

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 three and nine months ended June 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 unaudited interim condensed consolidated financial statements and accompanying notes for the three and nine months ended June 30, 2019 and 2018, and the MD&A and audited consolidated financial statements and accompanying notes for the years ended September 30, 2018 and 2017. The unaudited interim condensed 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 July 17, 2019. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicated otherwise, reference herein to 2019 and 2018 refers to the three and nine months ended June 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 measures 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 fair value gain, 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

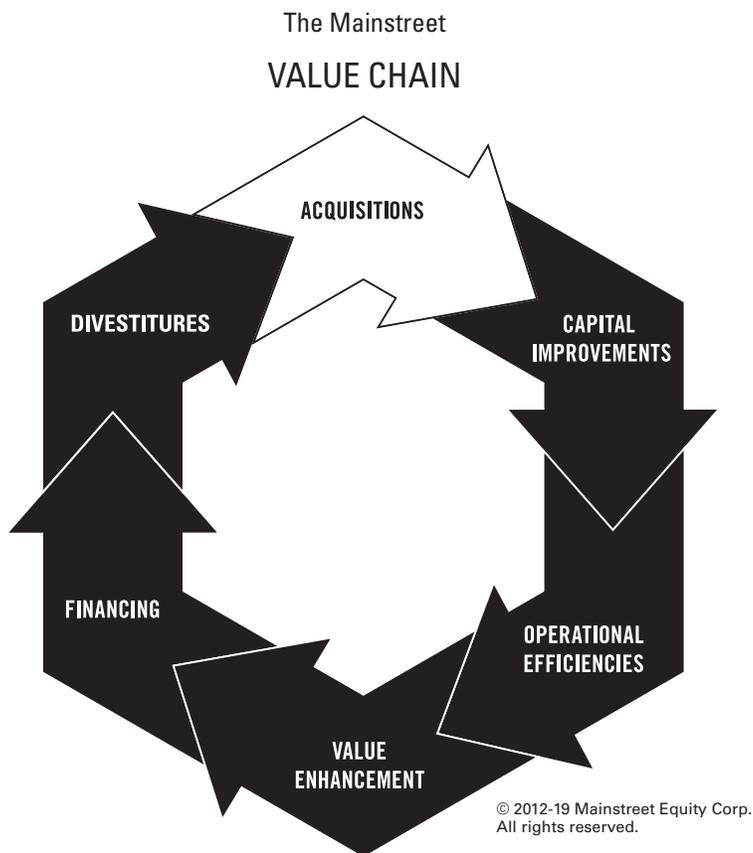
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/Lower Mainland, Calgary (including the City of Airdrie, the City of Lethbridge, 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 IAS 34 – Interim Financial Reporting 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 annual and interim 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 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 June 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 June 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 June 30, 2019 and September 30, 2018, respectively.

As of June 30, 2019	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at June 30, 2019
Surrey, British Columbia	10	1,775	\$ 384	\$ 216	4.09%
Abbotsford, British Columbia	15	976	161	165	4.63%
Calgary, Alberta (Note 1)	66	2,753	540	196	4.91%
Edmonton, Alberta (Note 2)	129	4,285	581	136	5.72%
Saskatoon, Saskatchewan	56	2,243	252	112	6.61%
Regina, Saskatchewan	59	866	102	118	5.92%
Total investment properties	335	12,898	\$ 2,020	\$ 157	5.22%

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 of 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)

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
	Calgary and Saskatoon	Calgary, Saskatoon and Regina	Calgary, Edmonton, Saskatoon and Regina	Calgary, Edmonton, Saskatoon and Regina
Number of rental units (Note 1)	565	290	1,116	1,023
Total costs	\$ 65,588	\$ 32,733	\$ 128,777	\$ 113,105
Average price per apartment unit (Note 1)	\$ 116	\$ 113	\$ 715	\$ 111

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 Q3 2019, Mainstreet acquired 565 units in the Provinces of Alberta and Saskatchewan for a total consideration of \$65.6 million. Since Mainstreet's previous financial year-end (September 30, 2018), the Corporation has grown its portfolio of properties by 10%.

As of June 30, 2019, Mainstreet's portfolio included 12,895 residential units and 3 freestanding commercial houses, including townhouses, garden-style apartments, concrete mid-rise and high-rise apartments. A total of 94% of these residential units were rented, while 4% 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 June 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 9 months ended June 30, 2019	Additional units created 9 months ended June 30, 2019	Number of units as at June 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	425	–	2,243	23%
Regina, Saskatchewan	687	177	2	866	26%
Investment properties	11,776	1,116	6	12,898	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 Q3 2019, the Corporation spent \$5.1 million (Q3 2018 – \$5.3 million) on capital improvements, of which \$4.0 million (Q3 2018 – \$4.4 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 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 \$6.0 million on renovations in the remaining three months of fiscal year 2019. 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 renovations.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
Gross revenue	\$ 34,771	\$ 29,476	18%	\$ 101,437	\$ 85,137	19%
Net profit and total comprehensive income – IFRS measurement	11,357	25,002	(55%)	29,488	39,267	(25%)
Fair value gain	5,344	24,947	(79%)	11,341	30,872	(63%)
Depreciation	64	59	8%	183	173	6%
Deferred income tax expense	3,243	7,090	(54%)	8,794	11,425	(23%)
Funds from operations – Non IFRS Measurement (Note 1)	\$ 9,320	\$ 7,204	29%	\$ 27,124	\$ 19,993	36%
Interest income	(53)	(179)	(70)	(139)	(451)	(69%)
Other income	(25)	–	100%	(260)	–	100%
Software development cost write off	–	555	100%	–	555	100%
General and administrative expenses	3,128	2,644	18%	9,543	8,067	18%
Financing costs	8,891	7,988	11%	25,823	23,296	11%
Depreciation (computer and vehicle)	66	62	6%	185	158	
Net operating income – IFRS Measurement	\$ 21,327	\$ 18,274	17%	\$ 62,276	\$51,618	21%
Operating margin from operations	62%	62%		62%	61%	
Profit per share						
Basic	\$ 1.21	\$ 2.83	(57%)	\$ 3.25	\$ 4.45	(27%)
Fully diluted	\$ 1.21	\$ 2.62	(54%)	\$ 3.25	\$ 4.11	(21%)
Funds from operations per share						
Basic	\$ 0.99	\$ 0.82	21%	\$ 2.99	\$ 2.26	32%
Fully diluted	\$ 0.99	\$ 0.75	32%	\$ 2.99	\$ 2.09	43%
Weighted average number of shares						
Basic	9,381,730	8,832,305		9,077,836	8,832,528	
Fully diluted	–	9,546,243		–	9,544,468	
	June 30, 2019					
Total Assets	\$2,036,607					
Total Long term liabilities	\$1,265,499					

1. FFO is calculated as profit before fair value gain, deferred income taxes and depreciation of property and equipment excluding depreciation of items, such 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 Q3 2019, revenue primarily comprised of rental and ancillary rental income totalling \$34.7 million (Q3 2018 – \$29.3 million), and interest income and other income. Overall, rental revenue increased 18% as compared to Q3 2018, which is discussed and analysed in the session entitled "Rental Operations" below.

PROFIT

For the three and nine months ended June 30, 2019, Mainstreet reported a net profit of \$11.4 million (\$1.21 per basic share) and \$29.5 million (\$3.25 per basic share), as compared to a net profit of \$25.0 million (\$2.83 per basic share) and \$39.3 million (\$4.45 per basic share) in Q3 2018.

Net profit is further analysed as follows:

(000s of dollars)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
Funds from operations						
– Non IFRS measurement	\$ 9,320	\$ 7,204	29%	\$ 27,124	\$ 19,993	36%
Fair value gain	5,344	24,947	(79%)	11,341	30,872	(63%)
Depreciation	(64)	(59)	8%	(183)	(173)	6%
Deferred income tax expense	(3,243)	(7,090)	(54%)	(8,794)	(11,425)	(23%)
Net profit and total comprehensive income – IFRS measurement	\$ 11,357	\$ 25,002	(55%)	\$ 29,488	\$ 39,267	(25%)

The increase in funds from operations in Q3 2019 is further discussed and analysed below.

In Q3 2019, a fair value gain of \$5.3 million was incurred as compared to a fair value gain of \$24.9 million in Q3 2018.

This was mainly due to changes as identified below:

Fair value gain (loss)

(000s of dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Surrey	\$ (4,080)	\$ 17,520	\$ 17,600	\$ 25,690
Abbotsford	(79)	9,830	3,009	9,830
Calgary	6,966	(1,350)	497	980
Edmonton	6,610	3,260	1,291	9,699
Saskatoon	2,171	1,371	2,179	906
Regina	(1,149)	–	170	–
	10,439	30,631	24,746	47,105
Gain on disposal	–	–	575	–
Capital expenditure	(5,095)	(5,684)	(13,980)	(16,233)
Fair value gain	\$ 5,344	\$ 24,947	\$ 11,341	\$ 30,872

The fair value gain represented the change in the market value of the Corporation's investment properties over the three and nine months ended June 30, 2019 and 2018. The amount of change was determined by the market value of the investment properties at the quarter-end date June 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 fair value gain, deferred income taxes and depreciation of property and equipment excluding depreciation of items, such as computer and vehicle, which are not uniquely significant to the real estate industry. Mainstreet generates FFO from three sources: rental revenue and ancillary rental income 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. See "Non-IFRS Measures" for additional information regarding FFO.

Mainstreet's FFO increased by 29% to \$9.3 million in Q3 2019, compared with \$7.2 million in Q3 2018. The increase in FFO in Q3 2019 was mainly attributable to the increased rental revenue which will be discussed and analysed in the following section entitled "Rental Operations". In Q3 2018, Mainstreet incurred a one-time expense related to writing off software development cost of \$0.55 million. Excluding this item, FFO increased by 20% in Q3 2019 from Q3 2018.

GENERAL & ADMINISTRATIVE (“G&A”) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries. In Q3 2019, G&A expenses increased by 18% to \$3.1 million as compared to \$2.6 million in Q3 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)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
Mortgage interest	\$ 8,098	\$ 7,261	12%	\$ 23,532	\$ 21,237	11%
Amortization of deferred financing cost	793	727	9%	2,291	2,059	11%
Financing costs	\$ 8,891	\$ 7,988	11%	\$ 25,823	\$ 23,296	11%

Mortgage interest expenses increased by 12% to \$8.1 million in Q3 2019 compared to \$7.3 million in Q3 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 Q3 2019, the Corporation financed 2 maturing mortgages and 6 clear-title properties for \$37.3 million at an interest rate of 2.87%. The Corporation also received the second funding of \$4.3 million of 1 clear title asset financed in Q3 2019. These financings raised approximately \$38.7 million additional funds which will be used to support the Corporation’s growth in its core markets.

RENTAL OPERATIONS

(000s of dollars except per unit data)

Three months ended June 30	Total Portfolio			Same Asset			Acquisition		
	2019	2018	% change	2019	2018	% change	2019	2018	% change
Rental revenue and ancillary rental income	\$ 34,693	\$ 29,297	18%	\$ 29,458	\$ 27,354	8%	\$ 5,235	\$ 1,943	169%
Operating expenses	13,366	11,023	21%	11,075	10,049	10%	2,291	974	135%
Net operating income	\$ 21,327	\$ 18,274	17%	\$ 18,383	\$ 17,305	6%	\$ 2,944	\$ 969	204%
Operating margin	62%	62%		62%	63%		56%	50%	
Average vacancy rate	6.4%	10.0%	(35%)	5.8%	9.6%	(40%)	9.5%	13.8%	(31%)
Weighted average number of units	12,583	11,367	11%	10,493	10,493	–	2,090	874	139%
Average rental rate per unit per month	\$ 919	\$ 859	7%	\$ 936	\$ 869	8%	\$ 835	\$ 741	13%
Average operating expense per unit per month	\$ 354	\$ 323	10%	\$ 352	\$ 319	10%	\$ 365	\$ 371	(2%)

(000s of dollars except per unit data)

Nine months ended June 30	Total Portfolio			Same Asset			Acquisition		
	2019	2018	% change	2019	2018	% change	2019	2018	% change
Rental revenue and ancillary rental income	\$101,038	\$ 84,686	19%	\$ 87,806	\$ 80,781	9%	\$ 13,232	\$ 3,905	239%
Operating expenses	38,762	33,068	17%	33,014	31,335	5%	5,748	1,733	232%
Net operating income	\$ 62,276	\$ 51,618	21%	\$ 54,792	\$ 49,446	11%	\$ 7,484	\$ 2,172	245%
Operating margin	62%	61%		62%	61%		57%	56%	
Average vacancy rate	6.6%	10.8%	(40%)	6.0%	10.7%	(44%)	10.1%	11.6%	(13%)
Weighted average number of units	12,266	11,072	11%	10,493	10,493	–	1,773	579	206%
Average rental rate per unit per month	\$ 915	\$ 850	8%	\$ 930	\$ 855	9%	\$ 829	\$ 749	11%
Average operating expense per unit per month	\$ 351	\$ 332	6%	\$ 350	\$ 332	5%	\$ 360	\$ 333	8%

The vacancy rate decreased substantially to 6.4% in Q3 2019, down from 10.0% in Q3 2018. The average monthly rental rate increased to \$919 per unit in Q3 2019, compared to \$859 per unit in Q3 2018. Overall rental revenue and ancillary rental income increased 18% to \$34.7 million in Q3 2019 as compared to \$29.3 million in Q3 2018. This was due to the 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 three month and nine month period ended June 30, 2019 and 2018, rental revenue increased 8% to \$29.5 million in Q3 2019 as compared to \$27.4 million in Q3 2018. The average monthly rental rate increased 8% to \$936 per unit in Q3 2019, up from \$869 per unit in Q3 2018. The vacancy rate decreased to 5.8% in Q3 2019 from 9.6% in Q3 2018, mainly due to the recovery from a prolonged economic downturn, particularly in Alberta.

Mainstreet's overall operating expenses have increased 21% to \$13.4 million in Q3 2019 from \$11.0 million in Q3 2018, due mainly to the increased number of newly acquired units since Q3 2018.

The overall and same asset operating expenses on a per unit basis increased by 10% for both overall and same asset basis over the year mainly due to increased property tax expenses and utility cost.

As a result, overall net operating income increased 17% to \$21.3 million in Q3 2019 from \$18.3 million in Q3 2018, and the net operating margin remained the same at 62% in both Q3 2019 and Q3 2018.

For same asset properties, net operating income increased 6% to \$18.4 million in Q3 2019 from \$17.3 million in Q3 2018. The net operating margin decreased to 62% in Q3 2019 as compared to 63% in Q3 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 Q3 2019. The average vacancy rate decreased slightly to 0.3% in Q3 2019 from 0.5% in Q3 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, rental revenue per unit increased by 8% to \$1,032 per month in Q3 2019, up from \$957 per month in Q3 2018.

Operating expenses per unit increased 24% to \$303 per month in Q3 2019 compared with \$244 per month in Q3 2018, due mainly to increased property tax expense and utility expense. As a result, the net operating income increased 2%, and the net operating margin decreased to 71% in Q3 2019 as compared to 74% in Q3 2018. In Q3 2018, Mainstreet received a refund of \$0.4 million from the City of Surrey due to a water meter conversion program. Excluding this one-time item, the net operating income increased 10%, and the net operating margin increased to 71% in Q3 2019 as compared to 69% in Q3 2018.

(000s of dollars except per unit data)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
Rental revenue and ancillary rental income	\$ 8,520	\$ 7,899	8%	\$ 25,135	\$ 23,341	8%
Operating expenses	2,501	2,016	24%	7,284	6,972	4%
Net operating income	\$ 6,019	\$ 5,883	2%	\$ 17,851	\$ 16,369	9%
Weighted average number of units	2,751	2,750	0%	2,751	2,750	0%
Average rent per unit per month	\$ 1,032	\$ 957	8%	\$ 1,015	\$ 943	8%
Operating cost per unit per month	\$ 303	\$ 244	24%	\$ 294	\$ 282	4%
Average vacancy rate	0.3%	0.5%		0.4%	0.6%	
Operating margin	71%	74%		71%	70%	

ALBERTA

Mainstreet achieved growth of 12% in its Alberta portfolio in Q3 2019; the weighted average number of rental units grew to 6,963 units, compared with 6,231 units in Q3 2018. The average vacancy rate decreased to 7.2% in Q3 2019 from 11.8% in Q3 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 6% to \$924 per month in Q3 2019 from \$870 per month in Q3 2018.

Operating expenses per unit increased 4% to \$373 per month in Q3 2019 compared to \$357 per month in Q3 2018 due mainly to higher utility expense. As a result, the net operating income increased 20%, and the net operating margin increased to 60% in Q3 2019 as compared to 59% Q3 2018.

(000s of dollars except per unit data)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
Rental revenue and ancillary rental income	\$ 19,298	\$ 16,259	19%	\$ 56,274	\$ 47,387	19%
Operating expenses	7,796	6,673	17%	22,937	19,994	15%
Net operating income	\$ 11,502	\$ 9,586	20%	\$ 33,337	\$ 27,393	22%
Weighted average number of units	6,963	6,231	12%	6,770	6,183	9%
Average rent per unit per month	\$ 924	\$ 870	6%	\$ 924	\$ 852	8%
Operating cost per unit per month	\$ 373	\$ 357	4%	\$ 376	\$ 359	5%
Average vacancy rate	7.2%	11.8%		7.5%	13.7%	
Operating margin	60%	59%		59%	58%	

SASKATCHEWAN

Mainstreet achieved growth of 20% in its Saskatchewan portfolio in Q3 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 2,869 units in Q3 2019, compared with 2,385 units in Q3 2018. The average vacancy rate decreased to 10.3% in Q3 2019 from 16.1% in Q3 2018. Rental revenue per unit increased to \$799 per month in Q3 2019 from \$718 per month in Q3 2018, as a result of improved occupancy rate in the province.

Operating expenses per unit increased 10% to \$357 per month in Q3 2019, up from \$326 per month in Q3 2018, due mainly to increased property taxes and utility expenses during the period. As a result, the net operating income increased 36% and the net operating margin remained the same at 55% in both Q3 2019 and Q3 2018.

(000s of dollars except per unit data)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
Rental revenue and ancillary rental income	\$ 6,875	\$ 5,139	34%	\$ 19,629	\$ 13,958	41%
Operating expenses	3,069	2,334	31%	8,541	6,102	40%
Net operating income	\$ 3,806	\$ 2,805	36%	\$ 11,088	\$ 7,856	41%
Weighted average number of units	2,869	2,385	20%	2,745	2,139	28%
Average rent per unit per month	\$ 799	\$ 718	11%	\$ 795	\$ 725	10%
Operating cost per unit per month	\$ 357	\$ 326	10%	\$ 346	\$ 317	9%
Average vacancy rate	10.3%	16.1%		10.4%	15.5%	
Operating margin	55%	55%		56%	56%	

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Jun. 30 2019	Mar. 31 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017
Rental revenue								
British Columbia	\$ 8,379	\$ 8,218	\$ 8,099	\$ 7,882	\$ 7,782	\$ 7,631	\$ 7,571	\$ 7,488
Alberta	19,069	18,465	17,986	17,042	16,036	15,387	15,346	15,324
Saskatchewan	6,825	6,518	6,107	5,560	5,124	4,922	3,847	3,165
Total rental Revenue	\$ 34,273	\$ 33,201	\$ 32,192	\$ 30,484	\$ 28,942	\$ 27,940	\$ 26,764	\$ 25,977
Ancillary rental income	420	536	416	496	355	389	295	412
Interest income	53	43	43	112	179	134	139	141
Total revenue from operations	\$ 34,746	\$ 33,780	\$ 32,651	\$ 31,092	\$ 29,476	\$ 28,463	\$ 27,198	\$ 26,530
Fair value gain (loss)	\$ 5,344	\$ 7,305	\$ (1,308)	\$ 30,544	\$ 24,947	\$ 7,100	\$ (1,174)	\$116,464
Profit (loss) from operations	\$ 11,357	\$ 12,288	\$ 5,843	\$ 33,455	\$25,002	\$ 10,827	\$ 3,439	\$107,068
Net profit (loss) per share								
– Basic	\$ 1.21	\$ 1.36	\$ 0.66	\$ 3.79	\$ 2.83	\$ 1.23	\$ 0.39	\$ 12.10
– Diluted	\$ 1.21	\$ 1.36	\$ 0.61	\$ 3.50	\$ 2.62	\$ 1.13	\$ 0.36	\$ 11.21
Same assets rental and ancillary rental income								
British Columbia	\$ 8,520	\$ 8,386	\$ 8,231	\$ 8,056	\$ 7,899	\$ 7,775	\$ 7,684	\$ 7,683
Alberta	17,107	17,105	16,895	15,754	15,277	14,765	14,802	14,851
Saskatchewan	3,831	3,882	3,852	3,227	3,085	3,129	3,169	3,157
Total same assets rental and ancillary rental income	\$ 29,458	\$ 29,373	\$ 28,978	\$ 27,037	\$ 26,261	\$ 25,669	\$ 25,655	\$ 25,691
Same assets net operating income								
British Columbia	\$ 6,020	\$ 5,767	\$ 6,069	\$ 6,737	\$ 5,884	\$ 5,299	\$ 5,205	\$ 5,647
Alberta	10,154	9,888	10,262	9,923	9,202	8,504	8,676	9,423
Saskatchewan	2,209	2,145	2,287	1,847	1,760	1,750	1,786	1,859
Total same assets net operating income	\$ 18,383	\$ 17,800	\$ 18,618	\$ 18,507	\$ 16,846	\$ 15,553	\$ 15,667	\$ 16,929
Net operating income	\$ 21,327	\$ 20,156	\$ 20,793	\$ 20,604	\$ 18,274	\$ 16,921	\$ 16,422	\$ 17,242
Funds from operations of stabilized properties – Non-IFRS measurement	\$ 7,651	\$ 7,007	\$ 8,168	\$ 8,103	\$ 6,947	\$ 6,050	\$ 5,831	\$ 7,434
“Funds from operations – Non-IFRS measurement”	\$ 9,320	\$ 8,272	\$ 9,532	\$ 9,696	\$ 7,204	\$ 6,484	\$ 6,304	\$ 7,607
Funds from operations of stabilized properties per share – Non-IFRS measurement								
– Basic	\$ 0.82	\$ 0.78	\$ 0.93	\$ 0.92	\$ 0.83	\$ 0.68	\$ 0.66	\$ 0.84
– Diluted	\$ 0.82	\$ 0.78	\$ 0.86	\$ 0.85	\$ 0.73	\$ 0.63	\$ 0.61	\$ 0.78
“Funds from operations per share – Non-IFRS measurement”								
– Basic	\$ 0.99	\$ 0.92	\$ 1.08	\$ 1.10	\$ 0.82	\$ 0.73	\$ 0.71	\$ 0.86
– Diluted	\$ 0.99	\$ 0.92	\$ 1.00	\$ 1.01	\$ 0.75	\$ 0.68	\$ 0.66	\$ 0.80
Average vacancy rate								
British Columbia	0.3%	0.5%	0.3%	0.5%	0.5%	0.4%	1.1%	0.7%
Alberta	7.2%	7.5%	7.8%	9.1%	11.8%	14.4%	14.7%	14.0%
Saskatchewan	10.3%	10.2%	10.6%	12.5%	16.1%	15.9%	14.5%	16.7%
Total average vacancy rate	6.4%	6.5%	6.7%	7.8%	10.0%	11.3%	11.1%	10.9%

Highlights of the Corporation's financial results for the third quarter ended June 30, 2019:

- Rental and ancillary rental income increased to \$34.3 million, compared to \$33.2 million in Q2 2019 and \$28.9 million in Q3 2018.
- Average vacancy rate for the quarter was 6.4%, compared with 6.5% in Q2 2019 and 10.0% in Q3 2018.

- Fair value gain for the quarter was \$5.3 million, compared with a gain of \$7.3 million in Q2 2019 and a gain of \$24.9 million in Q3 2018.
- Funds from operations for the quarter were \$9.3 million, a 13% increase from \$8.3 million in Q2 2019 and a 29% increase from \$7.2 million in Q3 2018. See “Non-IFRS Measures”.
- Net operating income for the quarter was \$21.3 million, a 6% increase from \$20.2 million in Q2 2019 and a 17% increase from \$18.3 million in Q3 2018.
- In Q3 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.

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 June 30, 2019, 237 properties (10,379 units) out of 335 properties (12,898 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	Jun. 30, 2019	%
Stabilized Units	10,010	85%	–	369	10,379	80%
Unstabilized Units	1,766	15%	1,122	(369)	2,519	20%
Total Units	11,776	100%	1,122	–	12,898	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	June 30, 2019
Numbers of unstabilized units held for renovation	1,766	(369)	1,122	2,519
Number of months				
Average time spent on stabilization	10	25	4	11
Estimated remaining time for stabilization	14	–	20	13

During the nine months ended June 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 425 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 369 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 – NON-IFRS MEASUREMENT

For Q3 2019, FFO of Mainstreet's stabilized property portfolio amounted to \$7.7 million (\$0.82 per basic share and per fully diluted share). See "Non-IFRS Measures."

(000s of dollars except per share amounts)

	Three months ended June 30, 2019			Nine months ended June 30, 2019		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 29,100	\$ 5,593	\$ 34,693	\$ 86,673	\$ 14,365	\$ 101,038
Property operating expenses	10,997	2,369	13,366	32,703	6,059	38,762
Net operating income	\$ 18,103	\$ 3,224	\$ 21,327	\$ 53,970	\$ 8,306	\$ 62,276
Operating margin	62%	58%	62%	62%	58%	62%
Vacancy rate	5.9%	9.2%	6.4%	5.8%	10.8%	6.6%
Interest income	\$ (44)	\$ (9)	\$ (53)	\$ (117)	\$ (22)	\$ (139)
Other income	\$ (25)	\$ –	\$ (25)	\$ (260)	\$ –	\$ (260)
General & administrative expenses	2,631	497	3,128	8,216	1,327	9,543
Financing cost	7,836	1,055	8,891	22,907	2,916	25,823
Depreciation (computer and vehicle)	54	12	66	155	30	185
Funds from operations						
– Non-IFRS measurement	\$ 7,651	\$ 1,669	\$ 9,320	\$ 23,069	\$ 4,055	\$ 27,124
Depreciation			\$ 64			\$ 183
Fair value gain			5,344			11,341
Deferred income tax expense			3,243			8,794
Net profit and total comprehensive income			\$ 11,357			\$ 29,488
Funds from operations per share						
– basic	\$ 0.82	\$ 0.17	\$ 0.99	\$ 2.54	\$ 0.45	\$ 2.99
– diluted	\$ 0.82	\$ 0.17	\$ 0.99	\$ 2.54	\$ 0.45	\$ 2.99
Weighted average number of shares						
– basic			9,381,730			9,077,836
– diluted			–			–
	Three months ended June 30, 2018			Nine months ended June 30, 2018		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 26,345	\$ 2,952	\$ 29,297	\$ 77,829	\$ 6,857	\$ 84,686
Property operating expenses	9,508	1,515	11,023	29,712	3,356	33,068
Net operating income	\$ 16,837	\$ 1,437	\$ 18,274	\$ 48,117	\$ 3,501	\$ 51,618
Operating margin	64%	49%	62%	62%	51%	61%
Vacancy rate	8.4%	21.1%	10.0%	9.4%	24.5%	10.8%
Interest income	\$ (157)	\$ (22)	\$ (179)	\$ (404)	\$ (47)	\$ (451)
Software development cost write off	486	69	555	498	57	555
General & administrative expenses	2,375	269	2,644	7,362	705	8,067
Financing cost	7,335	653	7,988	21,668	1,628	23,296
Depreciation (computer and computer)	51	11	62	133	25	158
Funds from operations						
– Non-IFRS measurement	\$ 6,747	\$ 457	\$ 7,204	\$ 18,860	\$ 1,133	\$ 19,993
Depreciation			\$ 59			\$ 173
Fair value gain			24,947			30,872
Deferred income tax expense			7,090			11,425
Net profit and total comprehensive income			\$ 25,002			\$ 39,267
Funds from operations per share						
– basic	\$ 0.77	\$ 0.05	\$ 0.82	\$ 2.13	\$ 0.13	\$ 2.26
– diluted	\$ 0.70	\$ 0.05	\$ 0.75	\$ 1.97	\$ 0.12	\$ 2.09
Weighted average number of shares						
– basic			8,832,305			8,832,528
– diluted			9,546,243			9,544,468

In Q3 2019, FFO of the stabilized property portfolio increased 13% to \$7.7 million as compared to \$6.7 million in Q3 2018, while the number of stabilized units increased 4% to 10,379 units as of June 30, 2019 compared to 9,954 units as of June 30, 2018. The increase in the FFO for stabilized properties was due to the increased number of stabilized units.

(000s of dollars)

	Three months ended June 30,			Nine months ended June 30,		
	2019	2018	% change	2019	2018	% change
FFO of stabilized properties	\$ 7,651	\$ 6,747	13%	\$ 23,069	\$ 18,860	22%
Number of stabilized units	10,379	9,954	4%	10,285	9,927	4%

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 Q3 2019, after payments of all required expenses, the Corporation generated funds from operations of \$9.3 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 June 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 Q3 2019, the Corporation spent approximately \$70.6 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 Q3 2019, the Corporation financed 2 maturing mortgages and 6 clear-title properties for \$37.3 million at an interest rate of 2.87%. The Corporation also received the second funding of \$4.3 million of 1 clear title asset financed in Q3 2019. These financings raised approximately \$38.7 million additional funds which will be used to support the Corporation's growth in its core markets.

As of June 30, 2019, the Corporation owned title to the following 46 clear title properties and two development lots having an aggregate fair value of approximately \$204 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 54%, 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 6, 2019. As at June 30, 2019, the Corporation has drawn \$58.7 million (September 30, 2018 – \$1.9 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2019, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 54% and 1.39, respectively.

CONTRACTUAL OBLIGATIONS

As of June 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 June 30, 2019 are as follows:

(000s of dollars)

12 months ended June 30,	Amount
2020	\$ 122,981
2021	98,939
2022	94,573
2023	20,097
2024	227,093
Subsequent	479,600
	1,043,283
Deferred financing cost	(19,207)
	\$ 1,024,076

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 926,440	89%	2.94%
– non-CMHC-insured	92,445	9%	3.04%
Floating rate debt			
– CMHC-insured	24,398	2%	3.89%
Total debt	1,043,283	100%	2.98%
Deferred financing costs	(19,207)		
	\$ 1,024,076		

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 June 30, 2019, total mortgages payable were \$1,024 million compared to \$957 million on September 30, 2018 – an increase of 7% due to financing and acquisition activity during the nine months ended June 30, 2019.

As of June 30, 2019, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 54% of 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 (%)
2019	–	–	–
2020	106,210	10%	3.22%
2021	82,209	8%	3.94%
2022	83,612	8%	3.00%
2023	99,818	10%	3.37%
Subsequent	671,434	64%	2.76%
	\$ 1,043,283	100%	2.98%

The average maturing term of mortgage loans is 6.42 years as of June 30, 2019, compared to 6.0 years as of September 30, 2018.

INTERNAL CONTROL

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 and 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”.

During the review of the design and effectiveness of the Corporation’s control system over financial reporting for the year ended September 30, 2018, Management identified certain control deficiencies that together amounted to a material weakness in its ICFR. A material weakness, as defined in National Instrument 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings, is a deficiency, or a combination of deficiencies, in ICFR, such that there is reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

All of the identified control deficiencies resulted from a change in the Corporation’s methodology in determining the fair value of its investment properties during the 2018 fiscal year. Prior to the 2018 fiscal year, the Corporation obtained independent appraisals in respect of each of its investment properties as at the end of each fiscal year. Given the size of the Corporation’s investment property portfolio, the Corporation adopted a “grouping” methodology to determine the fair value of its investment properties for the 2018 fiscal year, which resulted in grouping its investment properties in each city by their types and geographic locations. Samples were then selected in each group for independent appraisals. The appraised values of the samples selected were then compared with their appraised values as of September 30, 2017. The percentage changes in values of those samples selected were then applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of September 30, 2018. As a result of this change, any errors in the appraised value of a sample property will affect the valuation of the entire grouping and accordingly is more likely to have a material effect on the ultimate valuation of the Corporation’s investment properties. Similarly, if groupings are not appropriate, the change in value of the sample properties may not be an accurate reflection of the value of the other properties in the groupings which may have a material effect on the ultimate valuation of the Corporation’s investment properties.

Due to the change in methodology to determine fair value of the Corporation’s investment properties and for the reasons discussed above, the following deficiencies were identified: (i) a lack of review of the impact of changes to the groupings

of the properties on the ultimate valuation of the Corporation's investment properties; (ii) a lack of consideration in respect of anomalies within individual building valuations that may impact the overall valuation of a grouping of properties; and (iii) a lack of proper oversight and review of external independent valuator's work in respect of the sample properties.

Accordingly, while the Corporation's ICFR and DCP were effective for prior fiscal years prior to 2018, due to the increased materiality of each sample property valuation on each grouping and the overall valuation of the Corporation's investment properties, it was determined that additional controls and procedures were now required in reviewing the groupings of properties being used by the Corporation and the third party valuations of the sample properties.

Based on this evaluation, Management has concluded that the Corporation's ICFR was not effective as at September 30, 2018 and throughout the 2019 fiscal year. Given this weakness in ICFR, Management has also identified that there is a material weakness in the Corporation's DCP and concluded that the DCP was not effective as at September 30, 2018 and throughout the 2019 fiscal year.

Notwithstanding this material weakness, the Corporation has concluded that its interim and annual financial statements fairly present in all material respects the financial position, financial performance and cash flow for the periods presented in accordance with IFRS and do not contain a material misstatement.

During the 2019 fiscal year, Management has taken steps to address and remedy the identified deficiencies including finalizing the criteria used to determine the appropriate grouping for a property, assigning all current properties to a grouping, and having these groupings audited in connection with its fiscal 2018 year end audit procedures. Although there may be occasions in the future where changes are required to groupings of properties or where new properties are added to the Corporation's holdings, the initial work of creating the criteria for groupings and selecting the sample properties has now been completed and audited.

In addition, the Corporation has further taken the following additional steps to remediate the identified deficiencies, including:

- (i) implementing various processes and controls to reduce the risk of potential material misstatement of the Corporation annual or interim financial statements;
- (ii) implementing 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:
 - (A) regularly reviewing the criteria for the Corporation's property groupings to ensure that such criteria remains appropriate and relevant;
 - (B) regularly reviewing the property groupings to ensure that all properties within the grouping are adequately similar;
 - (C) regularly reviewing the sample properties chosen for each grouping to ensure that they are appropriately representative of all properties within the grouping;
 - (D) prior to making any future changes to the properties within a grouping, taking such steps as are necessary to properly understand how such a change will affect the overall valuation of the Corporation's properties; and
- (iii) allocating additional resources 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 (ii) 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 reviews third party valuations for these purposes, it has determined additional resources are 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.

As certain control deficiencies resulted from changes in groupings and sample properties between interim reporting periods in 2018, such control deficiencies and the corresponding material weakness is not anticipated to re-occur in future reporting periods, or in the event there are any changes, it will be on a significantly smaller scale than that seen in the initial conversion process during the 2018 financial year. However, in order to assess and conclude that such remedial steps will result in eliminating these deficiencies and result in operational effectiveness, the Corporation will need to carry out applicable testing over multiple quarterly reporting periods to ensure such deficiencies have been fully remediated and any material weakness related thereto eliminated.

No assurance can be provided at this time that the actions and remediation efforts will effectively remediate the material weakness described above or prevent the incidence of other material weaknesses in the Company's DCP and ICFR in the future. Management, including the CEO and CFO, does not expect that DCP or ICFR will prevent all errors, even as the remediation measures have been implemented and improved to address the material weakness. The design of any

system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

Other than the remediation efforts discussed above, the Corporation has recently implemented new controls in the investment property valuation process to address previously identified deficiencies and Management will continue to perform controls testing related to these deficiencies as the financial year progresses.

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)

	June 30, 2019		September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Restricted cash	\$ 3,441	\$ 3,441	\$ 3,120	\$ 3,120
Cash and cash equivalents	2,030	2,030	384	384
Trade and other receivables	1,174	1,174	824	824
Financial liabilities:				
Bank indebtedness	58,723	58,723	1,858	1,858
Mortgages payable	1,024,076	1,058,305	956,965	948,934
Trade and other payables	10,369	10,369	6,798	6,798
Refundable security deposits	\$ 4,898	\$ 4,898	\$ 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, 2018 and 2017 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:

	Nine months ended June 30, 2019		Year ended September 30, 2018	
	Number of common shares	Amount	Number of common shares	Amount
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 three and nine months ended June 30, 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 OPTION

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

Stock option	June 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 period	822,000	\$ 5.51	822,000	\$ 5.51
Exercised	549,425	45.75	–	–
Cancelled	272,575	45.75	–	–
Outstanding and exercisable,				
– end of the period	–	–	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.

In Q2 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 has now expired.

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 Rights Plan was amended to extend the time for a take-over bid to be taken up from 120 days to 105 days to coincide with recent 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 for sensitivity analysis;

- ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities are outlined in Note 12 to the interim condensed consolidated financial statements;
- iii) Allocation of purchase cost in the acquisition of investment properties is based on information from industry practice and entity specific history;
- iv) Allocation of purchase cost in the acquisition of property and equipment into different components, estimation of useful life and impairment, are based on information from industry practice and entity specific history; and
- v) The amount of temporary differences between the carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

New accounting policies and changes to accounting policies

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

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

The Corporation has applied IFRS 9 “Financial Instruments”. The new standard replaced the former multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss (“FVTPL”) that requires recognition of expected credit losses. The Corporation adopted IFRS 9 retrospectively and the implementation did not have material impact on its interim condensed consolidated financial statements.

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

The Corporation has applied IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 was issued in May 2014 and replaced IAS 11 “Construction Contracts”, IAS 18 “Revenue Recognition”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides a single and comprehensive revenue recognition model. The Corporation evaluated its relevant contracts for the following key areas, but not limited to, laundry, cable and telephone providers, and common area maintenance recoveries. The Corporation has determined that the pattern of revenue recognition remains unchanged following the adoption of IFRS 15, however, additional note disclosure has been added to Note 8.

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

IFRS 16 – Leases – Effective for periods beginning on or after January 1, 2019

The new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17. From a lessor perspective, the accounting remains similar to current practice of classifying leases as finance and operating leases. The Corporation is currently evaluating the impact of this new standard on its financial statements.

Transactions with Related Parties

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in limited circumstance, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the three and nine months ended June 30, 2019 amounted to \$151,090 (2018 – \$137,000) and \$300,426 (2018 – \$944,000) respectively and formed part of the President and Chief Executive Officer’s total remuneration for the year.
- b) The Corporation paid legal fees, professional fees and reimbursements for the three and nine months ended June 30, 2019 amounting to \$145,801 (2018 – \$106,143) and \$337,441 (2018 – \$201,487) to a law firm of which a director

and officer of the Corporation is a partner. As at June 30, 2019, the amounts payable to the law firm were \$537 (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 2018.

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 the effect on employment resulting from the minimum wage increase in Alberta effective October 1, 2018 to \$15.00 an hour; or increases to operating costs resulting from the carbon tax in Alberta, similar federal 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 revision in prime lending rates. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. The Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by 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, significantly reducing the possibility of a lender calling a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$207,803 in interest expense of the floating rate debt for the three months ended June 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. In addition, the implementation of a carbon tax by the Government of Alberta has increased the costs of natural gas to \$1.52 per gigajoule ("GJ") in 2019. 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, 2019 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 tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of June 30, 2019, rents due from current tenants amounted to \$392,000 (September 30, 2018 – \$371,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.9 million (September 30, 2018 – \$4.5 million) and provisions for bad debts of \$140,000 (September 30, 2018 – \$140,000).

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

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.

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.

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 very 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

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 "Related Party Transactions" above.

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.

CHALLENGES

Despite gradual improvement in Alberta, negative macroeconomic forces remain Mainstreet's biggest challenge. While benchmark oil prices increased to around US\$60 per barrel in mid-2019, they remain well below the highs of US\$70 at the end of last year — and nowhere near pre-2014 levels. A lack of available pipeline capacity has weighed on Canadian oil prices in particular, and has continued to drive foreign investment away from Alberta and Saskatchewan.

Observers warn that ongoing trade wars between China and the U.S., among other concerns, could trigger a global recession that would ripple through the Canadian economy. Meanwhile, rifts between China and Canada on the trade of meat and other commodities have also dampened investment. In July 2019, the Bank of Canada announced it would hold its overnight interest rate at 1.75%, citing trade uncertainty, and said a rate cut is now equally as likely as a hike in 2020.

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

Rising operating costs also pose a challenge. While Mainstreet will enjoy roughly six months free of a carbon tax in Alberta in 2019, a federal carbon tax backstop will be imposed in the province beginning in 2020, which in turn raises heating costs for property owners. Various municipalities have meanwhile continued to increase property taxes. The Corporation's continued and aggressive stabilization of residential units will also continue to raise overall operating costs for Mainstreet.

Lastly, lower Canadian oil prices have underscored decades of complications in the country's regulatory and legal regime, which have caused delays in large projects like oil pipelines and hydro transmission lines. While the federal government's June 2019 approval of the Trans Mountain pipeline sent a positive signal, it is still uncertain when the pipeline project can actually be commenced.

OUTLOOK

Management sees plenty of unique opportunities to pursue the Corporation's countercyclical growth strategy. In particular, Mainstreet sees the potential for more accretive acquisitions, supported by a drop in 10-year interest rates, immigration growth, and tighter stress tests for mortgages announced in 2017, which make it more difficult for first-time homeowners to secure financing and potentially push more people into the rental market. Similar to 2018, the Corporation will also continue its aggressive stabilization strategy, which management believes should further grow top-line revenues and NOI, particularly amid a gradually recovering economy.

Management views the election of a United Conservative Party as broadly positive for the business climate in Alberta. The party has mulled corporate tax cuts and other business-friendly policies, according to media reports, which could improve investor sentiment.

Meanwhile, Alberta's population grew 1.73% in the year ended March 31, 2019, outpacing all other provinces and performing well above the national average of 1.41%. In-migration into Alberta was 10,474 in Q1 2019, up from 7,483 in Q1 2018, according to the provincial government. The increase was driven largely by higher interprovincial migration in the quarter of 3,428, after several years of negative migration flows.

Better in-migration numbers could be compounded by a rising number of foreign students entering Canada. The number of international students in Canada has nearly tripled to 572,000 over the last 20 years, according to data from Statistics Canada—a growth rate that is three times higher than enrollment numbers by Canadian students over the last two decades. Canada now boasts the second-highest level of foreign student enrollments in the world on a per capita basis.

Better student enrolment numbers come as labour indicators remain between stable and slightly improved. Alberta's unemployment rate was 6.6% in June 2019, or equal to a year earlier, despite faster population growth in province. Saskatchewan unemployment was 5.1% in June 2019, down from 6.2% in June 2018. British Columbia's unemployment rate was 4.4% in the same month, and has remained among the lowest in Canada. A tight market in B.C. drove up Mainstreet's top-line revenues in the province by 8% in Q3, the highest in several quarters.

Mainstreet believes these positive indicators have in turn helped return the Alberta rental market closer to balance. Rental markets have been oversupplied in recent years following a rapid build out of condominiums during years of high economic growth, which then spilled over into the broader rental space. However, Mainstreet sees this trend gradually reversing as new tenants continue to absorb that oversupply.

Management also believes that broader market volatility in turn creates areas of opportunity for Mainstreet. In Mainstreet's opinion, the Corporation's mid-market rental rate, with a price-point average between \$900 and \$1,000, is perfectly positioned to attract renters in today's market. Renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. Mainstreet believes the Corporation is uniquely positioned to capture foreign workers, foreign students and new migrants within this mid-market rental bracket.

RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: In Q3 2019, 20% of the Mainstreet portfolio was going through the stabilization process, even as the Corporation achieved lower overall vacancy rates compared to 2018. Management believes this provides Mainstreet plenty of room to lower that imbalance as the Corporation enters the final quarter of 2019.
- 2) Pursuing 100% organic, non-dilutive growth model: Using Mainstreet's strong potential liquidity position of approximately \$80 million, management believes there is significant opportunity to continue acquiring new assets at low cost. Management also believes Mainstreet's business strategy will allow the Corporation to continue to boost NOI and FFO while improving quality of living standards for middle class Canadians in the Corporation's markets.
- 3) Buying back common shares at a discount to NAV: Management believes Mainstreet's shares continue to trade well below their NAV. The Corporation will therefore continue to buy back its own common shares on an opportunistic basis under its normal course issuer bid.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at www.mainst.biz and on Sedar at www.sedar.com.