

20 years of annual compounded double-digit growth

TSX MEQ

MAINSTREET EQUITY CORP.

2019 Annual Report

For the years ended September 30, 2019 and 2018

	IFRS value (\$ million)	Year-over-year % change	Revenue (\$ million)	Year-over-year % change	Stock price (\$ million)	Year-over-year % change
2000	90	80%	7.7	157%	4.9	n/a
2001	105	17%	11.1	44%	5.4	10%
2002	145	38%	15.2	37%	3.1	(43%)
2003	170	17%	17.0	12%	3.9	25%
2004	178	5%	19.7	16%	6.1	57%
2005	309	74%	23.5	19%	5.2	(14%)
2006	520	68%	30.9	31%	9.9	89%
2007	710	37%	40.4	31%	16.1	62%
2008	625	(12%)	46.3	15%	12.1	(25%)
2009	679	9%	50.8	10%	7.9	(34%)
2010	752	11%	53.1	5%	11.4	44%
2011	911	21%	56.9	7%	17.2	50%
2012	1,052	15%	66.9	18%	31.5	83%
2013	1,149	9%	78.2	17%	30.2	(4%)
2014	1,259	10%	90.6	16%	40.7	35%
2015	1,386	10%	100.4	11%	31.4	(23%)
2016	1,460	5%	100.3	0%	31.1	(1%)
2017	1,632	12%	104.7	4%	37.0	19%
2018	1,866	14%	115.7	11%	48.0	30%
2019	2,040	9%	137.6	19%	63.6	33%
2000-19 Compound Annual Growth		17%		16%		14%

	NOI (\$ million)	Year-over-year % change	FFO (\$ million)	Year-over-year % change	FFO per share (\$ million)	Year-over-year % change
2000	5.7	171%	2.0	23%	0.22	22%
2001	7.9	39%	2.2	9%	0.24	9%
2002	11.1	41%	3.0	37%	0.33	38%
2003	10.9	(2%)	5.5	80%	0.60	82%
2004	11.6	6%	2.2	(60%)	0.24	(60%)
2005	13.8	19%	1.1	(52%)	0.11	(54%)
2006	18.3	33%	1.8	75%	0.20	82%
2007	24.7	35%	5.0	173%	0.46	130%
2008	26.6	8%	4.5	(11%)	0.31	(33%)
2009	31.3	18%	11.4	153%	0.99	219%
2010	33.2	6%	7.7	(32%)	0.75	(24%)
2011	37.3	12%	11.8	53%	1.14	52%
2012	44.9	20%	13.0	10%	1.24	9%
2013	52.0	16%	19.1	47%	1.83	48%
2014	60.0	15%	25.5	34%	2.44	33%
2015	67.3	12%	30.0	18%	2.89	18%
2016	64.0	(5%)	26.2	(13%)	2.74	(5%)
2017	64.4	1%	25.7	(2%)	2.89	5%
2018	72.2	12%	29.6	15%	3.35	16%
2019	86.3	20%	39.3	33%	4.29	28%
2000-19 Compound Annual Growth		15%		16%		16%

Mainstreet Equity Corp. (“Mainstreet” or the “Corporation”) is a Canadian real estate company focused on acquiring and managing mid-market rental apartment buildings primarily in Western Canada. Listed on the TSX since 2000, Mainstreet creates value by purchasing under-performing properties, renovating them to a branded standard, improving operating efficiencies and repositioning them in the market for greater returns.

For additional information about Mainstreet Equity Corp., see the Corporation’s profile at SEDAR (www.sedar.com).

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Forward-Looking Information

Certain statements contained herein constitute “forward-looking statements” as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to future acquisitions, dispositions and capital expenditures, reduction of vacancy rates, increase of rental rates and rental revenue, future income and profitability, timing of refinancing of debt, access to low-cost long-term Canada Mortgage and Housing Corporation (“CMHC”) insured mortgage loans, completion timing and costs of renovations, benefits of renovations, funds to be expended on renovations in fiscal year 2020 and the sources thereof, increased funds from operations and cash flow, minimization of operating costs, the Corporation’s liquidity and financial capacity, improved rental conditions, potential increases in rental revenue if optimal operations achieved, the period of time required to stabilize a property, future environmental impact, the Corporation’s strategy and goals and the steps it will take to achieve them, the Corporation’s anticipated funding sources to meet various operating and capital obligations, key accounting estimates and assumptions used by the Corporation, the intention to renew the Corporation’s normal course issuer bid, the attraction and hiring of additional personnel, the effect of changes in legislation on the rental market, expected cyclical changes in cash flow, net operating income and operating margins, the effect of environmental regulations on financial results, the handling of any future conflicts of interests of directors or officers and other factors and events described in this document should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions of future events or performance (often, but not always, using such words or phrases as “expects” or “does not expect,” “is expected,” “anticipates” or “does not anticipate,” “plans,” “estimates” or “intends,” or stating that certain actions, events or results “may,” “could,” “would,” “might” or “will” be taken, occur or be achieved) are not statements of historical fact and should be viewed as forward-looking statements.

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in the Corporation’s AIF, dated December 5, 2019 under the heading “Risk Factors,” that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, environmental and other liabilities, credit risks of tenants, fluctuations in interest rates and availability of capital, changes in legislation and regulatory regime applicable to the corporation, loss of key personnel, a failure to realise the benefit of acquisitions and/or renovations, environmental exposure, cyber attacks, climate change, uninsured losses, fluctuations in the capital markets and the trading price of the Common Shares, conflicts of interest of the Corporation’s directors and officers, and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward-looking statements. The Corporation believes that there is a reasonable basis for the forward-looking statements but, readers are cautioned not to place undue reliance on the forward-looking statements contained herein.

Forward-looking statements are based on management’s beliefs, estimates and opinions on the date the statements are made, and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions should change except as required by applicable securities laws.

Management closely monitors factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and will update those forward-looking statements where appropriate in its annual and quarterly financial reports.

This MD&A includes forward-looking information about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action and that is not presented in the format of a historical balance sheet, income statement or cash flow statement (“Financial Outlook”). Actual results may vary from the Financial Outlook summarized in this MD&A. Management of the Corporation has approved the Financial Outlook as of December 5, 2019. Financial Outlook has been included in this MD&A to provide readers with disclosure regarding the Corporation’s reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the Financial Outlook may not be appropriate for other purposes.

2019 KEY PERFORMANCE INDICATORS

Funds from Operations (FFO)
(\$ millions)

2019	39.3
2018	29.6
2017	25.6
2016	26.2
2015	30.0

Funds from Operations (FFO)
per share

2019	4.29
2018	3.35
2017	2.88
2016	2.74
2015	2.89

Rental Revenue
(\$ millions)

2019	137.6
2018	115.7
2017	104.7
2016	100.3
2015	100.4

Rental Revenue –
Same Assets
(\$ millions)

2019	118.0
2018	109.0
2017	103.2
2016	99.3
2015	97.9

Net Operating Income (NOI)
(\$ millions)

2019	86.3
2018	72.2
2017	64.4
2016	64.0
2015	67.3

Net Operating Income (NOI)
– Same Assets
(\$ millions)

2019	75.0
2018	68.5

Total number of units
(Including assets held for sale)

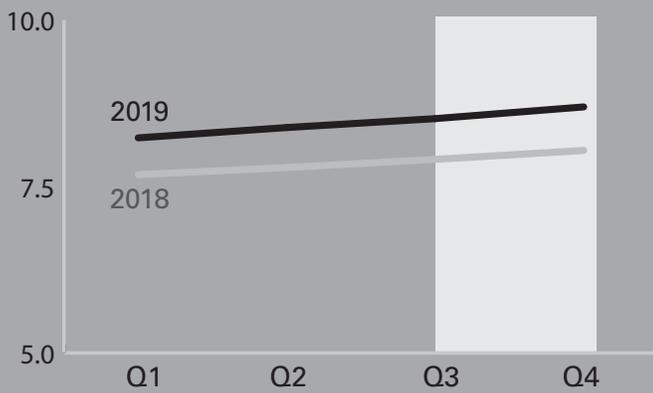
2019	12,901
2018	11,776
2017	10,480
2016	9,878
2015	9,319

Market value of portfolio
(Including assets held for sale)
(\$ millions)

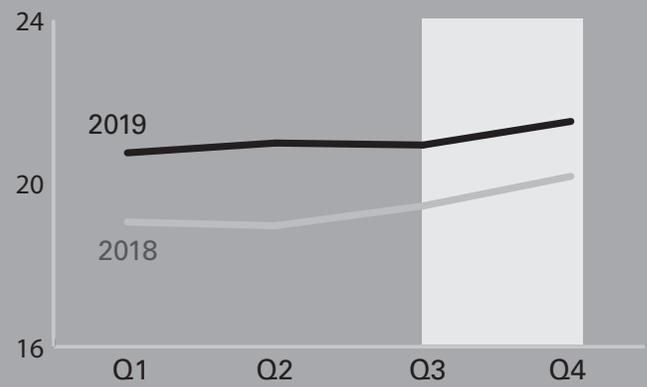
2019	2,040
2018	1,866
2017	1,632
2016	1,460
2015	1,386

2019 KEY PERFORMANCE INDICATORS

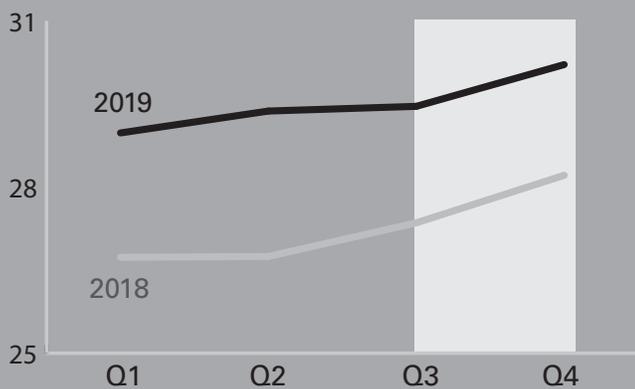
Same Assets Revenue
Vancouver/Lower Mainland
(\$ millions)



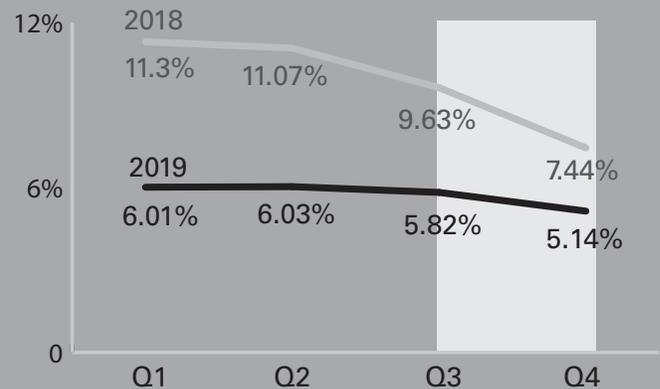
Same Assets Revenue
Alberta & Saskatchewan
(\$ millions)



Total Same Assets Revenue
Total Portfolio
(\$ millions)



Same Assets Vacancy Trend



KEY METRICS | 2019 PERFORMANCE HIGHLIGHTS

Rental Revenue

From continuing operations	Up 19% \$137.6 million (vs. \$115.7 million in 2018)
From same asset properties	Up 8% to \$118.0 million (vs. \$109.0 million in 2018)

Net Operating Income (NOI)

From continuing operations	Up 20% to \$86.3 million (vs. \$72.2 million in 2018)
From same asset properties	Up 9% to \$75.0 million (vs. \$68.5 million in 2018)

Funds from operations (FFO)¹

From continuing operations	Up 33% to \$39.3 million (vs. \$29.6 million in 2018)
FFO per basic share	Up 28% to \$4.29 (vs. \$3.35 in 2018)

Operating Margin

From continuing operations	63% (vs. 62% in 2018)
From same asset properties	64% (vs. 63% in 2018)

Net Profit

Net profit per basic share	Down 22% to \$6.41 (vs. \$8.23 in 2018, including change in fair value of \$26.9 million in 2019 vs. \$61.4 million in 2018)
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Total Capital Expenditures

\$18.6 million (vs. \$21.9 million in 2018)

Stabilized Units

238 properties (10,524 units) out of 335 properties (12,901 units)
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Total Acquisition

During fiscal year	\$128.9 million 1,119 units (vs. \$148.8 million 1,296 units in 2018)
Subsequent to fiscal year	133 units (\$11.3 million) in Calgary, Edmonton, Kamloops & Saskatoon

Vacancy rate

From continuing operations	6.4% (vs. 10.1% in 2018)
From same asset properties	5.7% (vs. 9.9% 2018)
Vacancy rate as of December 1, 2019	5.4% excluding unrentable units

Fair Market Value

Up 9% to \$2,040 million (vs. \$1,866 million in 2018)
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Total Units

During fiscal year	Increased 10% to 12,901 units (vs 11,776 units in 2018)
As of December 5, 2019	13,034 units

1. See "Non-IFRS Measures" and Note (1) in MANAGEMENT'S DISCUSSION AND ANALYSIS to the table titled "Summary of Financial Results" for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

5 YEAR TRENDS CONTINUING OPERATIONS

(\$ millions except number of units, percentages and shares)

	% change 2019 vs. 2018	2019	2018	2017	2016	2015
Total number of units	10%	12,901	11,776	10,480	9,878	9,319
Market value of the portfolio	9%	2,040	1,866	1,632	1,460	1,386
Rental revenue	19%	137.6	115.7	104.7	100.3	100.4
Same assets rental revenue	8%	118.0	109.0	103.2	99.3	97.9
Net operating income	20%	86.3	72.2	64.4	64.0	67.3
Same assets net operating income	9%	75.0	68.5	63.8	63.5	65.8
Funds from operations	33%	39.3	29.6	25.6	26.2	30.0
FFO per share	28%	4.29	3.35	2.88	2.82	3.06
Operating margins	1%	63%	63%	62%	64%	67%

MESSAGE FROM THE PRESIDENT & CEO

For the years ended September 30, 2019 and 2018

Mainstreet's 2019 results mark the sixth consecutive quarter of year-over-year double-digit growth in all of our key metrics, solidifying a steady improvement in our operational performance that has continued to deliver non-dilutive value to our shareholders.

FINANCIAL ACHIEVEMENTS OF 2019:

- Boosted same-asset revenue growth by 8% and same-store NOI growth by 9% while sharply increasing overall rental revenue (19%), NOI (20%) and FFO (33%), despite a high number of acquisition of unstabilized assets (18% of total portfolio) that would typically lower operational performance
- Increased stock value by 33% to \$63.62 per share, up from \$48 per share as of the year ended September 30, 2018. Mainstreet stock increased to a record high of nearly \$71 per share as of the end of November 2019.
- Acquired \$129 million in new assets in fiscal 2019 (\$114,000 per door), complementing our 100% organic, non-dilutive growth model. Total apartment units increased to 12,901 in fiscal year 2019, up 10% from 11,776 in fiscal 2018 (rising to 13,034 units as of December 5, 2019)
- Raised approximately \$84 million in 10-year, long-term CMHC-insured mortgages at an average interest rate of 3.02% to fund future growth. Recent finance rates were just 2.45%, providing cheaper financing opportunities going forward
- Improved operations by increasing operation margin to 63% from 6.2% and driving down vacancy rates, which fell from 10.1% in 2018 to just 5.7% in fiscal 2019, despite an aggressive level of acquisitions of underperforming assets over the past four years
- Reduced cycle times in stabilization and renovation, in turn improving the appeal of our apartment units and quality of living for our tenants
- Maintained sizeable liquidity level of approximately \$150 million in fiscal year 2019, providing plenty of room for future opportunistic acquisitions and non-dilutive organic growth

We believe these achievements are a direct result of Mainstreet's aggressive countercyclical growth strategy and value-added business model as well as a gradual economic improvement in our core markets. In anticipation of an economic downturn more than four years ago, our management team put in place a strategic plan that included aggressively acquiring underperforming properties, strengthening our internal resources to improve the cycle time of stabilization, and capitalizing on low-cost, long-term CMHC insured debt financing, which both reduces our interest costs (Mainstreet's single-largest expense) and provides capital to fund future non-dilutive organic growth.

OUTLOOK

As we enter 2020, management believes that our countercyclical growth strategy and value-added business model will continue to improve our financial performance and create non-dilutive value for shareholders. We have identified the following areas as a way to achieve future growth:

Runway on Existing Portfolio

- 1) **Closing the NOI gap:** In fiscal year 2019, 18% of the Mainstreet apartment portfolio was going through the stabilization process due to a high level of recent acquisitions of unstabilized assets. Once they are stabilized, we believe that our same-asset revenue, vacancy rate, NOI and FFO will see further improvement.
- 2) **Loss to Lease:** We believe our Vancouver/Lower Mainland market, which makes up 21% of our portfolio (2,751 units), offers a significant opportunity for future same-store NOI growth. This is partly due to a continued increase in market rates, combined with rules under the provincial Tenancy Act that has kept some annual rent rate increases substantially below the rest of the market, resulting in loss-to-lease of approximately \$249 per unit per month. Currently, over 95% of our tenants in the region are below the market average. With an average annual turnover rate of about 25%, we expect our NOI will continue to improve while we reduce our loss-to-lease over time.

- 3) **Lowering interest cost:** Approximately \$156 million of mortgage loans with an average interest rate of 3.9% are maturing in 2020 and 2021. The current 10-year, CMHC-insured mortgage rate is about 2.5%. We expected that the interest cost will remain low and the refinancing of these maturing mortgages will result in substantial reduction in future expenses.
- 4) **Pursuing our 100% organic, non-dilutive growth model:** With our strong potential liquidity position of approximately \$150 million, through expected financing of clear titled properties after stabilization, and our proven ability to identify and acquire underperforming assets, particularly during periods of recession, we believe there will be significant opportunity to continue acquiring new assets at low cost that, we believe, will allow us to continue to create new value.
- 5) **Buying back our common shares:** We believe MEQ shares continue to be traded below their NAV. We will continue to buy back our own common shares on an opportunistic basis under our normal course issuer bid (NCIB).

Continued improvement in the rental market

Management believes demand for rental properties will continue to increase due to a steady rise in population and a limited increase in the new supply of purpose-built rental properties. Over the last 10 years, the Canadian population has grown by nearly 4 million, yet the number of new purpose-built rental units has only increased by approximately 200,000, creating a huge gap between supply and demand in the rental market. This trend of rising populations is evident in Mainstreet's core markets. Alberta added 70,595 new residents in the year ended June 2019 alone. In-migration into Alberta was 12,899 in Q2 2019, up from 9,189 a year earlier (Statistics Canada). In addition, the population of foreign students has also increased substantially over the past 10 years, reaching a record high of 721,205 international students in 2018, according to Government of Canada data.

Higher immigration levels and steady population growth are further supported by gradually improved labour markets in Western Canada. Alberta's unemployment rate was 6.7% in October 2019—a 0.5% decrease from a year earlier (Statistics Canada). Saskatchewan has remained largely constant at 5.1% in October 2019. British Columbia added 15,000 new jobs in the month of October alone, and remains among the lowest unemployment rates in Canada at 4.7%. Management believes that the apparent improvement in labour market conditions will likely result in stronger interprovincial in-migration.

Furthermore, we believe gradual population growth will continue to absorb the ongoing oversupply of condominium units, bringing better balance to the rental market. That oversupply was the result of the rapid construction of condominiums during the last period of high economic growth, which caused roughly 30% of new units to be brought into the rental market, according to CMHC data.

That trend is now showing signs of subsiding. Edmonton's rental market vacancy rate is expected to fall to 3.9% in 2019, down from 5.3% in 2018, according to CMHC data as of October 2019. Calgary's vacancy rate is expected to fall to 3.6%, down from 3.9% over the same period. Saskatoon is expected to fall from 8.3% down to 7.3%, while Regina is expected to increase slightly from 7.7% up to 8.2%. Vancouver is expected to remain among the lowest in the country at 1.1% vacancy.

Driving down costs

Amid ever-rising costs due to public policy, Mainstreet believes it has kept its operating costs at competitive levels, in part by implementing new technological systems and leveraging our management team. Our five-year, \$3 million investment in a leading software technology from Yardi System Inc., which automates our management platform, is just one example of our dedication to future cost savings and increased efficiencies.

We believe these efforts should be helped along by new policies under the Alberta government, whose proposed corporate tax cuts would put the province back among the most competitive rates in the country.

During 2019, we have also successfully expanded our warehousing capacity through development of on-site warehouse spaces at our existing residual land in all cities. This has streamlined our supply chain and enabled us to increase factory-direct sources for materials from China, which will further reduce our cost and improve the cycle time for renovations.

While coming decisions regarding interest rates by the Bank of Canada remain uncertain, interest rates nonetheless remain at low levels. Canadian GDP growth remains below the BoC's target growth rate of 2%, which many analysts believe will keep the bank from pursuing aggressive hikes in the near future.

Capturing the mid-market

In our opinion, Mainstreet's mid-market rental rate, with a price-point average between \$900 and \$1,000, is perfectly positioned to attract would-be customers. We believe the majority of customers, including millennials and "generation Z" (which comprise roughly 45% of the total population), immigrants, students and foreign students will continue to favour mid-market prices as they defer major investments like new homes during times of economic uncertainty. We believe we are uniquely positioned to capture the growing market within this lower bracket.

Management believes this trend among first-time buyers (who usually come out of the overall rental pool) are further supported by tighter borrowing requirements under the Office of the Superintendent of Financial Institutions, announced in 2017, which will make it more difficult for first-time homebuyers to secure financing. We believe this trend is generally supportive of the rental market. The Bank of Canada estimates the new rules could disqualify as many as 10% of new buyers every year.

CHALLENGES

As we enter fiscal year 2020, oil market volatility and an uncertain political climate remain our biggest obstacles. Prices for U.S. benchmark West Texas Intermediate (WTI) hovered around the US\$55 range for most of 2019, remaining well below prices five years ago. A lack of available pipeline capacity has weighed on Canadian oil prices in particular, and has widened the differential with WTI, despite efforts by the provincial government to raise prices via a cap on production. The result has been a continued hesitancy among investors, particularly in the U.S., to invest in the Canadian energy sector.

Lower Canadian oil prices have also underscored deeper complications in the country's regulatory and legal regime, which have caused delays in large projects like oil pipelines and hydro transmission lines. While we believe the federal government's June 2019 approval of the Trans Mountain pipeline sent a positive signal, broader uncertainty in our regulatory regime could cause a further cooling in investment levels.

Meanwhile, ongoing trade disputes between the U.S. and China could spill over into the Canadian economy, restricting exports and shrinking GDP growth. While a trade spat between Canada and China over pork exports softened around the end of 2019, tensions between the two countries seem to remain high.

Management believes negative macro-economic forces have likewise caused the ongoing short positions in respect of the trading of Mainstreet common stock. We believe this is partly responsible for our share price continuing to trade well below what we believe to be its true net asset value.

Lastly, rising operating costs also pose a challenge. The federal carbon tax will be enforced in Alberta beginning in 2020, which in turn raises costs for property owners. Additionally, new federal regulations under the Clean Fuel Standard targeting natural gas emissions are anticipated to come into force around 2023, likely raising home heating costs. Various municipalities, for their part, have continued to increase property taxes. Our efforts to stabilize a record 18% of unstabilized assets have likewise raised costs for human resources, materials, and other operational expenses.

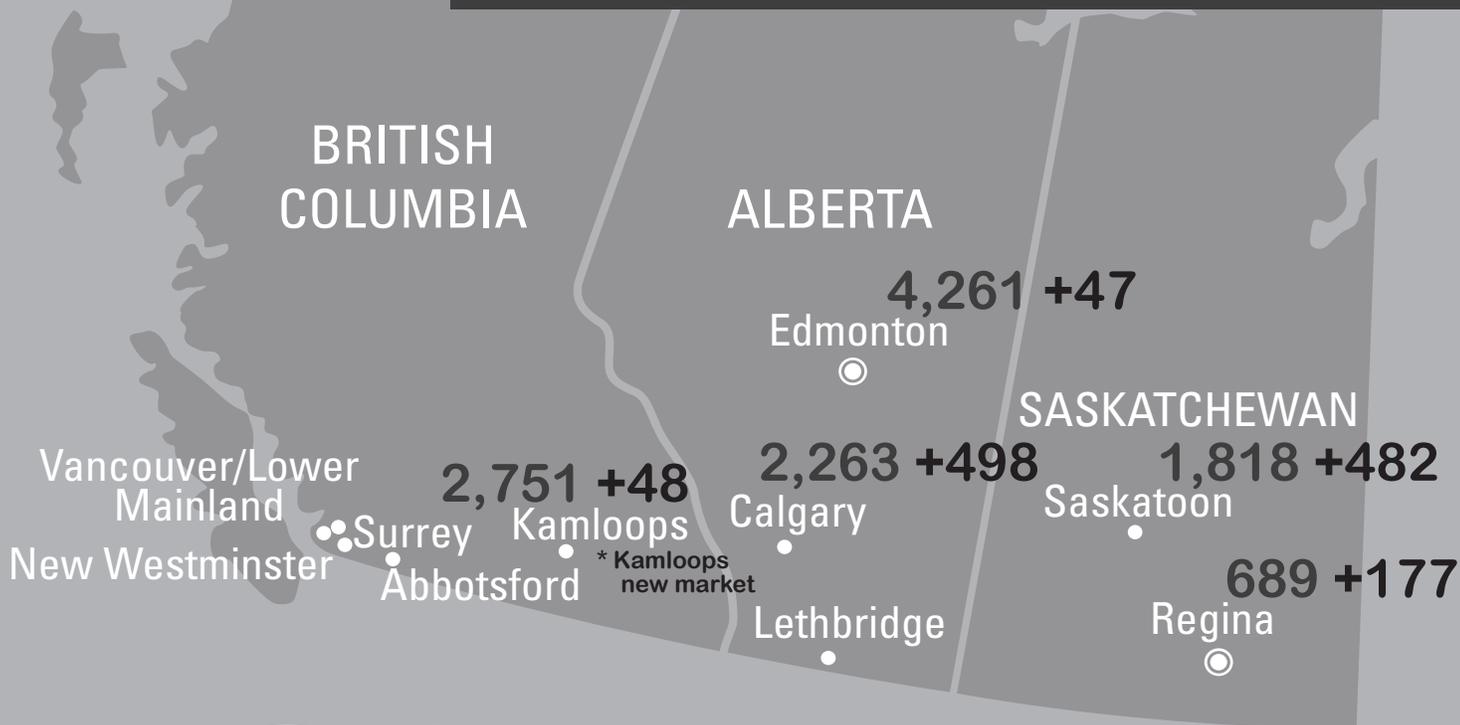
Mainstreet management will continue to monitor any changes in business and market conditions, and take necessary proactive actions to minimize risk and maximize value to shareholders.

(SIGNED)

"Bob Dhillon"
President & CEO

Calgary, Alberta
December 5, 2019

2019 ACQUISITIONS AND SUBSEQUENT TO YE



2019 Acquisitions & Subsequent to Year End

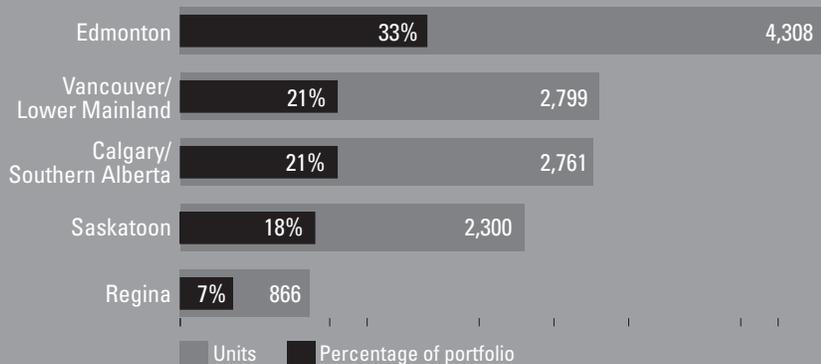


Total Purchase Price



Cost per door

PORTFOLIO YTD



13,034
TOTAL UNITS

PORTFOLIO CLUSTERING STRATEGY

Strategic inner-city land holdings

CALGARY DOWNTOWN

2,761

total units in Calgary

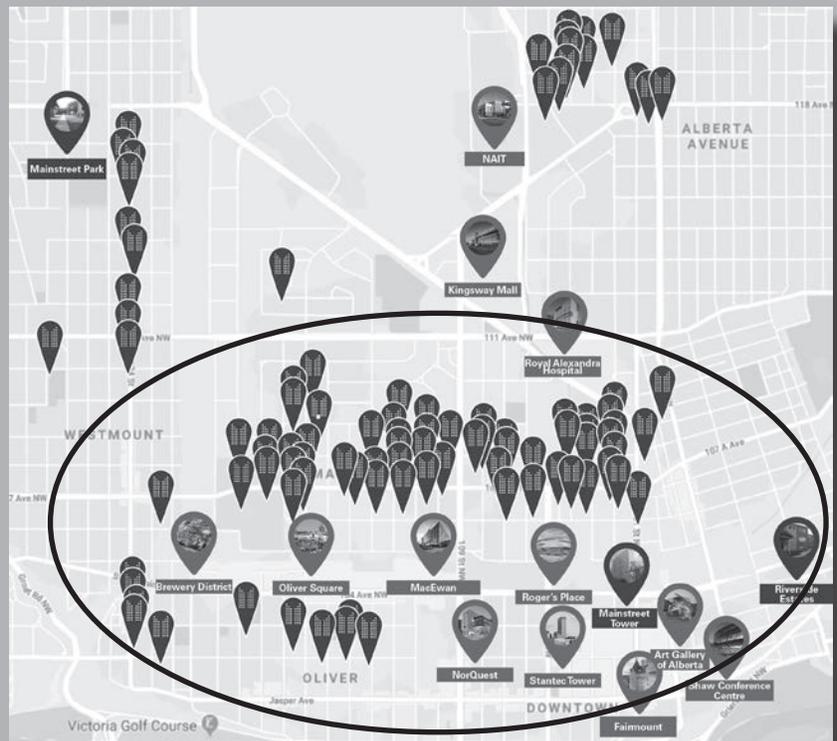


EDMONTON CENTRAL

(includes 'ICE DISTRICT')

4,308

total units in Edmonton



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") as at and for the fiscal year ended September 30, 2019 and 2018. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes for the fiscal years ended September 30, 2019 and 2018. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been reviewed and approved by the Audit Committee and Board of Directors of the Corporation and is effective as of December 5, 2019. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form ("AIF") is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicated otherwise, reference herein to 2019 and 2018 refers to the fiscal years ended September 30, 2019 and 2018, respectively.

NON-IFRS MEASURES

Mainstreet prepares and releases unaudited interim condensed consolidated financial statements and audited consolidated annual financial statements in accordance with IFRS. In this MD&A and in any earnings releases, as a complement to results provided in accordance with IFRS, Mainstreet also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS. These non-IFRS measures are recommended by the Real Property Association of Canada's ("REALPAC"), a leading national industry association of investment real estate. These include funds from operations ("FFO") and FFO per share. FFO is widely accepted as a supplemental measure of the performance of Canadian real estate entities, and Management believes these Non-IFRS measures are relevant measures to maintain comparability in operating performance. FFO is defined as profit before change in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items, such as a computer or vehicle, which are not uniquely significant to the real estate industry.

These non-IFRS measures may not be comparable to similarly titled measures reported by other issuers. The Non-IFRS measures should not be construed as alternatives to net profit (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of Mainstreet's performance. Reconciliations of FFO to profit, the most directly comparable IFRS measure is provided in the table and the footnotes thereto, under the heading "Review of Financial & Operating Results – Summary of Financial Results".

BUSINESS OVERVIEW

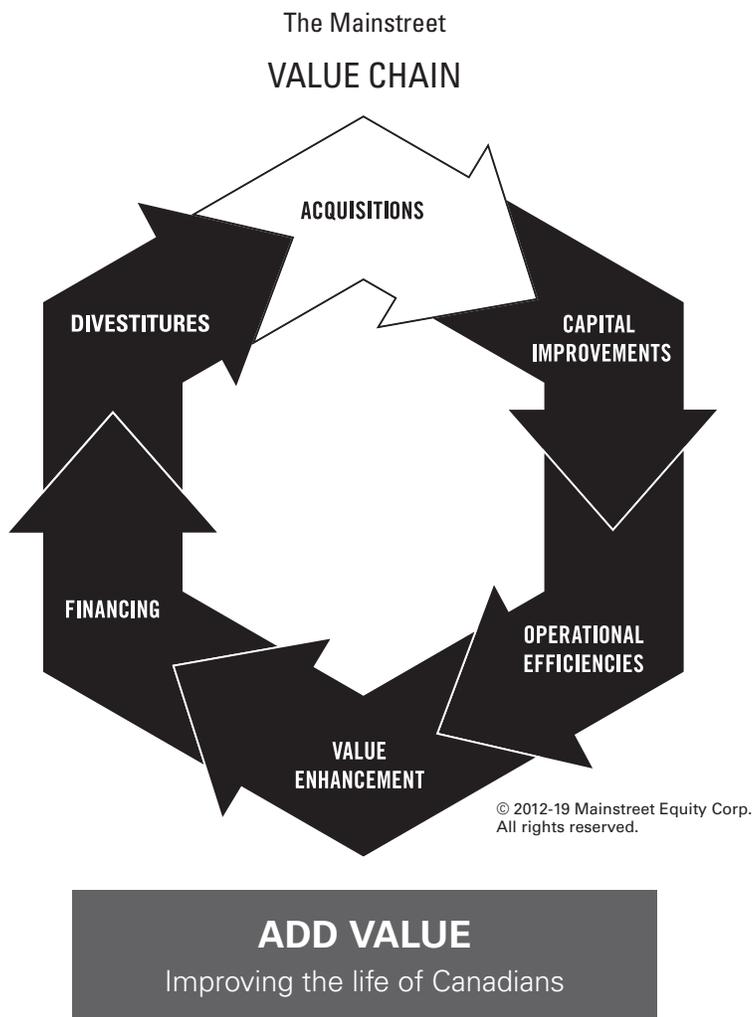
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/Lower Mainland, Calgary (including the City of Airdrie, the City of Lethbridge, and the Town of Cochrane), Edmonton (including the City of Fort Saskatchewan), Saskatoon and Regina.

Mainstreet is listed on the Toronto Stock Exchange ("TSX") and its common shares are traded under the symbol "MEQ".

BUSINESS STRATEGY

Mainstreet's goal is to become Canada's leading provider of affordable mid-sized, mid-market rental accommodations—typically properties with fewer than 100 units. In pursuit of this goal, the Corporation adheres to its six-step "Value Chain" business model:

- **Acquisitions:** Identify and purchase underperforming rental units at prices well below replacement costs.
- **Capital improvements:** Increase the asset value of Mainstreet's portfolio by renovating acquired properties.
- **Operational efficiencies:** Minimize operating costs through professional management, efficient technology and energy-saving equipment.
- **Value enhancement:** Reposition renovated properties in the market as Mainstreet branded products for higher rents, and build and sustain customer loyalty through high levels of service.
- **Financing:** Maintain a sound capital structure with access to low-cost, long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans.
- **Divestitures:** Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties.



INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements of the Corporation prepared in conjunction with this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB").

Investment properties

Investment properties are properties held to earn rental income and are initially measured at cost. Cost includes the initial purchase price and any direct attributable expenditure related to the acquisition and improvement of the properties. All costs associated with upgrading the quality and extending the economic life of the investment properties are capitalized as an additional cost of investment properties.

After initial recognition, the Corporation adopts the fair value model to account for the carrying value of investment properties in accordance with International Accounting Standard ("IAS") 40 Investment Property ("IAS 40").

Method used in determining the Fair Value of investment properties

Fair value is determined based on a combination of internal and external valuation processes. Gains and losses arising from differences between current period fair value and the sum of previous measured fair value and capitalized costs as described above are recorded in profit and loss in the period in which they arise.

For the Corporation's financial reporting, external valuations were 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 carrying values. 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 September 30, 2019 and September 30, 2018. Properties are selected on a rotational basis, approximately 40% of the Corporation's portfolio is externally valued annually.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$2.0 billion as of September 30, 2019 (\$1,866 million as of September 30, 2018). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at September 30, 2019 and September 30, 2018, respectively.

As at September 30, 2019	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2019
Surrey, British Columbia	10	1,775	\$ 386	\$ 217	4.19%
Abbotsford, British Columbia	15	976	163	167	4.66%
Calgary, Alberta (Note 1)	66	2,753	555	202	4.85%
Edmonton, Alberta (Note 2)	129	4,285	582	136	5.59%
Saskatoon, Saskatchewan	56	2,246	252	112	6.64%
Regina, Saskatchewan	59	866	102	118	6.08%
Total investment properties	335	12,901	\$ 2,040	\$ 158	5.20%

Note (1) – includes the City of Lethbridge, the Town of Cochrane and the City of Airdrie

Note (2) – includes the City of Fort Saskatchewan

As at September 30, 2018	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2018
Surrey, British Columbia	10	1,775	\$ 367	\$ 207	4.13%
Abbotsford, British Columbia	15	975	158	162	4.65%
Calgary, Alberta (Note 1)	49	2,261	466	206	4.84%
Edmonton, Alberta (Note 2)	128	4,260	577	135	5.69%
Saskatoon, Saskatchewan	51	1,818	215	118	6.63%
Regina, Saskatchewan	49	687	83	121	5.81%
Total investment properties	302	11,776	\$ 1,866	\$ 158	5.19%

Note (1) – includes the City of Lethbridge and the Town of Cochrane

Note (2) – includes the City of Fort Saskatchewan

ACQUISITIONS & GROWTH

(000s of dollars)

Year ended September 30,	2019	2018
	Calgary, Edmonton, Saskatoon and Regina	Calgary, Edmonton, Saskatoon and Regina
Number of rental units (Note 1)	1,119	1,296
Total costs	\$ 128,889	\$ 148,839
Average price per apartment unit (Note 1)	\$ 115	\$ 115

Note (1) – Excludes 1 warehouse in Edmonton, AB acquired for \$1.04 million in Q1 2019

Employing a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties in major residential centres in Western Canada that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In 2019, Mainstreet acquired 1,119 units in the Provinces of Alberta and Saskatchewan for a total consideration of \$128.9 million. Additionally in 2019, Mainstreet created 6 additional units in the Provinces of Alberta, Saskatchewan and British Columbia. Since Mainstreet's previous financial year-end (September 30, 2018), the Corporation has grown its portfolio of properties by 10%.

As of September 30, 2019, Mainstreet's portfolio included 12,898 residential units and 3 freestanding commercial houses, including townhouses, garden-style apartments, concrete mid-rise and high-rise apartments. A total of 94.5% of these residential units were rented, while 3.5% were being renovated and the remaining 2% left vacant, primarily in the Provinces of Alberta and Saskatchewan.

Since 1997, the Corporation's portfolio has increased from 10 to 335 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$2.0 billion as of September 30, 2019.

The following table demonstrates the growth of the Corporation by region since the end of the previous financial year ended September 30, 2018.

	Number of units as at Oct. 1, 2018	Acquisitions/ disposition 12 months ended Sept. 30, 2019	Additional units created 12 months ended Sept. 30, 2019	Number of units as at Sept. 30, 2019	% Growth
Surrey, British Columbia	1,775	–	–	1,775	–
Abbotsford, British Columbia	975	–	1	976	–
Calgary, Alberta (Note 1)	2,261	490	2	2,753	22%
Edmonton, Alberta (Note 2)	4,260	24	1	4,285	1%
Saskatoon, Saskatchewan	1,818	428	–	2,246	24%
Regina, Saskatchewan	687	177	2	866	26%
Investment properties	11,776	1,119	6	12,901	10%

Note (1) – includes the City of Lethbridge, the Town of Cochrane and the City of Airdrie.

Note (2) – including the City of Fort Saskatchewan.

CAPITAL IMPROVEMENTS

Mainstreet's "Value Chain" business philosophy focuses on creating value in capital assets by renovating newly-acquired properties and enhancing operating efficiencies. Every property and rental unit is upgraded to meet Mainstreet's branded standard, which creates an attractive product while reducing operating costs and enhancing long-term asset value. Capital investment also includes expenses incurred on turnover units.

In 2019, the Corporation spent \$18.8 million (2018 – \$21.9 million) on capital improvements, of which \$14.6 million (2018 – \$18.9 million) was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, windows, siding and insulation. These expenditures also covered mechanical and interior upgrades such as new boilers, flooring and paint to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio. Mainstreet plans to spend an estimated \$20 million on renovations in the fiscal year 2020. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of the renovations of its existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

Uncertainties affecting future revenue and income include the rate of turnover of existing tenants, availability of renovation workers and building materials, as well as increases in labour and material costs. All of these uncertainties could have a material impact on the timing and cost of completing these capital renovations.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

For the year ended September 30,	2019	2018	2017	% Change 2019	% Change 2018
Gross revenue	\$ 138,052	\$ 116,229	\$ 105,241	19%	10%
Net profit and total comprehensive income	58,685	72,723	90,935	(19%)	(20%)
Change in fair value	26,908	61,417	82,889	(56%)	(26%)
Depreciation	250	234	237	7%	(1%)
Deferred income tax expense	7,231	18,085	17,392	(60%)	4%
Funds from operations					
Non IFRS Measurement (Note 1)	\$ 39,258	\$ 29,625	\$ 25,675	33%	15%
Interest income	(179)	(564)	(581)	(68%)	(3%)
Other income	(260)	–	–	100%	–
Software development cost write off	–	555	–	–	–
General and administrative expenses	12,463	10,925	10,265	14%	6%
Financing costs	34,771	31,458	31,230	11%	1%
Depreciation (computer and vehicle)	255	222	177	15%	25%
Insurance settlement	–	–	(2,400)	–	–
Net operating income	\$ 86,308	\$ 72,221	\$ 64,366	20%	12%
Operating margin from operations	63%	62%	62%		
Profit per share					
Basic	\$ 6.41	\$ 8.23	\$ 10.25	(22%)	(20%)
Fully diluted	\$ 6.23	\$ 7.62	\$ 9.51	(18%)	(20%)
Funds from operations per share					
Basic	\$ 4.29	\$ 3.35	\$ 2.89	28%	16%
Fully diluted	\$ 4.17	\$ 3.10	\$ 2.68	35%	16%
Weighted average number of shares					
Basic	9,154,434	8,832,472	8,870,781		
Fully diluted	9,424,680	9,548,291	9,565,110		
Total Assets	\$2,056,025	\$1,878,347	\$1,668,528		
Total Long term liabilities	\$1,064,489	\$1,072,299	\$ 966,670		

1. FFO is calculated as profit before change in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items, such as a computer or vehicle, which are not uniquely significant to the real estate industry. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance but is not a recognized measure under IFRS. The IFRS measurement most directly comparable to FFO is profit (for which reconciliation is provided above). FFO should not be construed as an alternative to profit or cash flow from operating activities, determined in accordance with IFRS, as an indicator of Mainstreet's performance. Readers are cautioned that FFO may differ from similar calculations used by other comparable entities. Management believes FFO is useful for readers to determine the operating performance. This information is critical for the Corporation to maintain comparability in operating performance.

REVENUE

In 2019, revenue primarily comprised of rental and ancillary revenue totalling \$137.6 million (2018 – \$115.7 million), and interest income and other income. Overall, rental revenue increased 19% as compared to 2018, which is discussed and analysed in the session entitled "Rental Operations" below.

PROFIT

For the year ended September 30, 2019, Mainstreet reported a net profit of \$58.7 million (\$6.41 per basic share) as compared to a net profit of \$72.7 million (\$8.23 per basic share) for the year ended September 30, 2018. Despite higher funds from operations, net profit decreased in 2019 as a result of a decrease in the fair value gain in respect of Mainstreet's properties, as set out below.

Net profit is further analysed as follows:

(000s of dollars)

For the year ended September 30,	2019	2018	% Change
Funds from operations			
– Non IFRS measurement (see note 1 previous table)	\$ 39,258	\$ 29,625	33%
Change in fair value	26,908	61,417	(56%)
Depreciation	(250)	(234)	7%
Deferred income tax expense	(7,231)	(18,085)	60%
Net profit and total comprehensive income – IFRS measurement	\$ 58,685	\$ 72,723	(19%)

The increase in funds from operations in 2019 is further discussed and analysed below.

In 2019, a fair value gain of \$26.9 million was incurred as compared to a fair value gain of \$61.4 million in 2018. This was mainly due to changes as identified below:

(000s of dollars)

Change in Fair value	2019	2018
Surrey	\$ 19,480	\$ 11,300
Abbotsford	4,703	31,280
Calgary	15,779	11,810
Edmonton	2,361	19,891
Saskatoon	2,942	2,471
Regina	(140)	6,595
	45,125	83,347
Gain on disposal	575	–
Capital expenditure	(18,792)	(21,930)
Change in fair value	\$ 26,908	\$ 61,417

The fair value gain represented the change in the market value of the Corporation's investment properties over the fiscal years 2019 and 2018. The amount of change was determined by the market value of the investment properties at the year-end dates September 30, 2019 and 2018, which was regarded as a non-operating expense.

FUNDS FROM OPERATIONS – NON IFRS MEASUREMENT

Management believes that FFO is also a meaningful performance measurement for a real estate company's operating performance. FFO excludes changes in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items, such as computers and vehicles, which are not uniquely significant to the real estate industry. Mainstreet generates FFO from three sources: rental and ancillary revenue from investment properties, sale of properties acquired for resale purposes, and the periodic sale of investment properties. Mainstreet generally reinvests the proceeds from the latter into investment properties with greater potential for long-term returns.

Mainstreet's FFO increased by 33% to \$39.3 million in 2019, compared with \$29.6 million in 2018. The increase in FFO in 2019 was mainly attributable to the increased rental revenue which will be discussed and analysed in the following section entitled "Rental Operations." In 2018, Mainstreet incurred a one-time expense related to writing off software development cost of \$0.55 million. Excluding this item, FFO increased by 30% in 2019 from 2018.

See "Non-IFRS Measures" and Note (1) to the table titled "Summary of Financial Results" for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

GENERAL & ADMINISTRATIVE ("G&A") EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries. In 2019, G&A expenses increased by 14% to \$12.5 million as compared to \$10.9 million in 2018, mainly resulting from increased salary expenses as the Corporation continues to build up its management team in anticipation of continued growth.

FINANCING COSTS

(000s of dollars)

For the year ended September 30,	2019	2018	% change
Mortgage interest	\$ 31,674	\$ 28,662	11%
Amortization of deferred financing cost	3,097	2,796	11%
Financing costs	\$ 34,771	\$ 31,458	11%

Mortgage interest expenses increased by 11% to \$31.7 million in 2019 compared to \$28.7 million in 2018.

The rise was mainly attributable to an increase in mortgage loans from financing of clear title assets, as well as mortgages which the corporation assumed as part of the acquisition of new properties.

In 2019, the Corporation financed two maturing mortgages and 12 clear-title properties for \$83.7 million at an interest rate of 3.02%. These financings raised approximately \$80.9 million additional funds, which was used to support the Corporation's growth in its core markets.

Subsequent to year-end September 30, 2019, the Corporation also financed 6 clear-title properties for \$26.4 million at an interest rate of 2.47%. The funds were used to pay-off a maturing mortgage of \$23.9 million on October 31, 2019.

RENTAL OPERATIONS

(000s of dollars except per unit data)

For the year ended September 30,	Total Portfolio			Same Asset			Acquisition		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
Rental and ancillary revenue	\$ 137,613	\$ 115,665	19%	\$ 118,021	\$ 109,046	8%	\$ 19,592	\$ 6,619	196%
Operating expenses	51,305	43,444	18%	43,055	40,542	6%	8,250	2,902	184%
Net operating income	\$ 86,308	\$ 72,221	20%	\$ 74,966	\$ 68,504	9%	\$ 11,342	\$ 3,717	205%
Operating margin	63%	62%		64%	63%		58%	56%	
Average vacancy rate	6.4%	10.1%	(37%)	5.8%	9.9%	(42%)	9.7%	11.5%	(16%)
Weighted average number of units	12,425	11,217	11%	10,494	10,494	0%	1,931	723	167%
Average rental rate per unit per month	\$ 923	\$ 859	7%	\$ 937	\$ 866	8%	\$ 846	\$ 763	11%
Average operating expense per unit per month	\$ 344	\$ 323	7%	\$ 342	\$ 322	6%	\$ 356	\$ 334	7%

The vacancy rate decreased substantially to 6.4% in 2019, down from 10.1% in 2018. The average monthly rental rate increased to \$923 per unit in 2019, compared to \$859 per unit in 2018. Overall rental and ancillary revenue increased 19% to \$137.6 million in 2019 as compared to \$115.7 million in 2018. This was mainly due to improved vacancy results and the continued growth of the Corporation's portfolio as the average number of units owned by the Corporation increased by 11% over the year.

For same asset properties, which refer to properties owned by the Corporation for the entire twelve month period ended September 30, 2019 and 2018, rental and ancillary revenue increased 8% to \$118.0 million in 2019 as compared to \$109.0 million in 2018. The average monthly rental rate increased 8% to \$937 per unit in 2019, up from \$866 per unit in 2018. The vacancy rate decreased to 5.8% in 2019 from 9.9% in 2018, mainly due to the recovery from a prolonged economic downturn, particularly in Alberta.

Mainstreet's overall operating expenses increased 18% to \$51.3 million in 2019 from \$43.4 million in 2018, due mainly to the increased number of newly acquired units since 2018.

The overall and same asset operating expenses on a per unit basis increased by 6% mainly due to increased property tax expenses and utility costs.

As a result, overall net operating income increased 20% to \$86.3 million in 2019 from \$72.2 million in 2018, and the net operating margin increased to 63% in 2019 from 62% in 2018.

For same asset properties, net operating income increased 9% to \$75.0 million in 2019 from \$68.5 million in 2018. The net operating margin increased to 64% in 2019 from 63% in 2018.

RENTAL OPERATIONS BY PROVINCE

Mainstreet manages and tracks the performance of rental properties in each of its geographic markets.

British Columbia

Mainstreet achieved an 8% increase in rental revenue in its British Columbia portfolio in 2019 due primarily to an increase in market rents in its British Columbia rental markets. The average vacancy rate decreased slightly to 0.4% in 2019 from 0.6% in 2018. An above-average occupancy rate can be largely attributed to the overall economic performance in British Columbia, which is among the strongest in the country, according to information published by Statistics Canada. As a result, due to higher occupied rents and occupancy levels, rental revenue per unit increased by 8% to \$1,025 per month in 2019, up from \$952 per month in 2018.

Operating expenses per unit increased 13% to \$283 per month in 2019 compared with \$251 per month in 2018, due mainly to increased property tax expense and utility expense. As a result, the net operating income increased 6%, and the net operating margin decreased to 72% in 2019 as compared to 74% in 2018.

In 2018, Mainstreet completed a water meter conversion program on all Surrey properties, which effectively introduced a volume-based consumption system rather than a flat rate, in turn lowering operating costs for the Corporation. The conversion program has led to a utility refund of \$1.2 million in 2018 and \$82,000 in 2019. Excluding these items, adjusted net operating income increased 11%, and adjusted net operating margin increased to 72% in 2019 as compared to 70% in 2018.

(000s of dollars except per unit data)

Year ended September 30,	2019	2018	% Change
Rental and ancillary revenue	\$ 33,831	\$ 31,414	8%
Operating expenses	9,357	8,290	13%
Net operating income	\$ 24,474	\$ 23,124	6%
Weighted average number of units	2,751	2,750	0%
Average rent per unit per month	\$ 1,025	\$ 952	8%
Operating cost per unit per month	\$ 283	\$ 251	13%
Average vacancy rate	0.4%	0.6%	
Operating margin	72%	74%	

Alberta

Mainstreet achieved growth of 9% in its Alberta portfolio in 2019; the weighted average number of rental units grew to 6,829 units, compared with 6,245 units in 2018. The average vacancy rate decreased to 7.2% in 2019 from 12.6% in 2018. The decrease in vacancy rate was due mainly to a modest recovery from a prolonged economic downturn in the province. Rental revenue per unit increased 8% to \$936 per month in 2019 from \$863 per month in 2018.

Operating expenses per unit increased 5% to \$371 per month in 2019 compared to \$355 per month in 2018 due mainly to higher property tax, utility expense and advertising expense. As a result, the net operating income increased 22%, and the net operating margin increased to 60% in 2019 as compared to 59% in 2018.

(000s of dollars except per unit data)

Year ended September 30,	2019	2018	% Change
Rental and ancillary revenue	\$ 76,705	\$ 64,643	19%
Operating expenses	30,433	26,617	14%
Net operating income	\$ 46,272	\$ 38,026	22%
Weighted average number of units	6,829	6,245	9%
Average rent per unit per month	\$ 936	\$ 863	8%
Operating cost per unit per month	\$ 371	\$ 355	5%
Average vacancy rate	7.2%	12.6%	
Operating margin	60%	59%	

Saskatchewan

Mainstreet achieved growth of 28% in its Saskatchewan portfolio in 2019, due mainly to the Corporation's expansion in Regina and Saskatoon markets in 2018 and 2019. The average number of rental units grew to 2,845 units in 2019, compared with 2,222 units in 2018. The average vacancy rate decreased to 10.2% in 2019 from 14.8% in 2018. Rental revenue per unit increased to \$793 per month in 2019 from \$735 per month in 2018, as a result of improved occupancy rate in the province.

Operating expenses per unit increased 5% to \$337 per month in 2019, up from \$320 per month in 2018, due mainly to increased property taxes and utility expenses during the period. As a result, the net operating income increased 41% and the net operating margin increased to 57% in 2019 as compared to 56% in 2018.

(000s of dollars except per unit data)

Year ended September 30,	2019	2018	% Change
Rental and ancillary revenue	\$ 27,077	\$ 19,608	38%
Operating expenses	11,515	8,537	35%
Net operating income	\$ 15,562	\$ 11,071	41%
Weighted average number of units	2,845	2,222	28%
Average rent per unit per month	\$ 793	\$ 735	8%
Operating cost per unit per month	\$ 337	\$ 320	5%
Average vacancy rate	10.2%	14.8%	
Operating margin	57%	56%	

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Rental revenue								
British Columbia	\$ 8,521	\$ 8,379	\$ 8,218	\$ 8,099	\$ 7,882	\$ 7,782	\$ 7,631	\$ 7,571
Alberta	20,109	19,069	18,465	17,986	17,042	16,036	15,387	15,346
Saskatchewan	7,346	6,825	6,518	6,107	5,560	5,124	4,922	3,847
Total rental Revenue	\$ 35,976	\$ 34,273	\$ 33,201	\$ 32,192	\$ 30,484	\$ 28,942	\$ 27,940	\$ 26,764
Ancillary revenue	599	420	536	416	496	355	389	295
Interest income	40	53	43	43	112	179	134	139
Total revenue								
from operations	\$ 36,615	\$ 34,746	\$ 33,780	\$ 32,651	\$ 31,092	\$ 29,476	\$ 28,463	\$ 27,198
Change in fair value	\$ 15,567	\$ 5,344	\$ 7,305	\$ (1,308)	\$ 30,544	\$ 24,947	\$ 7,100	\$ (1,174)
Profit (loss)								
from operations	\$ 29,197	\$ 11,357	\$ 12,288	\$ 5,843	\$ 33,455	\$ 25,002	\$ 10,827	\$ 3,439
Net profit (loss) per share								
– Basic	\$ 3.11	\$ 1.21	\$ 1.36	\$ 0.66	\$ 3.79	\$ 2.83	\$ 1.23	\$ 0.39
– Diluted	\$ 3.11	\$ 1.21	\$ 1.29	\$ 0.61	\$ 3.50	\$ 2.62	\$ 1.13	\$ 0.36
Same assets rental and ancillary revenue								
British Columbia	\$ 8,696	\$ 8,520	\$ 8,386	\$ 8,231	\$ 8,042	\$ 7,908	\$ 7,785	\$ 7,679
Alberta	17,641	17,107	17,105	16,895	16,523	15,947	15,441	15,439
Saskatchewan	3,875	3,831	3,882	3,852	3,648	3,499	3,521	3,614
Total same assets rental and ancillary revenue	\$ 30,212	\$ 29,458	\$ 29,373	\$ 28,978	\$ 28,213	\$ 27,354	\$ 26,747	\$ 26,732
Same assets vacancy Rate	5.1%	5.8%	6.0%	6.0%	7.4%	9.6%	11.1%	11.3%
Same assets net operating income								
British Columbia	\$ 6,618	\$ 6,020	\$ 5,767	\$ 6,069	\$ 6,824	\$ 5,862	\$ 5,272	\$ 5,167
Alberta	11,237	10,154	9,888	10,262	10,048	9,485	8,830	8,962
Saskatchewan	2,310	2,209	2,145	2,287	2,133	1,958	1,925	2,038
Total same assets net operating income	\$ 20,165	\$ 18,383	\$ 17,800	\$ 18,618	\$ 19,005	\$ 17,305	\$ 16,027	\$ 16,167
Net operating income	\$ 24,032	\$ 21,327	\$ 20,156	\$ 20,793	\$ 20,604	\$ 18,274	\$ 16,921	\$ 16,422
Funds from operations of stabilized properties – Non-IFRS measurement (Note)	\$ 9,577	\$ 7,651	\$ 7,007	\$ 8,168	\$ 8,048	\$ 6,747	\$ 6,050	\$ 5,831
Funds from operations – Non-IFRS measurement	\$ 12,134	\$ 9,320	\$ 8,272	\$ 9,532	\$ 9,633	\$ 7,204	\$ 6,484	\$ 6,304
Funds from operations of stabilized properties per share – Non-IFRS measurement (Note)								
– Basic	\$ 1.02	\$ 0.82	\$ 0.78	\$ 0.92	0.91	\$ 0.76	\$ 0.68	\$ 0.66
– Diluted	\$ 1.02	\$ 0.82	\$ 0.73	\$ 0.86	\$ 0.84	\$ 0.71	\$ 0.63	\$ 0.61
Funds from operations per share – Non-IFRS measurement								
– Basic	\$ 1.29	\$ 0.99	\$ 0.92	\$ 1.08	\$ 1.09	\$ 0.82	\$ 0.73	\$ 0.71
– Diluted	\$ 1.29	\$ 0.99	\$ 0.87	\$ 1.00	\$ 1.01	\$ 0.75	\$ 0.68	\$ 0.66
Average vacancy rate								
British Columbia	0.3%	0.3%	0.5%	0.3%	0.5%	0.5%	0.4%	1.1%
Alberta	6.1%	7.2%	7.5%	7.8%	9.1%	11.8%	14.4%	14.7%
Saskatchewan	9.7%	10.3%	10.2%	10.6%	12.5%	16.1%	15.9%	14.5%
Total average vacancy rate	5.7%	6.4%	6.5%	6.7%	7.8%	10.0%	11.3%	11.1%

Note: See “Non-IFRS Measures” and Note (1) to the table titled “Summary of Financial Results” on page 13 for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2019:

- Rental and ancillary revenue increased to \$36.6 million, compared to \$34.7 million in Q3 2019 and \$31.1 million in Q4 2018.
- Average vacancy rate for the quarter was 5.7%, compared with 6.4% in Q3 2019 and 7.8% in Q4 2018.
- Fair value gain for the quarter was \$15.8 million, compared with a gain of \$5.3 million in Q3 2019 and a gain of \$30.5 million in Q4 2018.
- Funds from operations for the quarter were \$12.1 million, a 30% increase from \$9.3 million in Q3 2019 and a 23% increase from \$9.6 million in Q4 2018. See "Non-IFRS Measures".
- Net operating income for the quarter was \$24 million, a 13% increase from \$21.3 million in Q3 2019 and a 17% increase from \$20.6 million in Q4 2018.
- In Q4 2019, overall economic performance in British Columbia remains among the strongest in the country. As a result, British Columbia continues to achieve below 1% vacancy result and constant revenue growth. Mainstreet's Alberta and Saskatchewan market also showed strong performance in the quarter with a stable same asset vacancy rate and revenue improvement.
- Mainstreet's same asset vacancy rate dropped to 5.1% in Q4 2019, from 5.8% in Q3 2019, and same asset revenues increased 2.6% to \$30.2 million, an improvement from \$29.4 million in Q3 2019 and 7% increase from \$28.2 million in Q4 2018.
- Same assets net operating income for the quarter was \$20.2 million, a 10% increase from \$18.4 million in Q3 2019 and a 6% increase from \$19 million in Q4 2018.
- Funds from operations related to stabilized properties were \$9.6 million, a 25% increase from \$7.6 million in Q3 2019 and a 19% increase from \$8.0 million in Q4 2018.

STABILIZED PROPERTIES

The Corporation focuses on the acquisition of underperforming properties, renovating them and repositioning the renovated properties in the market at current market rents. Underperforming properties have typically been poorly managed, with substantial deferred maintenance and rents that are often well below current market rental rates.

The Corporation refers to such underperforming properties acquired as "unstabilized properties"; and to the process of renovating and repositioning those acquired unstabilized properties as the "stabilization process". After completion of the stabilization process, such properties are referred to as "stabilized properties". The period of time required for the completion of renovations and repositioning of renovated properties at current market rents depends on the condition of the properties acquired, the amount of renovation work required to bring the property up to Mainstreet's standards and the applicability of rent control legislation to those properties, according to the provinces in which they are acquired.

Based upon the Corporation's past experience, the average period required for the stabilization process is approximately two years in provinces without statutory rent controls, such as the Provinces of Alberta and Saskatchewan. In British Columbia, due to applicable statutory rent controls, the allowable annual rent increase for existing tenants is determined by the Tenancy Board of the Province of British Columbia (thereby potentially decreasing tenant turnover rate and delaying of rent increases to current market levels). For this reason, past experience suggests the average stabilization process in British Columbia is approximately three years.

As of September 30, 2019, 238 properties (10,524 units) out of 335 properties (12,901 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2019.

	Oct. 1, 2018	%	Acquisition/ Creation	Number of units stabilized	Sept. 30, 2019	%
Stabilized Units	10,010	85%	–	514	10,524	82%
Unstabilized Units	1,766	15%	1,125	(514)	2,377	18%
Total Units	11,776	100%	1,125	–	12,901	100%

The following table summarizes the progress of the Corporation's stabilization progress since the beginning of fiscal year 2019.

	Oct. 1, 2018	No. of units stabilized during the period	No. of unstabilized units acquired/ created during the period	Sep. 30, 2019
Numbers of unstabilized units held for renovation	1,766	(514)	1,125	2,377
Number of months				
Average time spent on stabilization	10	25	7	13
Estimated remaining time for stabilization	14	–	17	11

During the year ended September 30, 2019, the Corporation created 2 units and acquired 490 unstabilized units in Calgary, Alberta; created 1 unit and acquired 24 unstabilized units in Edmonton, Alberta; acquired 428 unstabilized units in Saskatoon, Saskatchewan; created 2 units and acquired 177 unstabilized units in Regina, Saskatchewan; and created 1 unit in Abbotsford, British Columbia. Some acquired assets required substantial renovation and had rental rates that are considered well below the market for stabilized units. The Corporation has stabilized 514 units in 2019, for which renovation work is substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2019, FFO of Mainstreet's stabilized property portfolio amounted to \$33.1 million (\$3.62 per basic share and per fully diluted share). See "Non-IFRS Measures".

(000s of dollars except per share amounts)

For the year ended September 30, 2019	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary revenue	\$ 117,955	\$ 19,658	\$ 137,613
Property operating expenses	43,167	8,138	51,305
Net operating income	\$ 74,788	\$ 11,520	\$ 86,308
Operating margin	63%	59%	63%
Vacancy rate	5.6%	10.1%	6.4%
Interest income	\$ (149)	\$ (30)	\$ (179)
Other income	(260)	–	(260)
General & administrative expenses	10,660	1,803	12,463
Financing cost	31,208	3,563	34,771
Depreciation (computer and vehicle)	212	43	255
Funds from operations – Non-IFRS measurement	\$ 33,117	\$ 6,141	\$ 39,258
Depreciation			\$ 250
Change in fair value			26,908
Deferred income tax expense			7,231
Net profit and total comprehensive income			\$ 58,685
Funds from operations per share			
– basic	\$ 3.62	\$ 0.67	\$ 4.29
– diluted	\$ 3.51	\$ 0.65	\$ 4.17
Weighted average number of shares			
– basic			9,154,434
– diluted			9,424,680

(000s of dollars except per share amounts)

For the year ended September 30, 2018	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary revenue	\$ 105,392	\$ 10,273	\$ 115,665
Property operating expenses	36,655	6,789	43,444
Net operating income	\$ 68,737	\$ 3,484	\$ 72,221
Operating margin	65%	34%	62%
Vacancy rate	8.6%	22.4%	10.1%
Interest income	\$ (500)	\$ (64)	\$ (564)
General & administrative expenses	9,876	1,049	10,925
Software development cost write off	492	63	555
Financing cost	29,060	2,398	31,458
Depreciation (computer and vehicle)	197	25	222
Funds from operations– Non-IFRS measurement	\$ 29,612	\$ 13	\$ 29,625
Depreciation			\$ 234
Change in fair value			61,417
Deferred income tax expense			18,085
Net profit and total comprehensive income			\$ 72,723
Funds from operations per share			
– basic	\$ 3.35	\$ 0.00	\$ 3.35
– diluted	\$ 3.10	\$ 0.00	\$ 3.10
Weighted average number of shares			
– basic			8,832,472
– diluted			9,548,291

In 2019, FFO of the stabilized property portfolio increased 12% to \$33.1 million as compared to \$29.6 million in 2018, while the number of stabilized units increased 5% to 10,524 units as of September 30, 2019 compared to 10,010 units as of September 30, 2018. The increase in the FFO for stabilized properties was due to the increased number of stabilized units.

(000s of dollars)

For the year ended September 30,	2019	2018	% Change
FFO of stabilized properties (Note)	\$ 33,117	\$ 29,612	12%
Number of stabilized units	10,524	10,010	5%

Note: See “Non-IFRS Measures” and Note (1) to the table titled “Summary of Financial Results” on page 13 for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

LIQUIDITY & CAPITAL RESOURCES

Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In 2019, after payments of all required expenses, the Corporation generated funds from operations of \$39.1 million.

Management expects funds generated from operations will continue to grow when more units are renovated and re-introduced to the market at higher rental rates and Management believes that these funds should be sufficient to meet the Corporation’s working capital requirements on a year-to-year basis going forward. As of September 30, 2019, the working capital deficiency is also managed through the available liquidity under the banking facility as well as the ongoing financing of mortgage payable, which is discussed and analysed in the session entitled “Financing” below.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In 2019, the Corporation spent approximately \$149.6 million on acquisitions and capital improvements. Management expects the following capital resources to be sufficient to meet the capital requirements on a year-to-year basis.

Financing

Debt financing after property stabilization and maturity of initial loans is a cornerstone of Mainstreet's business strategy. Management believes this unlocks the value added through stabilization and liberates capital for future growth.

Management also believes this mitigates the risk of anticipated interest rate hikes and minimizes the costs of borrowing. Mainstreet continually refinances as much floating and maturing debt as possible into long-term debt, primarily CMHC insured mortgages at lower interest rates.

In 2019, the Corporation financed two maturing mortgages and 12 clear-title properties for \$83.7 million at an interest rate of 3.02%. These financings raised approximately \$80.9 million additional funds.

Subsequent to year-end September 30, 2019, the Corporation also financed 6 clear-title properties for \$26.4 million at an interest rate of 2.47%. The funds were used to pay-off a maturing mortgage of \$23.9 million on October 31, 2019.

As of September 30, 2019, the Corporation owned title to 46 clear title properties and two development lots having an aggregate fair value of approximately \$217 million.

If required, Mainstreet believes it could raise additional capital funds through mortgage financing at competitive rates under which these clear title properties would be pledged as collateral.

The Corporation's policy for capital risk management is to keep a debt-to-fair value of investment properties ratio under 70%. The current ratio is approximately 53%, which Management believes will leave considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

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 5, 2022. As at September 30, 2019, the Corporation has drawn \$56.4 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 September 30, 2019, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.43, respectively.

CONTRACTUAL OBLIGATIONS

As of September 30, 2019, the Corporation had the following contractual obligations, which are anticipated to be met using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of September 30, 2019 are as follows:

(000s of dollars)

Years ending September 30,	Amount
2020	\$ 124,182
2021	96,914
2022	94,124
2023	106,264
2024	139,777
Subsequent	476,863
	1,038,124
Deferred financing cost	(18,401)
	\$ 1,019,723

LONG-TERM DEBT

(000s of dollars)

For the year ended September 30, 2019	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 921,840	89%	2.94%
– non-CMHC-insured	92,094	9%	3.04%
Floating rate debt			
– CMHC-insured	24,190	2%	3.79%
Total debt	1,038,124	100%	2.97%
Deferred financing costs	(18,401)		
	\$ 1,019,723		

Mainstreet’s long-term debt consists of low-rate, fixed-term mortgage financing. All individual mortgages are secured with their respective real estate assets. Based largely on the fair value of properties, Management believes this financing reflects the strength of its property portfolio. The maturity dates for this debt are staggered to mitigate overall interest rate risk.

As of September 30, 2019, total mortgages payable were \$1,020 million compared to \$957 million on September 30, 2018 – an increase of 7% due to financing and acquisition activity during the year ended September 30, 2019.

As of September 30, 2019, Management believes the Corporation’s financial position to be stable, with overall mortgage levels reported at 50% of the fair value of investment properties. About 91% of the Corporation’s mortgage portfolio was CMHC-insured, providing Mainstreet with what Management believes are interest rates lower than those available through conventional financing.

To maintain cost-effectiveness and flexibility of capital, Mainstreet continually monitors short-term and long-term interest rates. When doing so is expected to provide a benefit, the Corporation intends to convert short-term floating-rate debt to long-term, CMHC-insured fixed-rate debt.

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2020	105,631	10%	3.20%
2021	81,727	8%	3.94%
2022	83,088	8%	3.00%
2023	99,304	10%	3.37%
2024	140,087	13%	3.36%
Subsequent	528,287	51%	2.60%
	\$ 1,038,124	100%	2.97%

The average maturing term of mortgage loans is 5.42 years as of September 30, 2019, compared to 6.0 years as of September 30, 2018.

INTERNAL CONTROLS

Disclosure controls and procedures (“DC&P”) are designed to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. DC&P are also designed to include controls and procedures designed to ensure that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation’s Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The preparation of this information is supported by an internal control and procedure framework designed by Management to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control and procedure framework related to the Corporation's Internal Control over Financial Reporting ("ICFR") and DC&P were designed in accordance with Risk Management and Governance – Guidance on Control, published by the Canadian Institute of Chartered Accountants and the requirements of National Instrument 52-109 of the Canadian Securities Administrators entitled, "Certification of Disclosure in Issuer's Annual and Interim Filings".

As at September 30, 2019, Mainstreet determined that there were no material weaknesses in the design of its ICFR or DC&P. All previously disclosed weaknesses in such designs were remediated prior to September 30, 2019.

During the 2019 fiscal year, Mainstreet made the following changes to its ICFR in order to strengthen its ICFR and to remediate a previously identified and disclosed material weakness in its ICFR:

- (i) implemented formal control process and procedures to properly evaluate future groupings of properties being used by the Corporation in determining fair value of its investment properties to ensure that sample properties are appropriately representative of each group, including without limitation:
- (ii) requirement to review on a regular basis the criteria for the Corporation's property groupings to ensure that such criteria remains appropriate and relevant;
- (iii) requirement to review on a regular basis the property groupings to ensure that all properties within the grouping are adequately similar;
- (iv) requirement to review on a regular basis the sample properties chosen for each grouping to ensure that they are appropriately representative of all properties within the grouping;
- (v) requirement to, prior to making any future changes to the properties within a grouping, take such steps as are necessary to properly understand how such a change will affect the overall valuation of the Corporation's properties; and
- (vi) additional resources were allocated to the finance department of the Corporation's head office to ensure that staff has adequate time and resources to complete the processes and procedures set out in (i) to (v) above and to spend additional time reviewing and analysing all independent third party valuations of sample properties to ensure that all anomalies are identified and analysed further and to identify any errors that may be present in such valuations. Although the Corporation already reviewed third party valuations for these purposes, it was determined that additional resources were required given the increased materiality of sample property valuations under the new sampling methodology for determining the fair value of the Corporation's investment properties.

Mainstreet's Management evaluated, or caused to be evaluated under its supervision, the effectiveness of its ICFR and DC&P as at September 30, 2019. Based on this evaluation, Management has concluded that the Corporation's ICFR and DC&P were effective as at September 30, 2019.

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

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

The fair values of mortgages receivable and payable are determined using the current market interest rates as discount rates, the net present value of principal balances and future cash flows over the terms of the mortgages. In identifying the appropriate level of fair value, the Corporation performs a detailed analysis of 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)

(000s of dollars)

		September 30, 2019		September 30, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,387	\$ 3,387	\$ 3,120	\$ 3,120
Cash and cash equivalents	Level 1	70	70	384	384
Trade and other receivables	Level 2	1,878	1,878	824	824
Financial liabilities:					
Bank indebtedness	Level 1	56,442	56,442	1,858	1,858
Mortgages payable	Level 2	1,019,723	1,057,210	956,965	948,934
Trade and other payables	Level 2	8,911	8,911	6,798	6,798
Refundable security deposits	Level 1	\$ 4,774	\$ 4,774	\$ 4,526	\$ 4,526

* Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties.

See also the Notes to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2019 and 2018 (the "Annual Financial Statements") for additional information regarding financial assets and the risks associated therewith.

Risk Associated with Financial Assets & Liabilities

The Corporation is exposed to risks arising from its financial assets and liabilities. These include market risk related to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled "Risk Assessment and Management".

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:

	Year ended September 30, 2019		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)
Exercise of stock options	549,425	2,382	–	–
Issued and outstanding – end of the period	9,381,730	\$ 26,597	8,832,305	24,215

All common shares share 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 expired on May 31, 2020. The Corporation's previous NCIB expired on May 31, 2019.

During the fiscal year 2019 and 2018, the Corporation purchased and cancelled Nil (2018–3,659 at an average price of \$37.02) common shares under the NCIB.

Given the discount between its current trading share price and net asset value ("NAV"), Management believes that the re-purchase of its common shares is returning capital to shareholders in a tax-efficient manner that is accretive to NAV. Mainstreet will continue to assess on an ongoing basis as to whether increased purchases of its common shares is warranted.

STOCK OPTIONS

A summary of the Corporation's stock options as of September 30, 2019, and September 30, 2018 and changes during the periods are presented below:

Stock option	September 30, 2019		September 30, 2018	
	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	822,000	\$ 5.51
Exercised	549,425	45.75	–	–
Cancelled	272,575	45.75	–	–
Outstanding and exercisable – end of the year	–	\$ –	822,000	\$ 5.51
Weighted average contractual life-years	–		0.44	
Prices	\$ –		\$ 5.51	

The exercise prices of the options were to equal the market-trading price of the Corporation's common share on the date of grant. The stock options were fully vested at the time of issue. The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate and expected dividend rate. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration received by the Corporation on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

During the fiscal year 2019, the Corporation issued 549,425 common shares pursuant to the exercise of Outstanding stock options with an average weighted price of \$5.51 per common share. Also during the fiscal year 2019, four officers and directors of the Corporation exercised 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.

Shareholder Rights Plan

Effective February 21, 2013, the Board of Directors of the Corporation approved the adoption of a shareholder rights plan agreement (the "Rights Plan") dated February 21, 2013 between the Corporation and Computershare Trust Company of Canada. The Rights Plan was ratified and approved by shareholders of the Corporation on March 21, 2013 and subsequently amended and renewed by the shareholders of the Corporation on March 18, 2016 and March 29, 2019. The Right Plan was amended to change the time from 120 days to 105 days for a take-over bid to be taken up to coincide with changes to securities law related to take-over bids, expand the definition of "Convertible Securities" to include any securities issued by the corporation carrying an exercise, conversion or exchange right pursuant to which the holder thereof may acquire Common Shares, amend the definition of "Expiration Time" from 2019 to 2022, amend the definition of "Permitted Lock Up Agreement" to reflect best practices and institutional shareholder services recommendations in respect of shareholder rights plans, amend the definition of "Acting Jointly or in Concert" to better align the same with current securities legislation and make certain amendments relating to the right's agent duties and procedures to change the Right to Agent. The Rights Plan will expire at the termination of the annual general meeting of shareholders of the Corporation, scheduled 2022 unless otherwise renewed at or prior to that time.

Immediately upon the Rights Plan coming into effect, one right ("Right") was issued and attached to each common share of the Corporation outstanding and will continue to attach to each common share subsequently issued.

The Rights will separate from the common shares of the Corporation and will be exercisable on the close of business on the 10th trading day after the earlier of the date on which a person has acquired 20% or more of, or a person commences or announces a take over bid for, the Corporation's outstanding common shares, other than an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid as such terms are defined under the Rights Plan.

The acquisition by a person of 20% or more of the common shares of the Corporation is referred to as a "Flip In Event". When a Flip In Event occurs, each Right (except for Rights beneficially owned by an Acquiring Person or certain transferees of an Acquiring Person, which Right will be void pursuant to the Rights Plan) becomes a right to purchase from the Corporation, upon exercise thereof, in accordance with the terms of the Rights Plan, that number of common shares having an aggregate market price on the date of consummation or occurrence of such Flip In Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price. The Exercise Price for the Rights provided in the Rights Plan is \$100. As an example, if at the time of the Flip-in Event the Common Shares have a market price of \$25, the holder of each Right would be entitled to receive \$200 (twice the Exercise Price) in market value of the Common Shares (8 Common Shares) for \$100, i.e.: at a 50% discount. Certain exemptions exist under the Rights Plans for Portfolio Managers and Grandfathered Persons as such terms are defined in the Rights Plan.

A complete copy of the Rights Plan as amended and renewed, including the specific provisions thereof, is available under the Corporation's profile filed on SEDAR.

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 of the Annual Financial Statements for a 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. Please refer to Note 23 of the Annual 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.

New accounting policies and changes to accounting policies

The following IFRS policies were effective for annual period beginning on or after January 1, 2018 and were adopted by Mainstreet in the 2019 fiscal year.

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 using the modified retrospective approach and the implementation did not have material impact on its 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" using the modified retrospective approach. 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 17 of the Annual Financial Statements. 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 Mainstreet's financial statements. The following accounting policies have not yet 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 believes the adoption of IFRS 16 does not have material impact on its consolidated financial statements.

Transactions with Related Parties

- 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 third parties to the transaction. The commissions received by the President and Chief Executive Officer during the year ended September 30, 2019 amounted to \$406,775 (2018 – \$1,234,800). 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 year ended September 30, 2019 amounting to \$374,077 (2018 – \$295,377) to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2019, the amounts payable to the law firm were \$5,623 (September 30, 2018 – \$346). 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.

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for 2019 .

Subsequent Events

Subsequent to year-end September 30, 2019, the Corporation also financed 6 clear-title properties for \$26.4 million at an interest rate of 2.47%. The funds were used to pay-off a maturing mortgage of \$23.9 million on October 31, 2019.

Subsequent to the year ended September 30, 2019, the Corporation acquired additional 133 residential units in the Province of Alberta and Saskatchewan for a total consideration of \$12.3 million.

Risk Assessment and Management

Management defines risk as the evaluation of the probability that an event that could negatively affect the financial condition or results of the Corporation may happen in the future. The following section describes specific and general risks that could affect the Corporation. As it is difficult to predict whether any risk will occur or what its related

consequences might be, the actual effect of any risk on the business of the Corporation could be materially different than anticipated. The following discussion of risk does not include all possible risks as there may be other risks of which the Corporation is currently unaware.

Vacancy Risk

The Corporation is subject to tenant vacancy risk when, in some markets and under certain economic conditions, housing/condominiums are affordable, financing is readily available and interest rates are low, making it easier for renters to become homebuyers. This increases vacancy rates and decreases rental revenue cash flow.

Vacancy rates can also be affected negatively by increased supply of multi-family units in the Corporation's core markets. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Mainstreet's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or its competitors may be newer, better located or offer lower rents. In addition, an increase in alternative housing could have a material adverse effect on the Corporation's ability to lease units and in the rents charged and could adversely affect the Corporation's revenues and ability to meet its obligations.

Accordingly, the Corporation's performance will always be affected by the supply and demand for multi-family rental real estate in Western Canada. The potential for reduced rental revenue exists in the event that Mainstreet is not able to maintain its properties at a high level of occupancy, or in the event of a downturn in the economy, which could result in lower rents or higher vacancy rates. Mainstreet has minimized these risks by:

- attempting to increase customer satisfaction;
- diversifying its portfolio across Western Canada, thus lowering its exposure to regional economic swings;
- acquiring properties only in desirable locations, where vacancy rates for properties are higher than city-wide averages but can be reduced by repositioning the properties through better management and selective upgrades;
- holding a balanced portfolio which includes a variety of multi-family building types including high-rise, townhouse, garden and walk-ups, each with its own market niche;
- maintaining a wide variety of suites, including bachelor suites, one, two and three bedroom units;
- building a broad and varied customer base, thereby avoiding economic dependence on larger-scale tenants;
- focusing on affordable multi-family housing, which is considered a stable commodity;
- advertising and offering competitive market pricing to attract new tenants;
- developing a specific rental program characterized by rental adjustments that are the result of enhanced services and superior product; and
- developing regional management teams with significant experience in the local marketplace, and combining this experience with its existing operations and management expertise.

Economic Uncertainty

Any worldwide or regional economic slowdown, stock market uncertainty and international political credit crisis or uncertainty could adversely impact the business and the future profitability of the Corporation. During any period of economic uncertainty tenants may experience financial difficulty and may default in payment of rent or possibly look for less expensive accommodations thereby having a corresponding longer-term impact on rental and vacancy rates. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

The slowing of Western Canada's economic growth rate has filtered through to weaker employment prospects in the Prairie Provinces, a tempering of housing and rental demand and a decline in net migration with a corresponding impact on the Corporation's rental and occupancy levels. Still unknown is the impact of various recently enacted or pending government initiatives, including increases to operating costs resulting from carbon tax legislation and the implementation of new climate change plans at both the provincial and federal government levels.

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totalling \$105.6 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 financing 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 \$806,000 in interest expense of the floating rate debt for the year ended September 30, 2019.

Utilities and Tax Risk

Mainstreet's business is exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices as well as exposure to significant increases in property taxes. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. In recent years, water and sewer costs have increased significantly, as other forms of direct and indirect "taxes" imposed by various municipalities. Any significant increase in these costs that cannot be passed on to the tenant / customer may have a significant impact on the operations of the Corporation.

Management continues to monitor all these costs very closely. In order to mitigate these risks, the Corporation has implemented the following steps:

- where possible, electrical sub-metering devices have been installed, passing on the responsibility for electrical charges to the end tenant / customer;
- where possible, direct metering conversion programs have been implemented which effectively introduced a volume-based consumption system rather than a flat rate, in turn lowering operating costs for the Corporation.
- in other cases, rents have been, or will be adjusted upward to cover increased costs; and
- where possible, the Corporation enters into long term supply contracts at a fixed price.

For example, Mainstreet has entered into a rate protected natural gas contract with a maturity date of November 30, 2020 that caps future natural gas costs at \$3.50 per GJ in Alberta, but permits the Corporation to purchase natural gas at lower market rates. In Surrey, British Columbia, Mainstreet has completed a water meter conversion program for all its properties.

In addition, over the past few years, municipal property taxes have increased as a result of re-valuations of municipal properties and their inherent tax rates. These re-valuations may result in significant increases in some property assessments due to enhancements, which often are not represented on the Corporation's balance sheet as such representations are contrary to existing IFRS reporting standards. To address these risks, the Corporation has a team of property reviewers who, with the assistance of outside consultants, constantly review property tax assessments and, if warranted, appeal them. While it is not unusual for the Corporation to receive property tax refunds and / or adjustments, due to uncertainty of the timing and the amount of the refunds or adjustments, these amounts are only reported when they are actually received.

Risks of Real Estate Property Ownership

Real estate investments and projects are, generally, subject to numerous risks depending on the nature and location of the property that can affect attractiveness and sale ability of real estate assets to potential purchasers or other investors, or the owner's use of such real estate assets, all of which are beyond the control of the Corporation. Such risks include:

- the highly competitive nature of the real estate industry;
- changes in general economic conditions (such as the availability and cost of the property or widespread fluctuations in adjacent property values);
- changes in general or local conditions (such as the supply of competing real estate assets or the possibility of competitive overbuilding or the inability to obtain full occupancy or other usage of any real estate assets);
- governmental regulation, rules or policies (such as increased taxation on the sale of or profits from real estate property, environmental legislation or municipal approvals for usage, development or subdivision); and
- changes in costs or operating expenses anticipated for real estate assets.

Each segment in the real estate industry is capital intensive and is typically sensitive to interest rates. Any proceeds generated by the sale of real estate assets depend upon general economic conditions and, accordingly, the ability to repay its financing may be affected by changes in those conditions. The Corporation will be required to make certain significant expenditures in respect of its business including, but not limited to, the payment of property taxes, mortgage payments, property management costs, insurance costs and related charges which must be made regardless of

whether real estate assets are producing sufficient income to service such expenses. If the Corporation is unable or unwilling to meet the payment obligations on such loans, losses could be sustained as a result of the exercise by the lenders of their rights of foreclosure or sale. As a result, the Corporation's ability to make interest payments or distributions of cash could be adversely affected.

In addition, real estate property investments are relatively illiquid. This illiquidity will tend to limit the ability of the Corporation to vary its property portfolio promptly in response to changes in economic or investment conditions. If the Corporation were required to quickly liquidate its assets, there is risk that the Corporation would realize sale proceeds of less than the stated value of the properties of the Corporation. The Corporation's property portfolio is concentrated in British Columbia, Alberta and Saskatchewan. As a result, economic and real estate conditions in Western Canada will significantly affect the Corporation's revenues and the value of its properties.

Renovation Risks

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Certain significant expenditures, including property taxes, maintenance costs, interest payments, insurance costs and related charges must be made throughout the period of ownership of real estate property regardless of whether the property is producing revenue. Delays in the renovation of a building or individual apartment units as a result of labour shortages and similar risks could delay the renting of such building or units resulting in an increased period of time where the building is not producing revenue or produces less revenue than a fully tenanted building. As the Corporation intends to source labour from other countries and renovation supplies directly from manufacturers in China and elsewhere, the Corporation will be subject to related immigration expenses, possible changes in laws related to the use of migrant or immigrant labour, shipping risks and currency fluctuations, all of which may result in unexpected or higher costs or possible delays. The Corporation intends to address these risks by acquiring financing to fund renovations, staggering renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis. However, recent and possible new changes in federal immigration laws related to migrant or immigrant labour may have a negative impact regarding mitigating an increase in labour costs and expenses.

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 September 30, 2019, rents due from current tenants amounted to \$501,000 (September 30, 2018 – \$371,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.8 million (September 30, 2018 – \$4.5 million) and provisions for bad debts of \$145,000 (September 30, 2018 – \$140,000).

The aging bands of rents due from current tenants as at September 30, 2019 and 2018 are outlined in the table below:

(000s of dollars)

	Sept. 30, 2019	Sept. 30, 2018
0-30 days	\$ 290	\$ 189
31-60 days	69	64
61-90 days	22	21
Over 90 days	120	97
Total rent due from current tenants	\$ 501	\$ 371

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 financial institutions.

Liquidity Risk

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

Financing Risk

Mainstreet anticipates that it will make substantial capital expenditures for the acquisition of properties in the future. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Mainstreet. Moreover, future activities may require Mainstreet to alter its capitalization significantly. The inability of Mainstreet to access sufficient capital for its operations could have a material adverse effect on Mainstreet's financial condition, the result of its operations or its overall prospects.

Disclosure Controls & Procedures on Internal Control over Financial Reporting Risk

Mainstreet's business could be adversely impacted if it has deficiencies in its disclosure controls and procedures or internal control over financial reporting. The design and effectiveness of Mainstreet's disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While Management continues to review the design and effectiveness of Mainstreet's disclosure controls and procedures and internal control over financial reporting, Mainstreet provides no assurance that its disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of Mainstreet's results of operations, restatements of its financial statements, a decline in the share price, or otherwise materially adversely affect Mainstreet's business, reputation, results of operation, financial condition or liquidity.

Reliance on Key Employees

Mainstreet's success depends in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. Mainstreet does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations are likely to be of central importance. In addition, competition for qualified personnel in the industry is intense, and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Mainstreet.

Income Tax Risk

Mainstreet intends to file all required income tax returns and believes that it will be in full compliance with the provisions of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Mainstreet, whether by re-characterization and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable .

Market Risks

The economic performance and value of the Corporation's investments in real estate assets will be subject to all of the risks associated with investing in real estate, including, but not limited to:

- changes in the national, regional, provincial and local economic climates;
- local conditions, including an oversupply of properties or a reduction in demand for properties;
- the attractiveness of all or parts of real estate assets to renters or purchasers;
- competition from other available real estate assets and
- changes in laws and governmental regulations, including those governing usage, zoning, the environment and taxes.

The Corporation's performance will be affected by the supply and demand for property in its geographic area(s) of ownership. Key drivers of demand include employment levels, population growth, demographic rents and consumer confidence. The potential for reduced rental revenue exists in the event that demand diminishes or supply becomes overabundant thereby driving down prices for real estate assets.

Acquisitions Risks

Mainstreet's growth depends in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. It is not possible to manage all risks associated with such acquisitions in the terms and conditions contained in commercial agreements pertaining to such acquisitions. The real estate assets may be subject to unknown, unexpected or undisclosed liabilities that may materially and adversely affect the Corporation's operations, financial condition and results. The representations and warranties, if any, given by arm's length third parties to the Corporation may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Moreover, real estate assets acquired by the Corporation may not meet expectations of operational or financial performance due to unexpected costs associated with developing an acquired property, as well as the general investment risks inherent in any real estate investment.

Appraisals of Properties

An appraisal is an estimate of market value and caution should be used in evaluating data with respect to appraisals. It is a measure of value based on information gathered in the investigation, appraisal techniques employed and quantitative and qualitative reasoning, leading to an opinion of value. The analysis, opinions and conclusions in an appraisal are typically developed based on and in conformity with, interpretations of the guidelines and recommendations set forth in the Canadian Uniform Standards of Professional Appraisal Practice. Appraisals are based on various assumptions of future expectations of property performance and while the appraiser's internal forecast of net income for the properties appraised are considered to be reasonable at that time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

Environmental, Health and Safety Risks

Under various environmental, health and safety laws, ordinances and regulations, the current or previous owner or operator of properties acquired or refinanced by the Corporation, may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such properties. These costs could be substantial. Such laws could impose liability whether or not the Corporation knew of, or was responsible for, the presence of such hazardous or toxic substances when it acquired a property.

The presence of hazardous or toxic substances, or the failure to remove or remediate such substances, if any, or restrictions imposed by environmental, health and safety laws on the manner in which such properties may be operated or developed could adversely affect the Corporation's ability to sell such properties and could potentially also result in claims against the Corporation.

Environmental, health and safety laws provide for sanctions for non compliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental, health and safety laws and common law principles could be used to impose liability for release of and exposure to hazardous substances into the air. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental, health and safety regulatory requirements, of remediating any contaminated property or of paying personal injury claims could be substantial.

The Corporation may be subject to liability for undetected pollution or other environmental hazards against which it cannot insure, or against which it may elect not to insure where premium costs are disproportionate to the Corporation's perception of relative risk. Such factors may have an adverse impact on the Corporation.

Mainstreet has policies and procedures to review and monitor environmental exposure, including the completion of environmental audits in connection with the Corporation's due diligence procedures when looking at potential acquisitions when the Corporation deems it advisable.

Cyber Security Risk

Cyber security has become an increasingly issue for corporations and businesses. A cyber-attack is an intentional attack which can include gaining unauthorized access to information systems to disrupt business operations, corrupt data or steal confidential information. Such an attack could compromise Mainstreet, its employees and tenants' confidential information, and third parties with whom Mainstreet interacts and may result in negative consequences, including remediation costs, loss of revenue, data corruption, additional regulatory scrutiny, litigation and reputational damages. As a result, Mainstreet has implemented processes, procedures and controls to help mitigate these cyber-security risks, but these measures do not guarantee that cyber-attack can be totally avoided due to ever increasing sophistication of all forms of cyber-attacks.

Climate Change Risk

There is growing concern from members of the scientific community and the general public that an increase in global average temperatures due to emissions of greenhouse gases and other human activities have or will cause significant changes in weather patterns and increase the frequency and severity of climate stress events. Climate change, including the impact of global warming, creates physical and financial risk. Physical risks from climate change include an increase in sea level and changes in weather conditions, such as an increase in intense precipitation and extreme heat events, as well as tropical and non-tropical storms.

Mainstreet owns buildings in locations that may be susceptible to climate stress events or adverse localized effects of climate change, such as sea-level rise and increased storm frequency or intensity. The occurrence of one or more natural disasters, such as hurricanes, fires, floods, and earthquakes (whether or not caused by climate change), could cause considerable damage to its properties, disrupt operations and negatively impact Mainstreet's financial performance. To the extent these events result in significant damage to or closure of one or more of Mainstreet's buildings, its operations and financial performance could be adversely affected through lost tenants and an inability to lease or re-lease the space. In addition, these events could result in significant expenses to restore or remediate a property, increases in fuel (or other energy) prices or a fuel shortage, increases in the costs of insurance if they result in significant loss of property or other insurable damage, and the introduction of or increases in climate change taxes such as provincial or federal carbon taxes or cap and trade taxes.

No History of Dividends

Mainstreet has not declared or paid any dividends on its common shares since its incorporation. Any decision to pay dividends on the shares will be made by the board of directors on the basis of the Mainstreet's earnings, financial requirements and other conditions existing at such future time. The dividend policy of Mainstreet is established by the directors and is subject to change at the discretion of the directors. The recourse of shareholders who disagree with the dividend policy or any change in policy is limited and could require such shareholders to seek to replace the directors. Other than pursuant to corporate law and compliance with the provisions of its banking facility, there is no restriction that could prevent Mainstreet from paying dividends or another form of distribution in respect of the common shares.

Workforce Availability

Mainstreet's ability to provide services to its existing tenants is somewhat dependent on the availability of well-trained employees and contractors to service such tenants as well as complete required maintenance and capital upgrades on its buildings. The Corporation must also balance requirements to maintain adequate staffing levels while balancing the overall cost to the Corporation.

Within Mainstreet, its most experienced employees are employed full-time; this full-time force is supplemented by, seasonal and full-time immigrant labour, additional part-time employees, and specific contract services needed by the Corporation. Mainstreet constantly reviews existing overall market factors to ensure that its compensation program is in line with existing levels of responsibility and, if warranted, adjusts the program accordingly. Mainstreet also encourages employees' feedback in these areas to ensure existing programs are meeting their personal needs.

Uninsured Losses

The Corporation carries comprehensive general liability, fire, flood, earthquake, tornado, natural disaster, extended coverage, rental loss and vacancy insurance with policy specifications, limits and deductibles customarily carried for similar properties. However, there are certain types of risks, generally of a catastrophic nature, such as wars, terrorist

attacks or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, the Corporation could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

From time to time the Corporation may be subject to lawsuits as a result of the nature of its business. The Corporation intends to maintain business and property insurance policies in amounts and with such coverage and deductibles as are deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. However, there can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the Corporation that is not covered by, or in excess of, the Corporation's insurance could materially affect the Corporation's operating results and financial condition, which would have an adverse effect on the Corporation. Claims against the Corporation, regardless of their merit or eventual outcome, will require the Corporation's management to devote time to matters unrelated to the operation of the business.

Substitutions for Residential Rental Units

Demand for residential rental properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. Recently, interest rates offered by financial institutions for financing home ownership have been at low levels. If the interest rates offered by financial institutions for home ownership financing remain low, demand for rental properties may be adversely affected. A reduction in the demand for rental properties may have a material adverse effect on the Corporation's ability to lease suites and on the rents charged. This, in turn, may have a material adverse effect on the Corporation's business, cash flows, financial condition and results from operations.

Litigation Risks and Adverse Changes in Law

In the normal course of the Corporation's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Corporation and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results from operations. Even if the Corporation prevails in any such legal proceeding, the proceedings could be costly and time consuming and may divert the attention of management and key personnel from the Corporation's business operations, which could have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations and ability to make dividends to shareholders.

Regulatory Risks

Increases in real estate taxes and income, service and transfer taxes, or introductions of new taxes such as previously or to be enacted carbon taxes, cannot always be passed through to residents or users in the form of higher rents, and may adversely affect the Corporation's operating expenses and to pay amounts due on its debt. Similarly, changes or interpretations of existing laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which could have a material adverse effect on the Corporation. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce rental revenues or increase operating costs.

Rent Control

The Corporation may be subject to legislation that exists or is enacted in certain jurisdictions, which restricts the right of landlords to increase rents charged to tenants. As a result, the inability to adjust rents to address higher operating costs or to improve margins on certain properties may have an adverse effect on the returns available from such properties.

Currently, the Corporation operates in Canada in the Provinces of Alberta, British Columbia and Saskatchewan. Neither Alberta nor Saskatchewan is subject to rent control legislation; however, under Alberta rent legislation, a landlord is only entitled to increase rents once every twelve months.

Under British Columbia's rent control legislation, a landlord is entitled to increase the rent for existing tenants once every twelve months by no more than the "guideline amount" established by regulations. The current guideline amount is 2.5%. When a unit is vacant, however, the landlord is entitled to lease the unit to a new tenant at any rental amount, after which annual increases are limited to the applicable guideline amount. The landlord may also be entitled to a greater increase in rent for a unit under certain circumstances, including, for example, where extra expenses have been incurred as a result of a renovation of that unit. To manage this risk, prior to entering a market where rent controls are in place, extensive time is spent researching existing rules, and, where possible, the Corporation will ensure it utilizes employees who are experienced in working in these controlled environments. In addition, the Corporation adjusts forecast assumptions on new acquisitions to ensure they are reasonable given the rent control environment.

Operational Risks

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed infrastructure, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal or regulatory proceedings. Mainstreet endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and, if deemed necessary, improvements are implemented.

Public Market Risk

It is not possible to predict the price at which Mainstreet's common shares will trade and there can be no assurance that an active trading market for the common shares will be sustained. The common shares will not necessarily trade at values determined solely by reference to the value of the properties of the Corporation. Accordingly, the common shares may trade at a premium or a discount to the value implied by the value of the Corporation's properties. The market price for common shares may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Corporation.

Potential Conflicts of Interest

Mainstreet may be subject to various conflicts of interest because of the fact that directors and officers of the Corporation are engaged in other real estate-related business activities. The Corporation may become involved in transactions which conflict with the interests of the foregoing. Directors may from time to time deal with persons, firms, institutions or corporations with which the Corporation may be dealing, or which may be seeking investments similar to those desired by the Corporation. The interests of these persons could conflict with those of the Corporation. In addition, from time to time, these persons may compete with Mainstreet for available investment opportunities. Directors and officers of the Corporation are required to disclose material interests in material contracts and transactions and to refrain from voting thereon. See also "Transactions with Related Parties" above and "Interests of Management and Others in Material Transaction" in Mainstreet's AIF.

CHALLENGES

As Mainstreet enters fiscal year 2020, oil market volatility and an uncertain political climate remain its biggest obstacles. Prices for U.S. benchmark West Texas Intermediate (WTI) hovered around the US\$55 range for most of 2019, remaining well below prices five years ago. A lack of available pipeline capacity has weighed on Canadian oil prices in particular, and has widened the differential with WTI, despite efforts by the provincial government to raise prices via a cap on production. The result has been a continued hesitancy among investors, particularly in the U.S., to invest in the Canadian energy sector.

Lower Canadian oil prices have also underscored deeper complications in the country's regulatory and legal regime, which have caused delays in large projects like oil pipelines and hydro transmission lines. While Mainstreet believes the federal government's June 2019 approval of the Trans Mountain pipeline sent a positive signal, broader uncertainty in Mainstreet's regulatory regime could cause a further cooling in investment levels.

Meanwhile, ongoing trade disputes between the U.S. and China could spill over into the Canadian economy, restricting exports and shrinking GDP growth. While a trade spat between Canada and China over pork exports softened around the end of 2019, tensions between the two countries seem to remain high.

Management believes negative macro-economic forces have likewise caused the ongoing short positions in respect of the trading of Mainstreet common stock. Mainstreet believes this is partly responsible for Mainstreet's share price continuing to trade well below what Mainstreet believes to be its true net asset value.

Lastly, rising operating costs also pose a challenge. The federal carbon tax will be enforced in Alberta beginning in 2020, which in turn raises costs for property owners. Additionally, new federal regulations under the Clean Fuel Standard targeting natural gas emissions are anticipated to come into force around 2023, likely raising home heating costs. Various municipalities, for their part, have continued to increase property taxes. Mainstreet's efforts to stabilize a record 18% of unstabilized assets have likewise raised costs for human resources, materials, and other operational expenses.

Mainstreet management will continue to monitor any changes in business and market conditions, and take necessary proactive actions to minimize risk and maximize value to shareholders.

OUTLOOK

As Mainstreet enters 2020, management believes that the Corporation's countercyclical growth strategy and value-added business model will continue to improve its financial performance and create non-dilute value for shareholders. Mainstreet has identified the following areas as a way to achieve future growth:

Runway on existing portfolio

- 1. Closing the NOI gap:** In fiscal year 2019, 18% of the Mainstreet apartment portfolio was going through the stabilization process due to a high level of recent acquisitions of unstabilized. Once they are stabilized, Mainstreet believes that its same-asset revenue, vacancy rate, NOI and FFO will see further improvement.
- 2. Loss to Lease:** Mainstreet believes its Vancouver/Lower Mainland market, which makes up 21% of its portfolio (2,751 units), offers a significant opportunity for future same-store NOI growth. This is partly due to a continued increase in market rates, combined with rules under the provincial Tenancy Act that has kept some annual rent rate increases substantially below the rest of the market, resulting in loss-to-lease of approximately \$249 per unit per month. Currently, over 95% of the Corporation's tenants in the region are below the market average. With an average annual turnover rate of about 25%, Mainstreet expects its NOI will continue to improve while the Corporation reduce its loss-to-lease over time.
- 3. Lowering interest cost:** Approximately \$156 million of mortgage loans with an average interest rate of 3.9% are maturing in 2020 and 2021. The current 10-year, CMHC-insured mortgage rate is about 2.5%. Mainstreet expects that the interest cost will remain low and the refinancing of these maturing mortgages will result in substantial reduction in future expenses.
- 4. Pursuing Mainstreet's 100% organic, non-dilutive growth model:** With strong potential liquidity position of approximately \$150 million, through expected financing of clear titled properties after stabilization, and Mainstreet's proven ability to identify and acquire underperforming assets, particularly in during periods of recession, the Corporation believes there will be significant opportunity to continue acquiring new assets at low cost that, Mainstreet believes, will allow the Corporation to continue create new value.
- 5. Buying back common shares:** The Corporation believes MEQ shares continue to be traded below their NAV, Mainstreet will continue to buy back its own common shares on an opportunistic basis under its normal course issuer bid (NCIB).

Continued improvement in the rental market

Management believes demand for rental properties will continue to increase due to a steady rise in population and a limited increase in the new supply of purpose-built rental properties. Over the last 10 years, the Canadian population has grown by nearly 4 million, yet the number of new purpose-built rental units has only increased by approximately 200,000, creating a huge gap between supply and demand in the rental market. This trend of rising populations is evident in Mainstreet's core markets. Alberta added 70,595 new residents in the year ended June 2019 alone. In-migration into Alberta was 12,899 in Q2 2019, up from 9,189 a year earlier (Statistics Canada). In addition, the population of foreign students has also increased substantially over the past 10 years, reaching a record high of 721,205 international students in 2018, according to Government of Canada data.

Higher immigration levels and steady population growth are further supported by gradually improved labour markets in Western Canada. Alberta's unemployment rate was 6.7% in October 2019—a 0.5% decrease from a year earlier (Statistics Canada). Saskatchewan has remained largely constant at 5.1% in October 2019. British Columbia added 15,000 new jobs in the month of October alone, and remains among the lowest unemployment rates in Canada at 4.7%. Management believes that the apparent improvement in labour market conditions will likely result in stronger interprovincial in-migration.

Furthermore, we believe gradual population growth will continue to absorb the ongoing oversupply of condominium units, bringing better balance to the rental market. That oversupply was the result of the rapid construction of condominiums during the last period of high economic growth, which caused roughly 30% of new units to be brought into the rental market, according to CMHC data.

That trend is now showing signs of subsiding. Edmonton's rental market vacancy rate is expected to fall to 3.9% in 2019, down from 5.3% in 2018, according to CMHC data as of October 2019. Calgary's vacancy rate is expected to fall to 3.6%, down from 3.9% over the same period. Saskatoon is expected to fall from 8.3% down to 7.3%, while Regina is expected to increase slightly from 7.7% up to 8.2%. Vancouver is expected to remain among the lowest in the country at 1.1% vacancy.

Driving down costs

Amid ever-rising costs due to public policy, Mainstreet believes it has kept its operating costs at competitive levels, in part by implementing new technological systems and leveraging its management team. The five-year, \$3 million investment in a leading software technology from Yardi System Inc., which automates its management platform, is just one example of the Corporation's dedication to future cost savings and increased efficiencies.

Mainstreet believes these efforts should be helped along by new policies under the Alberta government, whose proposed corporate tax cuts would put the province back among the most competitive rates in the country.

During 2019, Mainstreet has also successfully expanded its warehousing capacity through development of on-site warehouse spaces at the Corporation's existing residual land in all cities. This has streamlined Mainstreet's supply chain and enabled the Corporation to increase factory-direct sources for materials from China, which will further reduce its cost and improve the cycle time for renovations.

While coming decisions regarding interest rates by the Bank of Canada remain uncertain, interest rates nonetheless remain at low levels. Canadian GDP growth remains below the BoC's target growth rate of 2%, which many analysts believe will keep the bank from pursuing aggressive hikes in the near future.

Capturing the mid-market

In our opinion, Mainstreet's mid-market rental rate, with a price-point average between \$900 and \$1,000, is perfectly positioned to attract would-be customers. We believe the majority of customers, including millennials and "generation Z" (which comprise roughly 45% of the total population), immigrants, students and foreign students will continue to favour mid-market prices as they defer major investments like new homes during times of economic uncertainty. We believe we are uniquely positioned to capture the growing market within this lower bracket.

Management believes this trend among first-time buyers (who usually come out of the overall rental pool) are further supported by tighter borrowing requirements under the Office of the Superintendent of Financial Institutions, announced in 2017, which will make it more difficult for first-time homebuyers to secure financing. We believe this trend is generally supportive of the rental market. The Bank of Canada estimates the new rules could disqualify as many as 10% of new buyers every year.

ADDITIONAL INFORMATION

Additional information about Mainstreet, including its AIF, is available on the Corporation's website at www.mainst.biz and on SEDAR at www.sedar.com.

MANAGEMENT’S REPORT

To the Shareholders of Mainstreet Equity Corp.

The management of Mainstreet Equity Corp. is responsible for the preparation and content of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards.

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are properly authorized, financial reporting responsibilities are met and assets of the corporation are safeguarded against theft.

The financial statements have been audited by PwC, the independent auditors, in accordance with International Financial Reporting Standards. The Audit Committee recommended their approval of the statements to the Board of Directors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

(SIGNED)

“Bob Dhillon”
Director

December 5, 2019

(SIGNED)

“Joe Amantea”
Director



Independent auditor's report

To the Shareholders of Mainstreet Equity Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mainstreet Equity Corp. and its subsidiaries (together, the Company) as at September 30, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at September 30, 2019;
- the consolidated statement of net profit and total comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Comparative information

The consolidated financial statements of the Company for the year ended September 30, 2018 (prior to the adjustments that were applied to revise certain comparative information explained in note 22) were audited by another auditor who expressed an unmodified opinion on those statements on December 11, 2018.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ian Gunn.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
December 5, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

Year Ended September 30,	2019	2018
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 2,040,051	\$ 1,865,897
Property and equipment [Note 5]	6,389	5,233
Intangible assets [Note 6]	1,145	143
	2,047,585	1,871,273
Current assets		
Prepaid assets [Note 7]	2,032	1,952
Prepaid current income tax	110	110
Trade and other receivables [Note 8]	1,878	824
Restricted cash [Note 9]	3,387	3,120
Inventory [Note 10]	963	684
Cash and cash equivalents	70	384
	8,440	7,074
Total Assets	\$ 2,056,025	\$ 1,878,347
Liabilities		
Non-current liabilities		
Mortgages payable [Note 11]	\$ 898,645	\$ 913,660
Deferred tax liabilities [Note 12]	165,870	158,639
	1,064,515	1,072,299
Current liabilities		
Mortgages payable [Note 11]	121,078	43,305
Trade and other payables [Note 13]	8,911	6,798
Refundable security deposits [Note 14]	4,774	4,526
Bank indebtedness [Note 15]	56,442	1,858
	191,205	56,487
Total Liabilities	1,255,720	1,128,786
Equity		
Share capital [Note 16]	26,597	24,215
Contributed surplus	–	2,382
Retained earnings	773,708	722,964
Total Equity	800,305	749,561
Total Liabilities and Equity	\$ 2,056,025	\$ 1,878,347

See accompanying notes to these consolidated financial statements.

(SIGNED)

“Bob Dhillon”
Director

December 5, 2019

(SIGNED)

“Joe Amantea”
Director

CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

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

Year Ended September 30,	2019	2018
		Revised – Note 22
Rental revenue [Note 17]	\$ 135,642	\$ 114,130
Ancillary revenue	1,971	1,535
Total rental and ancillary revenue	137,613	115,665
Property operating expenses [Note 18]	51,305	43,444
Net operating income	86,308	72,221
Financing costs [Note 19, 22]	34,771	31,458
General and administrative expenses [Note 18]	12,463	10,925
Depreciation	505	456
Interest income	(179)	(564)
Other income	(260)	–
Profit before Fair value gain and income tax	39,008	29,946
Change in fair value [Note 4]	26,908	61,417
Software development cost write off	–	(555)
Profit before income tax	65,916	90,808
Deferred income tax expense [Note 12]	7,231	18,085
Net profit and total comprehensive income	\$ 58,685	\$ 72,723
Profit per share		
– basic [Note 20]	\$ 6.41	\$ 8.23
– diluted [Note 20]	\$ 6.23	\$ 7.62

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$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)
Exercise of Stock Option	–	–	–	–
Profit for the year	–	–	72,723	72,723
Balance, September 30, 2018	\$ 24,215	\$ 2,382	\$ 722,964	\$ 749,561
Shares purchased for cancellation	–	–	–	–
Stock option cash settlement [Note 21]	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

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s of Canadian dollars)

Year Ended September 30,	2019	2018
		Revised – Note 22
Cash obtained from (used in) operating activities		
Net profit	\$ 58,685	\$ 72,723
Adjustments for:		
Depreciation	505	456
Fair value gain	(26,908)	(61,417)
Deferred income tax expense	7,231	18,085
Software development cost write off	–	555
Financing costs [Note 19]	34,771	31,458
Deferred financing costs incurred [Note 22]	(2,973)	(2,139)
Interest paid on mortgages [Note 19]	(31,674)	(28,662)
Cash from operating activities before changes in non-cash working capital	39,637	31,059
Change in working capital		
Prepaid assets	(80)	(313)
Trade and other receivables	(1,054)	180
Inventory	(279)	(440)
Restricted cash	(267)	(390)
Trade and other payables	2,268	(91)
Refundable security deposits	248	418
Cash from operating activities	40,473	30,423
Financing activities		
Bank indebtedness	54,584	1,858
Financing of investment properties	83,863	56,111
Mortgage principal repayments	(19,690)	(17,574)
Mortgage payments upon refinancing	(2,935)	–
Exercise of stock options	(7,941)	–
Repurchase of shares	–	(135)
Cash from financing activities	107,881	40,260
Investing activities		
Purchase of and additions to investment properties [Note 4]	(146,940)	(94,478)
Purchase of and additions to property and equipment	(1,661)	(445)
Purchase of and additions to intangible assets	(1,002)	(143)
Proceeds from disposal	935	–
Cash used in investing activities	(148,668)	(95,066)
Net increase (decrease) in cash and cash equivalents	(314)	(24,383)
Cash and cash equivalents, beginning of period	384	24,767
Cash and cash equivalents, end of period	\$ 70	\$ 384
Cash and cash equivalents are comprised of:		
Cash	\$ –	\$ 384
Short-term deposits	70	–
	\$ 70	\$ 384

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

For the years ended September 30, 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. 46% of outstanding common shares of the Corporation are owned by Navjeet (Bob) Dhillon, President and Chief Executive Officer.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by Chartered Professional Accountants Canada ("CPA Canada").

b) Basis of presentation

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

c) Basis of consolidation

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

d) Revenue recognition

Rental revenue from an investment property is recognized on a monthly straight line basis when a tenant begins occupancy of a rental unit, and rent is due. Any rental incentive offered is amortized over the term of the tenancy lease. All residential leases are for one-year terms or less and the Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Realized gain or loss from the sale of investment properties is recognized in the period of disposal.

Ancillary revenue comprises income from laundry machines, income from telephone and cable providers and other miscellaneous income and is recognized as earned.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and applicable effective interest rates.

e) Investment properties

Investment properties include multi-family residential properties held to earn rental income and are initially measured at cost. Cost includes purchase price, and any direct attributable expenditure related to the acquisition (excluding transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading the quality and extending the economic life of the investment properties are capitalized as additional cost of investment properties.

Subsequent to initial recognition, investment properties are recorded at fair value, determined based on valuations performed by independent third party qualified appraisers or available market evidence, in accordance with International Accounting Standard ("IAS") 40-Investment Property ("IAS 40"). Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's-length transaction at the date of valuation.

Mainstreet's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with economies of scale from owning a large portfolio or the consolidation value from having compiled a large portfolio of properties over a long period of time, often through individual property acquisitions. Fair value is determined based on a combination of internal and external valuation processes. Gains and losses arising from differences between current

period fair value and the sum of previous measured fair value and capitalized costs as described above are recorded in profit and loss in the period in which they arise

For the Corporation's financial reporting, external valuations were obtained throughout the year 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 carrying values. 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 September 30, 2019.

Investment properties are reclassified to 'Non-Current Assets held for sale' when the criteria set out in IFRS 5- Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value is adjusted to reflect the fair value as outlined in the purchase and sale agreement. This adjustment is recorded as a change in fair value. Any remaining gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Excess land

Excess land represents land owned by the Corporation located contiguous to land included as investment property. The Corporation has the ability to develop additional multi-family residential buildings on this land or sell it separately from the investment property at a later date. Excess land is held for capital appreciation, and therefore is treated as Investment Property and recorded in accordance with IAS 40 as outlined above.

f) Non-current assets held for sale

Non-current assets held for sale include assets or groups of assets and liabilities ("disposal groups") that are available for sale in their present condition and the sale is highly probable and expected to be completed within one year from the date of classification. From time to time the Corporation also purchases properties with the intention of selling the property within a pre-determined period of time. The property is classified as an asset held for sale if the disposal is expected to take place within one year of the acquisition. The gains or losses arising on a sale of assets or group of assets that does not meet the definition of discontinued operations will be recognized as part of continuing operations.

g) Property and equipment

Tangible assets that are held for use in the production or supply of goods and services, for rent to others, or for administrative purposes and are expected to be used during more than one period, except when other accounting standards require or permit a different accounting treatment, are recorded using the cost model in accordance with IAS 16 – Property, Plant and Equipment ("IAS 16") which requires, after initial recognition, that the tangible assets be carried at their cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in a manner that reflects the pattern in which the future economic benefits of the assets are expected to be realized and consumed by the Corporation. IAS 16 also requires that the cost and useful economic life of each significant component of a depreciable real estate property be determined based on the circumstances of each property.

Property and equipment are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Administrative building	over the estimated useful life, not exceeding 40 years	– straight line
Building improvements	20%–40%	– declining balance
Equipment	4% to 30%	– declining balance
Furniture	20%	– declining balance
Vehicle	40%	– declining balance
Computer	30%	– declining balance

The method of depreciation and estimated useful lives of property and equipment are periodically evaluated by management and any changes are accounted for as a change in accounting estimates in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

h) Impairment of assets

All assets, except for those identified as not within the scope of IAS 36 –Impairment of Assets (“IAS 36”) are assessed for indications of impairment at the end of each financial reporting period. Should an indication of impairment exist, the recoverable amount of the asset is estimated. The recoverable amount is defined in IAS 36 as the higher of an asset’s fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted. Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the statement of comprehensive income and the remaining useful life of the assets will be re-assessed. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in profit or loss. However, in accordance with IAS 36, the reversal of an impairment loss will not increase the carrying value of the assets to a value greater than its original carrying value (net of amortization).

i) Income taxes

Income taxes include current and deferred income taxes.

Current tax is the expected tax payable or receivable in the taxable profit or loss for the current reporting period and any changes in estimates in respect of previous periods. Taxable profit differs from profit as reported in the statement of net profit and total comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The tax rates used in calculating current income tax have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the reporting date. In addition, deferred income tax assets and liabilities are measured using the rate that is consistent with the expected manner of recovery (i.e. using the asset versus selling the asset). Where applicable, current and deferred income taxes relating to items recognized directly in equity or comprehensive income are also recognized directly in equity or comprehensive income respectively.

j) Provision

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a discounted rate that reflects current market assessment of the time value of money and the risks and uncertainties specific to the obligation. Provisions are re-measured at each reporting date using a current and relevant discount rate. The increase in the provision due to the passage of time is recognized as an interest expense.

k) Financial instruments

Financial instruments are initially recognized at fair values. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss, which are recognized immediately in profit and loss, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Subsequent measurement is dependent on the financial instrument’s classification.

The Corporation adopted IFRS 9 using the modified retrospective approach. The following table summarizes the implications of this adoption for the Corporation’s financial assets and liabilities.

Financial assets

Financial assets are classified and measured at three categories: (i) amortized cost, (ii) fair value through other comprehensive income (FVTOCI), or (iii) fair value through profit and loss (FVTPL).

Financial assets are classified into the following specified categories, which are defined and measured as follows:

Classification – IAS 39	Classification IFRS 9	Definition	Measurement – IAS 39	Measurement – IFRS 9
Loans and receivables	Amortized cost	Non-derivative financial assets with fixed determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest rate method less any impairment. (See footnote 1 and 2).	Measured at amortized cost using the effective interest rate method less any expected credit loss. (See footnote 1 and 3).
Financial assets at fair value through profit or loss (“FVTPL”)	FVTPL	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> – Classified as held for trading if it has been acquired principally for the purpose of selling it in the near future term, or on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. – Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise: or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis: or it forms part of a contract containing one or more embedded derivatives. 	<p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p>	<p>Measured at fair value with gains or losses recognized in profit or loss.</p> <p>Measured at fair value with gains or losses recognized in profit or loss.</p>
Held-to-maturity	Amortized cost	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest rate method less impairment (See footnote 1 and 2).	Measured at amortized cost using the effective interest rate method less any expected credit loss (See footnote 1 and 3).

Note (1) – The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Note (2) – Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

Note (3) - Financial assets, other than those at FVTPL, are assessed using an expected credit loss impairment model, which requires the use of the lifetime expected loss provisions for expected credit losses. Generally, the carrying amount of the financial asset is reduced through the use of an allowance account.

The Corporation's financial assets are as follows:

Financial assets	Classification – IAS 39	Classification - IFRS 9
Trade and other receivables	Loans and receivables, Amortized cost	Amortized cost
Restricted cash	Loans and receivables, Amortized cost	Amortized cost
Cash and cash equivalents	Loans and receivables, Amortized cost	Amortized cost

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the assets to another entity or when the carrying value is reduced by expected credit loss.

Financial liabilities

Financial liabilities are classified and measured as either amortized costs or FVTPL. Financial liabilities are classified into the following specified categories which are defined and measured as follows:

Classification – IAS 39	Classification – IFRS 9	Definition	Measurement – IAS 39	Measurement – IFRS
FVTPL	FVTPL	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> - Classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near future term, or on initial recognition, it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. - Classified as FVTPL upon initial recognition if : such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liabilities form part of a group which is managed and its performance is evaluated on a fair value basis: or it forms part of a contract containing one or more embedded derivatives. 	<p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising in measurement recognized in profit or loss.</p>	<p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising in measurement recognized in profit or loss.</p>
Other financial liabilities	Amortized cost	All other liabilities	Measured at amortized cost using the effective interest rate method (See footnote 1).	Measured at amortized cost using the effective interest rate method (See footnote 1).

Note (1) – The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimates future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Corporation's financial liabilities are as follows:

Financial liabilities	Classification – IAS 39	Classification – IFRS 9
Mortgages payable	Other financial liabilities, Amortized cost	Amortized cost
Bank indebtedness	Other financial liabilities, Amortized cost	Amortized cost
Trade and other payables	Other financial liabilities, Amortized cost	Amortized cost
Refundable security deposits	Other financial liabilities, Amortized cost	Amortized cost

The Corporation derecognizes a financial liability when the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and short-term interest bearing deposits. Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, short-term interest bearing deposits qualify as a cash equivalent as they have a maturity of 90 days or less from the date of acquisition with an original maturity date of 90 days or less.

Certain cash balances have restricted use and have been classified as restricted cash on the statement of financial position. Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties.

m) Stock option plan

The Corporation had a stock option plan, which is described in Note 21.

The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate and expected dividend rate. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration received by the Corporation on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

For stock options of which the holders can elect to exercise the options by selecting cash settlement, those stock options will be classified as liabilities instead of equity in the financial statements and measured at fair value.

n) Profit (Loss) per share

Basic profit (loss) per share is calculated based on the weighted average number of shares outstanding. Diluted earnings per share reflect the possible dilutive effect of the exercise of the options outstanding as at the balance sheet date. The dilutive effect of outstanding share purchase options is computed using the "treasury stock" method whereby the proceeds that would be received from the exercise of options are assumed to be used to repurchase outstanding shares of the Corporation.

o) Critical judgment in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 2(p) below) that have been made in applying the Corporation's accounting policies that have the most significant effect on the reported amounts in the financial statements:

- i) Determining the extent and frequency of obtaining independent, third party appraisals and establishing an internal valuation model to measure fair value of investment properties;
- ii) Determining the useful lives for the property and equipment based on their estimated useful lives;
- iii) Assessing potential impairments based on management's judgment of whether there are sufficient internal and external factors that indicate that the Corporation's administrative assets are impaired;
- iv) Determining the nature of expenses to be capitalized as capital improvement; and
- v) Determining the tax rate applicable to the Corporation's current and deferred income taxes and identifying the temporary differences in respect of which deferred income taxes are recognized.

p) 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 23;

- 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 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. Please refer to Note 11 for detailed analysis.

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

The following IFRS policies were effective for annual periods beginning on or after January 1, 2018 and were adopted by Mainstreet in the 2019 fiscal year.

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 using the modified retrospective approach and the implementation did not have material impact on its 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” using the modified retrospective approach and applied practical expedients such as performance obligations less than a year and completed contracts on transition. 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 17.

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 Mainstreet’s financial statements. The following accounting policies have not yet 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 believes the adoption of IFRS 16 does not have material impact on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(000s of dollars)

Year ended September 30,	2019	2018
Balance, beginning of year	\$ 1,865,897	\$ 1,632,235
Additions related to acquisitions	129,389	150,315
Building improvements	18,792	21,930
Disposal	(935)	–
Change in fair value	26,908	61,417
Balance, end of year	\$ 2,040,051	\$ 1,865,897

The fair value of investment properties held by the Corporation as of September 30, 2019 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 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 September 30, 2019 and September 30, 2018. Properties are selected on a rotational basis and approximately 40% of the Corporation's portfolio is externally valued annually.

The fair value of Mainstreet's investment properties as of September 30, 2019, was determined by the following qualified appraisers:

Location	Name of Appraisers	Qualification	Firm
Vancouver/Lower Mainland (Abbotsford & Surrey)	James Glen	AACI, P.App.	Colliers International
Calgary	Jamie Wingrowich	BBA	Colliers International
Edmonton	Ryan Miller	AACI	Colliers International
Saskatoon	Chase Hunter	B.Sc, AACI	Colliers International
Regina	Chase Hunter	B.Sc, AACI	Colliers International

An analysis of sales considered to be similar to the subject property has been completed. In arriving at an appropriate capitalization rate for the property, the Corporation has applied qualitative adjustments to the sales comparables. The average capitalization rates used in determining the fair value of investment properties are set out below:

Year ended September 30,	2019	2018
Surrey, BC	4.19%	4.13%
Abbotsford, BC	4.66%	4.65%
Calgary, Alberta	4.85%	4.84%
Edmonton, Alberta	5.59%	5.69%
Saskatoon, Saskatchewan	6.64%	6.63%
Regina, Saskatchewan	6.08%	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 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
Cap rate used	5.20%	\$ (59,591)	\$ (18,757)	\$ 2,040,051	\$ 22,078
+0.25%	5.45%	\$ (150,438)	\$ (111,477)	\$ (91,996)	\$ (72,515)

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
Cap rate used	5.19%	\$ (54,464)	\$ (17,115)	\$ 1,865,897	\$ 20,234
+0.25%	5.44%	\$ (137,710)	\$ (102,077)	\$ (84,261)	\$ (66,445)

Investment properties with a fair value of \$1,823 million (September 30, 2018 – \$1,706 million) are pledged as security against the Corporation's mortgages payable.

For the year ended September 30, 2019, investment properties earned rental income (excluding ancillary revenue) of \$135.6 million (2018 – \$114.1 million).

For the year ended September 30, 2019, operating expenses relating to investment properties were \$51.3 million (2018 – \$43.4 million).

5. PROPERTY AND EQUIPMENT

The carrying amounts of property and equipment were as follows:

(000s of dollars)

	September 30, 2019			September 30, 2018		
	Cost	Accum. Deprec.	Net book value	Cost	Accum. Deprec.	Net book value
Land	\$ 2,397	\$ –	\$ 2,397	\$ 2,159	\$ –	\$ 2,159
Building	4,218	1,147	3,071	3,094	969	2,125
Equipment	253	149	104	242	125	117
Furniture	521	323	198	494	276	218
Vehicles	391	217	174	274	204	70
Computers	2,299	1,854	445	2,224	1,680	544
	\$ 10,079	\$ 3,690	\$ 6,389	\$ 8,487	\$ 3,254	\$ 5,233

The changes of the carrying amount of the property and equipment for the year ended September 30, 2019 were as follows:

(000s of dollars)

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Land	\$ 2,159	\$ 238	\$ –	\$ –	\$ 2,397
Building	2,125	1,124	–	(178)	3,071
Equipment	117	12	–	(25)	104
Furniture	218	27	–	(47)	198
Vehicles	70	188	(47)	(37)	174
Computers	544	75	–	(174)	445
	\$ 5,233	\$ 1,664	\$ (47)	\$ (461)	\$ 6,389

The changes of the carrying amount of the property and equipment for the year ended September 30, 2018 were as follows:

(000s of dollars)

	Opening net book value	Additions	Depreciation	Closing net book value
Land	\$ 2,159	\$ –	\$ –	\$ 2,159
Building	2,142	135	(152)	2,125
Equipment	141	5	(29)	117
Furniture	256	15	(53)	218
Vehicles	48	51	(29)	70
Computers	489	248	(193)	544
	\$ 5,235	\$ 454	\$ (456)	\$ 5,233

6. INTANGIBLE ASSETS

The carrying amount of the intangible asset was as follows:

(000s of dollars)

Year ended September 30,	2019	2018
Balance, beginning of year	\$ 143	\$ 564
Additions related to software development	1,002	134
Software development write off	–	(555)
Balance, end of year	\$ 1,145	\$ 143

7. PREPAID ASSETS

Prepaid assets comprise prepaid expenses and utility deposits:

(000s of dollars)

Year ended September 30,	2019	2018
Prepaid expenses	\$ 2,028	\$ 1,948
Utility deposits	4	4
	\$ 2,032	\$ 1,952

8. TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts due from tenants and other receivables mainly comprise refundable mortgage commitment fees:

(000s of dollars)

Year ended September 30,	2019	2018
Trade receivables	\$ 887	\$ 627
Other receivables	991	197
	\$ 1,878	\$ 824

9. RESTRICTED CASH

Certain cash balances have restricted use are classified as restricted cash on the statement of financial position. Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties

(000s of dollars)

Year ended September 30,	2019	2018
Restricted refundable security deposits	\$ 3,339	\$ 3,072
Restricted cash	48	48
	\$ 3,387	\$ 3,120

10. INVENTORY

Inventories are measured at the lower of cost and net realizable value. No amount of write-down of inventory was recognized for the years ended September 30, 2019 and 2018.

(000s of dollars)

Year ended September 30,	2019	2018
Inventory	\$ 963	\$ 684

11. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 2.97% (September 30, 2018 – 3.01%) per annum and are payable in monthly principal and interest installments totaling \$4.3 million (September 30, 2018 – \$3.9 million), maturing from 2019 to 2029 and are secured by specific charges against specific investment properties, having a fair value of \$1,823 million (September 30, 2018 – \$1,706 million).

(000s of dollars)

Year ended September 30,	2019	2018
Non-current	\$ 898,645	\$ 913,660
Current	121,078	43,305
	\$ 1,019,723	\$ 956,965

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

Year ended September 30,	2019	2018
Opening balance	956,965	839,981
Financing of investment properties	83,863	56,111
Mortgage assumed to purchase investment properties	1,395	77,790
Mortgage principal repayments	(19,690)	(17,574)
Mortgage payments upon refinancing	(2,935)	–
Deferred financing cost	125	657
Closing Balance	1,019,723	956,965

Estimated principal payments required to retire the mortgage obligations as of September 30, 2019 are as follows:

(000s of dollars)

Years ending September 30,	Amount
2020	\$ 124,182
2021	96,914
2022	94,124
2023	106,264
2024	139,777
Subsequent	476,863
	1,038,124
Deferred financing cost	(18,401)
	\$ 1,019,723

12. DEFERRED INCOME TAX

Income tax expense comprises:

(000s of dollars)

Year ended September 30,	2019	2018
Deferred Income Tax	\$ 7,231	\$ 18,085

No current or deferred income taxes were recognized in equity for the years ended September 30, 2019 and 2018. The income tax expense differs from the results that would be obtained by applying the combined federal and provincial income tax rate to income before income taxes. The decrease in statutory tax rate in 2019 is mainly due to a reduction in Alberta corporate tax rate. Non-taxable income includes the non-taxable portion of capital gains. This difference results from the following:

(000s of dollars)

Year ended September 30,	2019	2018
Profit from operations before income tax	\$ 65,916	\$ 90,808
Statutory tax rate	26.77%	26.94%
Computed expected tax	17,646	24,464
Increase (decrease) in deferred tax liabilities for non-taxable portion of capital gain	(3,510)	(8,287)
Increase (decrease) in deferred tax liabilities for changes in future tax rate	(6,935)	1,913
Other	30	(5)
	\$ 7,231	\$ 18,085

The deferred tax liabilities components and their changes were as follows:

(000s of dollars)

Deferred tax liabilities	September 30, 2018	Recognized in profit	September 30, 2019
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 155,784	\$ 7,147	\$ 162,931
Differences in tax and book carrying amounts of deferred financing cost	2,855	84	2,939
Deferred tax liabilities	\$ 158,639	\$ 7,231	\$ 165,870

(000s of dollars)

Deferred tax liabilities	September 30, 2017	Recognized in profit	September 30, 2018
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 138,199	\$ 17,585	\$ 155,784
Differences in tax and book carrying amounts of deferred financing cost	2,355	500	2,855
Deferred tax liabilities	\$ 140,554	\$ 18,085	\$ 158,639

13. TRADE AND OTHER PAYABLES

Trade and other payables comprise trade payables, accrued liabilities and deferred revenue:

(000s of dollars)

Year ended September 30,	2019	2018
Trade payables and accrued liabilities	\$ 7,687	\$ 5,597
Deferred revenue	1,224	1,201
	\$ 8,911	\$ 6,798

14. REFUNDABLE SECURITY DEPOSITS

Refundable security deposits for Alberta and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties:

(000s of dollars)

Year ended September 30,	2019	2018
Refundable Security Deposit	\$ 4,774	\$ 4,526

15. 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 5, 2022. As at September 30, 2019, the Corporation has drawn \$56.4 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 September 30, 2019, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.43, respectively.

16. 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:

	Year ended September 30, 2019		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)
Exercise of stock options	549,425	2,382	–	–
Issued and outstanding – end of the period	9,381,730	\$ 26,597	8,832,305	\$ 24,215

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 fiscal year 2019 and 2018, the Corporation purchased and cancelled Nil (2018–3,659 at an average price of \$37.02) common shares under the NCIB.

17. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

Year ended September 30,	2019	2018
Rental revenue	\$ 134,572	\$ 113,235
Other rental revenue (1)	1,070	895
	\$ 135,642	\$ 114,130

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

18. EXPENSES BY NATURE

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

(000s of dollars)

Year ended September 30,	2019	2018
Utility	\$ 16,159	\$ 13,472
Salaries, wages and employee benefits	21,165	18,074
Property tax	12,534	10,621
Repair and maintenance	5,140	4,437
Other	3,373	2,964
Insurance	2,183	2,001
Legal and other professional expenses	1,789	1,732
Advertising and Marketing	1,425	1,068
Total Operating and G&A expenses	\$ 63,768	\$ 54,369

19. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

Year ended September 30,	2019	2018
Mortgage interest	\$ 31,674	\$ 28,662
Amortization of deferred financing cost	3,097	2,796
Financing costs	\$ 34,771	\$ 31,458

20. 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)

Year ended September 30,	2019	2018
Numerator		
Net profit	\$ 58,685	\$ 72,723
Denominator		
For basic profit per share		
Weighted average shares	9,154,434	8,832,472
Dilutive effect of stock options	270,246	715,819
For diluted profit per share	9,424,680	9,548,291
Profit per share		
– basic	\$ 6.41	\$ 8.23
– diluted	\$ 6.23	\$ 7.62

21. STOCK OPTIONS

A summary of the Corporation's stock options as of September 30, 2019 and September 30, 2018, and changes during the period, are presented below:

Stock option	September 30, 2019		September 30, 2018	
	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	822,000	\$ 5.51
Exercised	549,425	45.75	–	–
Cancelled	272,575	45.75	–	–
Outstanding and exercisable – end of the year	–	\$ –	822,000	\$ 5.51
Weighted average contractual life-years	–		0.44	
Prices	\$ –		\$ 5.51	

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.

22. RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified for consistency with the current year presentation.

Mortgage interest and amortization of deferred financing fees in consolidated statements of net profit and total comprehensive income for the fiscal year ended September 30, 2018 have been combined into finance costs to conform to the presentation of the current year financial statements. This reclassification had no effect on the previously reported net profit and total comprehensive income.

During the period the company evaluated the appropriate accounting for its cash flows related to financing costs and determined that IFRS requires such amounts to be classified consistent with the company's policy for interest expense. As a result, the company determined that the prior period should be revised to reflect the appropriate accounting for these cash flows. Accordingly, deferred financing costs in the consolidated statements of cashflows for the fiscal year ended September 30, 2018, in the amount of \$2,139, have been reclassified to cash from operating activities from cash from financing activities to conform to the presentation of the current year financial statements. This change in classification does not affect previously reported net increase (decrease) in cash and cash equivalents in the consolidated statements of cash flows.

The remuneration of the Corporation's key management personnel in 2018 disclosed in note 27 have been revised to \$2,824 based on accrual basis from \$3,437 on a cash basis. This revision had no effect on the previously reported net profit and total comprehensive income.

23. 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)

		September 30, 2019		September 30, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,387	\$ 3,387	\$ 3,120	\$ 3,120
Cash and cash equivalents	Level 1	70	70	384	384
Trade and other receivables	Level 2	1,878	1,878	824	824
Financial liabilities:					
Bank indebtedness	Level 1	56,442	56,442	1,858	1,858
Mortgages payable	Level 2	1,019,723	1,057,210	956,965	948,934
Trade and other payables	Level 2	8,911	8,911	6,798	6,798
Refundable security deposits	Level 1	\$ 4,774	\$ 4,774	\$ 4,526	\$ 4,526

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

(000s of dollars)

		September 30, 2019		September 30, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$ 2,040,051	\$ 2,040,051	\$ 1,865,897	\$ 1,865,897

24. 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 \$105.6 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 financing 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 \$806,000 in interest expense of the floating rate debt for the year ended September 30, 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 September 30, 2019, rents due from current tenants amounted to \$501,000 (September 30, 2018 – \$371,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.8 million (September 30, 2018 – \$4.5 million) and provisions for bad debts of \$145,000 (September 30, 2018 – \$140,000).

The aging bands of rents due from current tenants as at September 30, 2019 and 2018 are outlined in the table below:

(000s of dollars)

	Sept. 30, 2019	Sept. 30, 2018
0-30 days	\$ 290	\$ 189
31-60 days	69	64
61-90 days	22	21
Over 90 days	120	97
Total rent due from current tenants	\$ 501	\$ 371

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 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

The timing of cash outflows relating to financial liabilities as at September 30, 2018 are outlined in the table below:

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 46,263	98,855	95,725	91,570	643,077	\$ 975,490
Mortgage interest payable	28,881	26,923	24,053	20,461	54,966	155,284
Bank indebtedness	1,858	–	–	–	–	1,858
Trade and other payables	6,798	–	–	–	–	6,798
Refundable security deposits	\$ 4,526	–	–	–	–	\$ 4,526

25. 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 September 30, 2019 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.

26. 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 third parties to the transaction. The commissions received by the President and Chief Executive Officer during the year ended September 30, 2019 amounted to \$406,775 (2018 – \$1,234,800). 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 and professional fees and reimbursements for the year ended September 30, 2019 amounting to \$374,077 (2018 – \$295,377) to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2019, the amounts payable to the law firm were \$5,623 (September 30, 2018 – \$346). 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.

27. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, 2019, were:

Navjeet (Bob) Dhillon, President and Chief Executive Officer
 Johnny C.S. Lam, Chief Operating Officer
 Trina Cui, Chief Financial Officer
 Sheena Keslick, Vice President Operations
 Anthony Lam, Assistant Chief Operating Manager

The remuneration of the Corporation's key management personnel was as follows:

(000s of dollars)

Year ended September 30,	2019	2018
Short-term benefits	\$ 3,680	\$ 2,824

The remuneration paid by the Corporation to the Corporation's key management personnel excludes the commissions received by the President and Chief Executive Officer during the year ended September 30, 2019 which amounted to \$406,775 (2018 – \$1,234,800).

Unless Mr. Dhillon's employment is terminated for cause, as defined under the employment agreement, the Corporation shall, upon termination, or within two (2) years if he voluntarily resigns after a change of control or if he becomes permanently disabled:

- (a) pay, in lieu of reasonable notice an amount equal to his monthly salary at the highest rate in effect during the twenty (24) months immediately preceding the date of termination multiplied by 36 months;
- (b) cause all outstanding options to purchase shares of the Corporation granted to Mr. Dhillon pursuant to any stock option plan of the Corporation to vest and become exercisable;
- (c) pay reasonable cost of financial, estate and career counseling and related expenses in connection with such termination to a maximum amount of \$10,000.

28. 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)

Year ended September 30,	2019	2018
BRITISH COLUMBIA		
Rental revenue	\$ 32,909	\$ 30,640
Other rental revenue	308	246
Ancillary revenue	614	528
Property operating expenses	9,357	8,290
Net operating income	24,474	23,124
Fair value (loss) gain	21,461	39,452
ALBERTA		
Rental revenue	\$ 74,890	\$ 63,140
Other rental revenue	739	635
Ancillary revenue	1,076	868
Property operating expenses	30,433	26,617
Net operating income	46,272	38,026
Fair value gain (loss)	6,615	16,523
SASKATCHEWAN		
Rental revenue	\$ 26,773	\$ 19,455
Other rental revenue	23	14
Ancillary revenue	281	139
Property operating expenses	11,515	8,537
Net operating income	15,562	11,071
Fair value gain (loss)	(1,168)	5,442
TOTAL		
Rental revenue	\$ 134,572	\$ 113,235
Other rental revenue	1,070	895
Ancillary revenue	1,971	1,535
Property operating expenses	51,305	43,444
Net operating income	86,308	72,221
Fair value gain	26,908	61,417
Unallocated revenue*	439	564
Unallocated expenses**	54,970	61,479
Profit for the period	\$ 58,685	\$ 72,723

* Unallocated revenue represents interest income, and other income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

Year ended September 30,	2019	2018
BRITISH COLUMBIA		
Investment properties	\$ 549,228	\$ 525,405
Property and equipment	51	9
Mortgages payable	237,631	236,315
Refundable security deposits	1,435	1,357
ALBERTA		
Investment properties	\$ 1,137,047	\$ 1,043,009
Property and equipment	6,279	5,188
Mortgages payable	597,738	536,656
Refundable security deposits	2,568	2,423
SASKATCHEWAN		
Investment properties	\$ 353,776	\$ 297,483
Property and equipment	59	36
Mortgages payable	184,354	183,994
Refundable security deposits	771	746
TOTAL		
Investment properties	\$ 2,040,051	\$ 1,865,897
Property and equipment	6,389	5,233
Mortgages payable	1,019,723	956,965
Refundable security deposits	4,774	4,526

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

(000s of dollars)

Year ended September 30,	2019	2018
BRITISH COLUMBIA	\$ 3,352	\$ 3,128
ALBERTA	\$ 88,936	\$ 72,329
SASKATCHEWAN	\$ 57,509	\$ 97,375
TOTAL	\$ 149,797	\$ 172,832

29. 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 September 30, 2019 amounted to \$1,850 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)

Year ended September 30,	2019	2018
Mortgages payable	\$ 1,019,723	\$ 956,965
Bank indebtedness	56,442	1,858
Total equity	773,708	749,561
Total capital	\$ 1,849,873	\$ 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 September 30, 2019 is approximately 53% (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)

Year ended September 30,	2019	2018
Mortgages payable	\$ 1,019,723	\$ 956,965
Bank indebtedness	56,442	1,858
Total debts	\$ 1,076,165	\$ 958,823
Investment properties	\$ 2,040,051	\$ 1,865,897
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.

30. SUBSEQUENT EVENTS

Subsequent to year-end September 30, 2019, the Corporation also financed 6 clear-title properties for \$26.4 million at an interest rate of 2.47%.

Subsequent to the year ended September 30, 2019, the Corporation acquired additional 133 residential units in the Province of Alberta, British Columbia, and Saskatchewan for a total consideration of \$12.3 million.

31. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on December 5, 2019.

CORPORATE INFORMATION

OFFICERS

President & CEO

Bob Dhillon
Calgary, AB

Chief Financial Officer

Trina Cui
Calgary, AB

Chief Operating Officer

Johnny Lam
Calgary, AB

Secretary

Joe Amantea
Calgary, AB

BOARD OF DIRECTORS

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair

John Irwin
London, ON

Rich Grimaldi
Westport, CT

Ron B. Anderson
Vancouver, BC

Executive Compensation Committee

Chair

Ron B. Anderson
Vancouver, BC

Joe Amantea
Calgary, AB

REGISTRAR & TRANSFER AGENT

REGISTRAR & TRANSFER AGENT

Computershare o/a
Montreal Trust Company
of Canada
#600, 530 – 8 Ave SW
Calgary, AB

AUDITORS

PwC
Suncor Energy Centre
111 – 5 Ave. SW,
Suite 3100, East Tower
Calgary, AB

SOLICITORS

Warren Benson Amantea
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1413 – 2 St SW
Calgary, AB

Borden, Ladner & Gervais
1000 Canterra Tower
400 Third Ave SW
Calgary, AB

BANKERS

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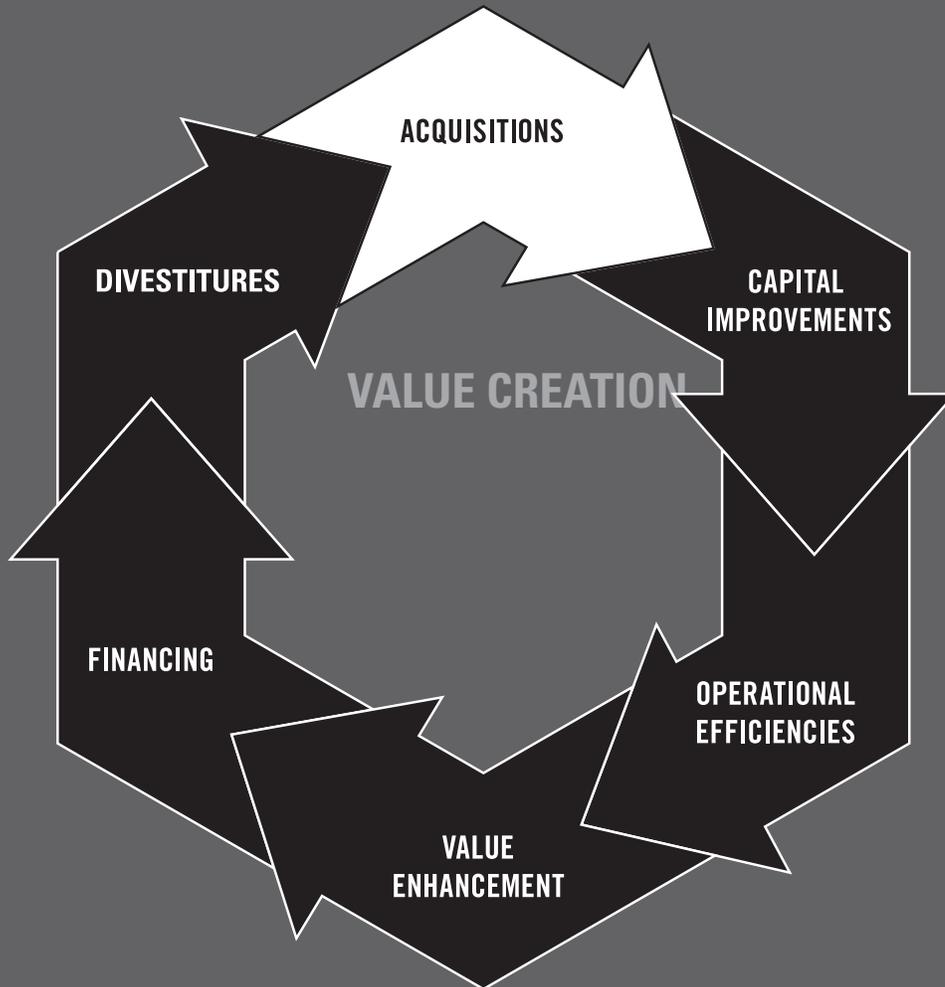
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Web site: www.mainst.biz

STOCK EXCHANGE

Toronto Stock Exchange
Trading symbol: MEQ

THE MAINSTREET VALUE CHAIN



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How do we create value? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the “Mainstreet Value Chain”. It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. **Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of \$17 million to 13,034 units (YTD) with appraised values of over \$2.0 billion with minimal equity dilution.**