INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

($000s of Canadian dollars)

	Dec. 31, 2018	Sep. 30, 2018
Assets		
Non-current assets		
Investment properties [Note 4]	$ 1,918,690	$ 1,865,897
Property and equipment	6,365	5,233
Intangible assets	576	143
	1,925,631	1,871,273
Current assets		
Prepaid assets	3,286	1,952
Prepaid current income tax	110	110
Trade and other receivables	1,074	824
Restricted cash	3,227	3,120
Inventory	501	684
Cash and cash equivalents	826	384
	9,024	7,074
Total Assets	$ 1,934,655	$ 1,878,347
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	$ 881,512	$ 913,660
Deferred tax liabilities	160,963	158,639
	1,042,475	1,072,299
Current liabilities		
Mortgages payable [Note 5]	91,211	43,305
Trade and other payables	7,173	6,798
Refundable security deposits	4,646	4,526
Bank indebtedness [Note 6]	33,746	1,858
	136,776	56,487
Total Liabilities	1,179,251	1,128,786
Equity		
Share capital [Note 7]	24,215	24,215
Contributed surplus	2,382	2,382
Retained earnings	728,807	722,964
Total Equity	755,404	749,561
Total Liabilities and Equity	$ 1,934,655	$ 1,878,347

See accompanying notes to these interim condensed consolidated financial statements.

(Signed)

"Bob Dhillon"
Director

February 11, 2019

(Signed)

"Joe Amantea"
Director

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,		2018		2017
Rental revenue [Note 8]	$	32,192	$	26,764
Ancillary rental income		416		295
		32,608		27,059
Property operating expenses		11,815		10,637
Net operating income		20,793		16,422
Interest income		43		139
		20,836		16,561
Financing costs [Note 9]		8,377		7,441
General and administrative expenses		3,081		2,771
Depreciation		113		101
Other income		(210)		–
		11,361		10,313
Profit before fair value loss and income tax		9,475		6,248
Fair value loss [Note 4]		(1,308)		(1,174)
Profit before income tax		8,167		5,074
Deferred income tax expense		2,324		1,635
Net profit and total comprehensive income	$	5,843	$	3,439
Profit per share				
– basic [Note 10]	$	0.66	$	0.39
– diluted [Note 10]	$	0.61	$	0.36

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, 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
Profit for the period		–		–		69,284		69,284
Balance, September 30, 2018	$	24,215	$	2,382	$	722,964	$	749,561
Profit for the period		–		–		5,843		5,843
Balance, December 31, 2018	$	24,215	$	2,382	$	728,807	$	755,404

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,	2018	2017
Cash obtained from (used in) operating activities		
Net profit	$ 5,843	$ 3,439
Adjustments for:		
Depreciation	113	101
Fair value loss	1,308	1,174
Deferred income tax expense	2,324	1,635
Financing costs [Note 9]	8,377	7,441
Interest paid on mortgages [Note 9]	(7,634)	(6,812)
	10,331	6,978
Change in working capital		
Prepaid assets	(1,334)	(1,535)
Trade and other receivables	(250)	(661)
Inventory	183	25
Restricted cash	(107)	(63)
Trade and other payables	440	383
Refundable security deposits	120	59
Cash from operating activities	9,383	5,186
Financing activities		
Bank indebtedness	31,888	–
Financing of investment properties	20,495	21,203
Mortgage principal repayments	(4,738)	(4,074)
Deferred financing costs incurred	(742)	(761)
Repurchase of shares	–	(135)
Cash from financing activities	46,903	16,233
Investing activities		
Purchase of and additions to investment properties [Note 4]	(55,101)	(22,567)
Purchase of and additions to property and equipment	(1,245)	(91)
Purchase of and additions to intangible assets	(433)	(7)
Proceeds from disposal	935	–
Cash used in investing activities	(55,844)	(22,665)
Net increase (decrease) in cash and cash equivalents	442	(1,246)
Cash and cash equivalents, beginning of period	384	24,767
Cash and cash equivalents, end of period	$ 826	$ 23,521
Cash and cash equivalents are comprised of:		
Cash	$ –	$ 1,493
Short-term deposits	826	22,028
	$ 826	$ 23,521

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, 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 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, 2018.

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, 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, 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 12 to the interim condensed consolidated financial statements;

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

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

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

The Corporation has applied IFRS 9 "Financial Instruments". The new standard replaced the former 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. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss ("FVTPL") that requires recognition of expected credit losses. The Corporation adopted IFRS 9 retrospectively and the implementation did not have material impact on its interim condensed consolidated financial statements.

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

The Corporation has applied IFRS 15 "Revenue from Contracts with Customers". IFRS 15 was issued in May 2014 and replaced 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 and comprehensive revenue recognition model. The Corporation evaluated its relevant contracts for the following key areas, but not limited to, laundry, cable and telephone providers, and common area maintenance recoveries. The Corporation has determined that the pattern of revenue recognition remains unchanged following the adoption of IFRS 15, however, additional note disclosure has been added to Note 8.

Certain new IFRSs which are related to accounting periods beginning on January 1, 2019 or later are not expected to have a significant effect on the interim condensed consolidated financial statements. The following accounting policies have not been adopted by Mainstreet.

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 this new standard on its financial statements.

4. INVESTMENT PROPERTIES

(000s of dollars)

	Three months ended Dec. 31, 2018	Year ended Sep. 30, 2018
Balance, beginning of year	**$ 1,865,897**	$ 1,632,235
Additions related to acquisitions	**50,126**	150,315
Building improvements	**4,910**	21,930
Disposal	**(935)**	–
Fair value gain (loss)	**(1,308)**	61,417
Balance, end of period	**$ 1,918,690**	$ 1,865,897

The fair value of investment properties held by the Corporation as of December 31, 2018 and September 30, 2018, 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 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 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, 2018 and September 30, 2018. Properties selected as samples are rotated annually 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, 2018	Sep. 30, 2018
Surrey, BC	4.00%	4.13%
Abbotsford, BC	4.58%	4.65%
Calgary, AB	4.86%	4.84%
Edmonton, AB	5.77%	5.69%
Saskatoon, SK	6.64%	6.63%
Regina, SK	5.82%	5.81%
Investment properties	5.20%	5.19%

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, 2018

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 96,732	$ 98,727	$ 99,724	$ 100,721	$ 102,716
Capitalization rate						
-0.25%	4.95%	$ 36,485	$ 76,798	$ 96,954	$ 117,111	$ 157,424
Cap rate used	5.20%	$ (57,559)	$ (19,185)	$1,918,690	$ 19,189	$ 57,562
+0.25%	5.45%	$ (142,971)	$ (106,358)	$ (88,052)	$ (69,746)	$ (33,133)

As at September 30, 2018

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 94,013	$ 95,952	$ 96,921	$ 97,890	$ 99,829
Capitalization rate						
-0.25%	4.94%	$ 37,208	$ 76,447	$ 96,067	$ 115,686	$ 154,925
Cap rate used	5.19%	$ (54,464)	$ (17,115)	$1,865,897	$ 20,234	$ 57,583
+0.25%	5.44%	$ (137,710)	$ (102,077)	$ (84,261)	$ (66,445)	$ (30,812)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.98% (September 30, 2018 – 3.01%) per annum and are payable in monthly principal and interest installments totaling $4 million (September 30, 2018 – $4 million), maturing from 2019 to 2028 and are secured by specific charges against specific investment properties, having a fair value of $1,739 million (September 30, 2018 – $1,706 million).

(000s of dollars)

	Dec. 31, 2018	Sep. 30, 2018
Non-current	$ 881,512	$ 913,660
Current	91,211	43,305
	$ 972,723	$ 956,965

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

(000s of dollars)

12 months ended December 31,		Amount
2019	$	94,201
2020		93,858
2021		63,013
2022		85,711
2023		100,295
Subsequent		554,169
		991,247
Deferred financing cost		(18,524)
	$	972,723

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a banking facility to a maximum of $85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. 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, 2018, the Corporation has drawn $33.7 million (September 30, 2018 – $1.9 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, 2018, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 52% and 1.36, 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, 2018			Year ended September 30, 2018		
	Number of common shares		Amount (000s)	Number of common shares		Amount (000s)
Issued and outstanding,						
– beginning of the period	**8,832,305**	**$**	**24,215**	8,835,964	$	24,225
Shares purchased for cancellation	**–**		**–**	(3,659)		(10)
Issued and outstanding,						
– end of the period	**8,832,305**	**$**	**24,215**	8,832,305	$	24,215

All common shares have an equal right to dividends.

On May 21, 2018, Mainstreet obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 478,664 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2018. The current NCIB expires on May 31, 2019. The Corporation's previous NCIB expired on May 31, 2018.

During the three months ended December 31, 2018 and 2017, the Corporation purchased and cancelled Nil (2017 – 3,659) common shares under the NCIB at an average price of $Nil (2017 – $37.02) per common share. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

8. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

Three month ended December 31,	2018	2017
Rental revenue	$ 31,941	$ 26,562
Other rental revenue (1)	251	202
	$ 32,192	$ 26,764

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

9. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

Three month ended December 31,	2018	2017
Mortgage interest	$ 7,634	$ 6,812
Amortization of deferred financing cost	743	629
Financing costs	$ 8,377	$ 7,441

10. 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,	2018	2017
Numerator		
Net profit	$ 5,843	$ 3,439
Denominator		
For basic profit per share		
Weighted average shares	8,832,305	8,832,966
Dilutive effect of stock options	720,410	709,436
For diluted profit per share	9,552,715	9,542,402
Profit per share		
– basic	$ 0.66	$ 0.39
– diluted	$ 0.61	$ 0.36

11. STOCK OPTION PLAN

A summary of the Corporation's outstanding stock options plan as of December 31, 2018 and September 30, 2018, and changes during the period, are presented below:

	December 31, 2018		September 30, 2018	
Stock option	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**	822,000	$ 5.51
Exercised	**–**	**–**	–	–
Outstanding and exercisable,				
– end of the period	**822,000**	**$ 5.51**	822,000	$ 5.51
Weighted average contractual life-years	**0.19**		0.44	
Prices	**$ 5.51**		$ 5.51	

During the three months ended December 31, 2018, no stock options were granted, exercised or cancelled. Since March 24, 2017 no stock options may be granted under the Corporation's stock option plan.

12. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, 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:

	December 31, 2018		September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Restricted cash	**$ 3,227**	**$ 3,227**	$ 3,120	$ 3,120
Cash and cash equivalents	**826**	**826**	384	384
Trade and other receivables	**1,074**	**1,074**	824	824
Financial liabilities:				
Bank indebtedness	**33,746**	**33,746**	1,858	1,858
Mortgages payable	**972,723**	**979,183**	956,965	948,934
Trade and other payables	**7,173**	**7,173**	6,798	6,798
Refundable security deposits	**$ 4,646**	**$ 4,646**	$ 4,526	$ 4,526

13. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices.

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 $3.0 million are subject to renewal before the financial year ending September 30, 2019. 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 the Corporation's mortgages are fixed-rate mortgage financing and 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 $146,400 in interest expense of the floating rate debt for the three months ended December 31, 2018.

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, 2018, rents due from current tenants amounted to $361,000 (September 30, 2018 – $371,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.6 million (September 30, 2018 – $4.5 million) and provisions for bad debts of $140,000 (September 30, 2018 – $140,000).

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 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:

(000's of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	$ 94,201	93,858	63,013	85,711	654,464	$ 991,247
Mortgage interest payable	29,506	26,823	23,328	20,911	56,121	156,689
Bank indebtedness	33,746	–	–	–	–	33,746
Trade and other payables	7,173	–	–	–	–	7,173
Refundable security deposits	$ 4,646	–	–	–	–	$ 4,646

14. 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, 2018 and September 30, 2018, no amounts have been recorded and none are required to be disclosed in the consolidated financial statements with respect to guarantees, contingencies and commitments.

15 RELATED PARTY TRANSACTIONS

a) The President and Chief Executive Officer 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 circumstance, 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, 2018 amounted to $87,836 (2017 – $765,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.

b) The Corporation paid legal fees, professional fees and reimbursements for the three months ended December 31, 2018 amounting to $200,297 (2017 – $56,000) to a law firm of which a director and officer of the Corporation is a partner. As at December 31, 2018, the amounts payable to the law firm were $30,090 (2017 – $3,800). These fees were incurred at amounts which in management's opinion approximate fair market value that would be incurred by a third party law firm.

16. SEGMENTED INFORMATION

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

RENTAL OPERATIONS

(000s of dollars)

Three months ended December 31,	2018	2017
BRITISH COLUMBIA		
Rental revenue	$ 8,029	$ 7,512
Other rental revenue	70	59
Ancillary rental income	132	96
Property operating expenses	2,132	2,480
Net operating income	6,099	5,187
Fair value gain	3,295	178
ALBERTA		
Rental revenue	$ 17,810	$ 15,206
Other rental revenue	176	140
Ancillary rental income	230	172
Property operating expenses	7,193	6,545
Net operating income	11,023	8,973
Fair value loss	(3,700)	(2,329)
SASKATCHEWAN		
Rental revenue	$ 6,102	$ 3,844
Other rental revenue	5	3
Ancillary rental income	54	27
Property operating expenses	2,490	1,612
Net operating income	3,671	2,262
Fair value (loss) / gain	(903)	977
TOTAL		
Rental revenue	$ 31,941	$ 26,562
Other rental revenue	251	202
Ancillary rental income	416	295
Property operating expenses	11,815	10,637
Net operating income	20,793	16,422
Fair value loss	(1,308)	(1,174)
Unallocated revenue*	253	139
Unallocated expenses**	13,895	11,948
Profit for the period	$ 5,843	$ 3,439

* Unallocated revenue represents interest income and other income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

	Dec. 31, 2018	Sep. 30, 2018
BRITISH COLUMBIA		
Investment properties	$ 528,597	$ 525,405
Property and equipment	30	9
Mortgages payable	235,318	236,315
Refundable security deposits	1,370	1,357
ALBERTA		
Investment properties	$ 1,067,281	$ 1,043,009
Property and equipment	6,262	5,188
Mortgages payable	554,251	536,656
Refundable security deposits	2,503	2,423
SASKATCHEWAN		
Investment properties	$ 322,812	$ 297,483
Property and equipment	73	36
Mortgages payable	183,154	183,994
Refundable security deposits	773	746
TOTAL		
Investment properties	$ 1,918,690	$ 1,865,897
Property and equipment	6,365	5,233
Mortgages payable	972,723	956,965
Refundable security deposits		4,646
4,526		

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

(000s of dollars)

	Three months ended Dec. 31, 2018	Year ended Sep. 30, 2018
BRITISH COLUMBIA	$ 854	$ 3,128
ALBERTA	29,130	72,329
SASKATCHEWAN	26,273	97,375
TOTAL	$ 56,257	$ 172,832

17. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and, on occasion, bank loans or lines of credit when drawn on. The Corporation's total capital resources as at December 31, 2018 amounted to $1,762 million (September 30, 2018 – $1,708 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, 2018	Sep. 30, 2018
Mortgages payable	$ 972,723	$ 956,965
Bank indebtedness	33,746	1,858
Total equity	755,404	749,561
Total capital	$ 1,761,873	$ 1,708,384

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, 2018 is approximately 52% (September 30, 2018 – 51%) 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, 2018	Sep. 30, 2018
Mortgages payable	$ 972,723	$ 956,965
Bank indebtedness	33,746	1,858
Total debts	$ 1,006,469	$ 958,823
Investment properties	$ 1,918,690	$ 1,865,897
Debt to fair value ratio	52%	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.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2018, the Corporation has also financed 1 clear-title property for $25 million at an interest rate of 3.02%.

19. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 11, 2019.