result of the foregoing, the Corporation has no issued and outstanding stock options.

Since March 24, 2017, the Corporation was unable to grant any further options under the Corporation's stock option plan and as a result of the foregoing exercise of all remaining issued and outstanding stock options, the Corporation's stock option plan expired in accordance with the terms thereof.

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

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

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

(000s of dollars)

		Dec. 31, 2019		Sep. 30, 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	**$ 3,260**	**$ 3,260**	$ 3,387	$ 3,387
Cash and cash equivalents	Level 1	**1,686**	**1,686**	70	70
Trade and other receivables	Level 2	**1,525**	**1,525**	1,878	1,878
Financial liabilities:					
Bank indebtedness	Level 1	**70,106**	**70,106**	56,442	56,442
Mortgages payable	Level 2	**1,015,235**	**1,042,478**	1,019,723	1,057,210
Trade and other payables	Level 2	**7,448**	**7,448**	8,911	8,911
Refundable security deposits	Level 1	**$ 4,668**	**$ 4,668**	$ 4,774	$ 4,774

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

(000s of dollars)

		Dec. 31, 2019		Sep. 30, 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	**$2,046,569**	**$2,046,569**	$2,040,051	$2,040,051

14. 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.

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 $48.7 million are subject to renewal before the financial year ending September 30, 2020. Increases 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 Mainstreet's mortgages and fixed-rate mortgage financings are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of $214,000 in interest expense of the floating rate debt for the quarter ended December 31, 2019.

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, 2019, rents due from current tenants amounted to $651,000 (September 30, 2019 – $501,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.7 million (September 30, 2019 – $4.8 million) and provisions for bad debts of $145,000 (September 30, 2019 – $145,000).

The aging bands of rents due from current tenants as at December 31, 2019 and September 30, 2019 are outlined in the table below:

(000s of dollars)

	Dec. 31, 2019	Sep. 30, 2019
0–30 days	$ 400	$ 290
31–60 days	61	69
61–90 days	5	22
Over 90 days	185	120
Total rents due from current tenants	$ 651	$ 501

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

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial 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 as at December 31, 2019 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	$ 111,051	64,945	84,557	102,320	673,825	$1,036,698
Mortgage interest payable	30,954	26,655	24,186	21,760	54,026	157,581
Bank indebtedness	70,106	–	–	–	–	70,106
Trade and other payables	7,448	–	–	–	–	7,448
Refundable security deposits	$ 4,668	–	–	–	–	$ 4,668

The timing of cash outflows relating to financial liabilities as at September 30, 2019 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	$ 124,182	96,914	94,124	106,264	616,640	$1,038,124
Mortgage interest payable	30,861	26,935	23,300	20,504	49,960	151,560
Bank indebtedness	56,442	–	–	–	–	56,442
Trade and other payables	8,911	–	–	–	–	8,911
Refundable security deposits	$ 4,774	–	–	–	–	$ 4,774

15. GUARANTEES, CONTINGENCIES, COMMITMENTS

In the normal course of business, the Corporation may enter into various agreements that may contain features that meet the definition of guarantees, contingencies or commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") that contingently require the Corporation to make payments to the guaranteed party based on: (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of a third party to pay its indebtedness when due.

In the ordinary course of business, the Corporation provides indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements require the Corporation to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Corporation has not made any significant payments under such indemnifications and no amount has been accrued in these consolidated financial statements with respect to these indemnification commitments.

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

As of December 31, 2019 and September 30, 2019, no amounts have been recorded and none are required to be disclosed in the interim condensed consolidated financial statements with respect to guarantees, contingencies and commitments.

16. RELATED PARTY TRANSACTIONS

a) The President and Chief Executive Officer is paid a commission at commercial rates in his capacity as a licensed broker for certain property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in very limited circumstances, these commissions are paid by the selling third party or parties to the transaction. The commissions received by the President and Chief Executive Officer during the three months ended December 31, 2019 amounted to $17,000 (2018 – $87,836). Each year the Chief Executive Officer is entitled to receive an annual performance bonus based upon pre-determined performance goals and discretionary bonus amounts determined by the board of directors. In making such determination, the board of directors takes in consideration the amount of commission paid to the Chief Executive Officer during each year, such that once determined, that portion of the annual performance bonus paid by the Corporation amounts to the difference between the amount of annual performance bonus determined by the board of directors, if any, less the amount of commissions paid to the Chief Executive Officer during that year. As a result, the actual portion of the discretionary bonus, if any, paid by the Corporation each year to the Chief Executive Officer will vary, depending on how much commission was paid to the Chief Executive Officer during that year.

b) The Corporation paid legal fees, professional fees and reimbursements for the three months ended December 31, 2019 amounting to $89,826 (2018 – $200,297) to a law firm of which a director and officer of the Corporation is a partner. As at December 31, 2019, the amounts payable to the law firm were $Nil (September 30, 2019 – $5,623). These fees were incurred at amounts which in management's opinion approximate fair market value that would be incurred by a third party law firm.

17. 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,	2019	2018
BRITISH COLUMBIA		
Rental revenue	$ 8,608	$ 8,029
Other rental revenue	85	70
Ancillary rental income	142	132
Property operating expenses	2,272	2,132
Net operating income	6,563	6,099
Fair value gain	8,863	3,295
ALBERTA		
Rental revenue	$ 19,857	$ 17,810
Other rental revenue	141	176
Ancillary rental income	243	230
Property operating expenses	7,794	7,193
Net operating income	12,447	11,023
Fair value loss	(16,157)	(3,700)
SASKATCHEWAN		
Rental revenue	$ 7,513	$ 6,102
Other rental revenue	6	5
Ancillary rental income	100	54
Property operating expenses	3,341	2,490
Net operating income	4,278	3,671
Fair value loss	(1,014)	(903)
TOTAL		
Rental revenue	$ 35,978	$ 31,941
Other rental revenue	232	251
Ancillary rental income	485	416
Property operating expenses	13,407	11,815
Net operating income	23,288	20,793
Change in fair value	(8,308)	(1,308)
Unallocated revenue*	37	253
Unallocated expenses**	9,441	13,895
Profit for the period	$ 5,576	$ 5,843

* Unallocated revenue represents interest income and other income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

	Dec. 31, 2019	Sep. 30, 2019
BRITISH COLUMBIA		
Investment properties	$ 565,820	$ 549,228
Property and equipment	48	51
Mortgages payable	236,590	237,631
Refundable security deposits	1,457	1,435
ALBERTA		
Investment properties	$ 1,125,710	$ 1,137,047
Property and equipment	6,326	6,279
Mortgages payable	588,327	597,738
Refundable security deposits	2,476	2,568
SASKATCHEWAN		
Investment properties	$ 355,039	$ 353,776
Property and equipment	53	59
Mortgages payable	190,318	184,354
Refundable security deposits	735	771
TOTAL		
Investment properties	$ 2,046,569	$ 2,040,051
Property and equipment	6,427	6,389
Mortgages payable	1,015,235	1,019,723
Refundable security deposits	4,668	4,774

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

(000s of dollars)

	Three months ended Dec. 31, 2019	Year ended Sep. 30, 2019
BRITISH COLUMBIA	$ 7,731	$ 3,352
ALBERTA	5,259	88,936
SASKATCHEWAN	2,277	57,509
TOTAL	$ 15,267	$ 149,797

18. 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, 2019 amounted to $1,891 million (September 30, 2019 – $1,850 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, 2019	Sep. 30, 2019
Mortgages payable	$ 1,015,235	$ 1,019,723
Bank indebtedness	70,106	56,442
Total equity	805,881	773,708
Total capital	$ 1,891,222	$ 1,849,873

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, 2019 is approximately 53% (September 30, 2019 – 53%) which leaves a sufficient additional capacity for the Corporation to raise additional funds from refinancing before it reaches its internal target ratio of 70%.

The debt to fair value ratios were as follows:

(000s of dollars)

	Dec. 31, 2019	Sep. 30, 2019
Mortgages payable	$ 1,015,235	$ 1,019,723
Bank indebtedness	70,106	56,442
Total debts	$ 1,085,341	$ 1,076,165
Investment properties	$ 2,046,569	$ 2,040,051
Debt to fair value ratio	53%	53%

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.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the Corporation also financed 10 clear-title properties for $20.9 million at an interest rate of 2.58%.

Subsequent to December 31, 2019, the Corporation acquired additional 236 residential units in the Province of Alberta for a total consideration of $36.1 million.

20. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on February 5, 2020.