20 years of annual compounded double-digit growth

TSX **MEQ**

MAINSTREET EQUITY CORP.

2019 Annual Report
For the years ended September 30, 2019 and 2018

	IFRS value ($ million)	Year-over-year % change	Revenue ($ million)	Year-over-year % change	Stock price ($ million)	Year-over-year % change
2000	90	80%	7.7	157%	4.9	n/a
2001					5.4	10%
2002					3.1	(43%)
2003					3.9	25%
2004					6.1	57%
2005					5.2	(14%)
2006					9.9	89%
2007					16.1	62%
2008					12.1	(25%)
2009					7.9	(34%)
2010					11.4	44%
2011					17.2	50%
2012					31.5	83%
2013					30.2	(4%)
2014					40.7	35%
2015					31.4	(23%)
2016					31.1	(1%)
2017					37.0	19%
2018					48.0	30%
2019	2,040	9%	137.6	19%	63.6	33%
2000-19 Compound Annual Growth		**17%**		**16%**		**14%**

Double digit year-over-year growth Q1 2019 to Q1 2020

RENTAL REVENUE 13%

NOI 12%

FFO 18%

	NOI ($ million)	Year-over-year % change	FFO ($ million)	Year-over-year % change	FFO per share ($ million)	Year-over-year % change
2000	5.7	171%	2.0	23%	0.22	22%
2001					0.24	9%
2002					0.33	38%
2003					0.60	82%
2004					0.24	(60%)
2005					0.11	(54%)
2006					0.20	82%
2007					0.46	130%
2008					0.31	(33%)
2009					0.99	219%
2010					0.75	(24%)
2011					1.14	52%
2012					1.24	9%
2013					1.83	48%
2014					2.44	33%
2015					2.89	18%
2016					2.74	(5%)
2017					2.89	5%
2018					3.35	16%
2019	86.3	20%	39.3	33%	4.29	28%
2000-19 Compound Annual Growth		**15%**		**16%**		**16%**

Q1 2020

For the three months ended December 31, 2019 and 2018

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

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

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Forward-Looking Information

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

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

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

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

This MD&A includes forward-looking information about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action and that is not presented in the format of a historical balance sheet, income statement or cash flow statement ("Financial Outlook"). Actual results may vary from the Financial Outlook summarized in this MD&A. Management of the Corporation has approved the Financial Outlook as of February 5, 2020. Financial Outlook has been included in this MD&A to provide readers with disclosure regarding the Corporation's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the Financial Outlook may not be appropriate for other purposes.

KEY METRICS | Q1 PERFORMANCE HIGHLIGHTS

Rental Revenue	
From operations	Up 13% $36.7 million (vs. $32.6 million in Q1 2019)
From same asset properties	Up 5% to $33.7 million (vs. $32.2 million in Q1 2019)
Net Operating Income (NOI)	
From operations	Up 12% to $23.3 million (vs. $20.8 million in Q1 2019)
From same asset properties	Up 5% to $21.5 million (vs. $20.5 million in Q1 2019)
Funds from operations (FFO)[1]	
From operations	Up 18% to $11.3 million (vs. $9.5 million in Q1 2019)
FFO per basic share	Up 11% to $1.2 (vs. $1.08 in Q1 2019)
Operating Margin	
From operations	63.5% (vs. 63.8% in Q1 2019)
From same asset properties	63.8% (vs. 63.7% in Q1 2019)
Net Profit	
Net profit per basic share	Down 11% to $0.59 (vs. $0.66 in Q1 2019, including fair value loss of $8.3 million in Q1 2020 vs. $1.3 million in Q1 2019)
Total Capital Expenditures	$3.2 million (vs. $4.9 million in Q1 2019)
Stabilized Units	247 properties (11,439 units) out of 340 properties (13,035 units)
Total Acquisition	
During Q1 2020	$11.3 million 134 units (vs. $49.8 million 421 units in Q1 2019)
Subsequent to Q1 2020	236 units ($36.2 million) in Calgary and Edmonton
Vacancy rate	
From operations	5.9% (vs. 6.7% in Q1 2019)
From same asset properties	5.4% (vs. 6.6% Q1 2019)
Vacancy rate as of February 1, 2020	5.7% excluding unrentable units
Fair Market Value	$2.05 million (vs. $2.04 million in FY 2019)
Total Units	
Q1 2020	Increased 1% to 13,035 units (vs 12,901 units in FY 2019)
Year-to-date	13,271 units

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

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

MESSAGE FROM THE PRESIDENT & CEO

For the 3 months ended December 31, 2019 and 2018

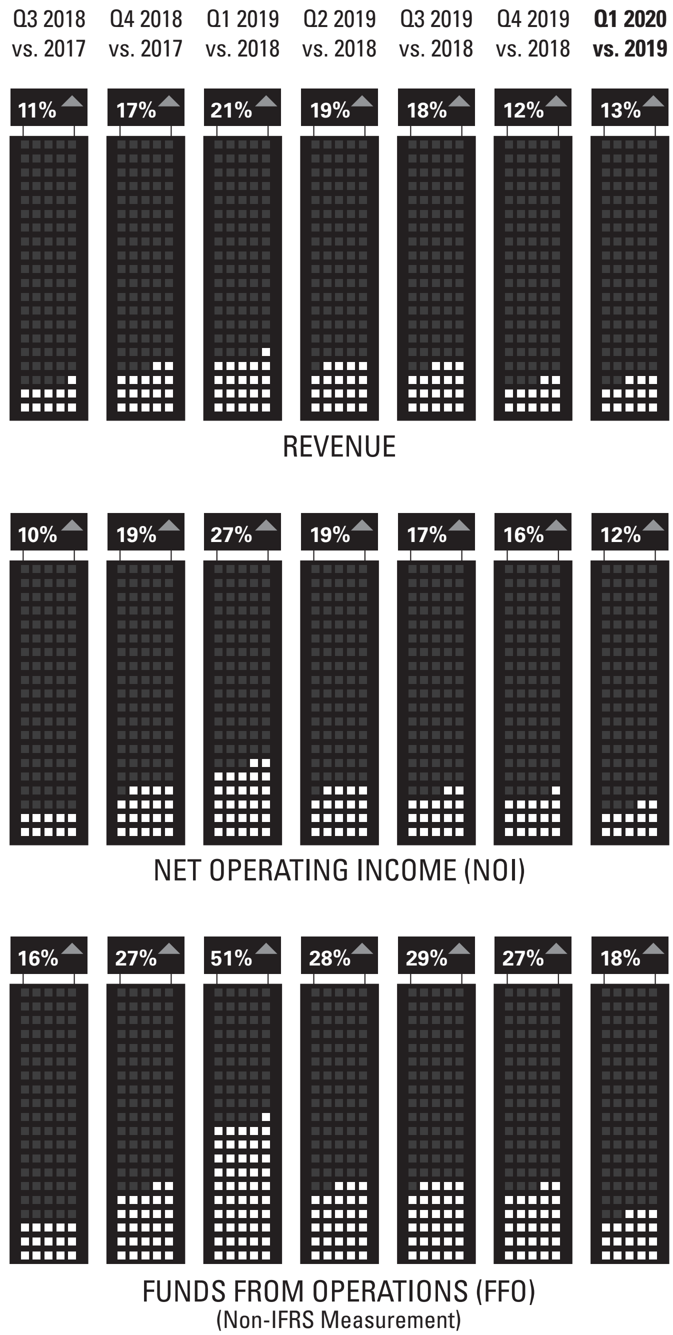
Mainstreet's Q1 2020 results mark the 7th consecutive quarter of year-over-year double-digit growth in all of our key metrics, extending a steady improvement in our operational performance that has continued to deliver non-dilutive value to shareholders. Continued growth in rental revenue, net operating income ("NOI"), and funds from operations ("FFO) comes despite the fact that Q1 is typically a low rental season.

We believe that these achievements are a direct result of Mainstreet's countercyclical growth strategy, which our management team introduced five years ago in anticipation of an economic downturn. They are also partly connected to an ongoing population surge across Canada, including in Alberta, which has driven down vacancy rates and bolstered our value-added growth model. Over the last four years Alberta has added 226,825 new residents, 70,595 of which came in 2019 alone (Statistic Canada). During that same four-year period, rental supply in the province remained flat, adding only 13,736 new units, including townhomes, according to CMHC data. In the Edmonton/Calgary corridor, where 76% of the residents of Alberta reside (roughly 3.32 million people), and where the majority of Mainstreet's properties are located, the total purpose-built rental universe, including townhouses, is just 123,134 (CMHC). By 2046, the portion of Albertans living within that corridor is expected to rise to 80% (Government of Alberta).

While we recognize that a sizeable number of these new residents are either would-be homebuyers or children, many others are foreign students, immigrants and young people who will continue to enter, and therefore expand, the broader rental space. We believe these supply-demand figures point to a fundamental robustness in the rental market that Mainstreet believes will extend well into the future, supporting Mainstreet's 100% organic, non-dilutive growth model.

As we enter fiscal year 2020, we plan to leverage improving market fundamentals by accelerating our countercyclical growth strategy. Our management team will also continue to fine-tune key processes across our operations. This includes anything from identifying underperforming assets for acquisition, creating efficiencies in our supply chain, strengthening internal training and adopting new technologies, shortening cycle times for stabilization, and unlocking future growth by refinancing long-term, CMHC-insured debts at low cost. As of Q1 2020, 12% of our portfolio was unstabilized, and our liquidity position stood at $147 million. Looking to the coming fiscal year, we believe this provides Mainstreet a firm foundation to continue our record of top-tier performance and delivering non-dilutive value to shareholders.

7 CONSECUTIVE QUARTERS OF YEAR-OVER-YEAR DOUBLE-DIGIT QUARTERLY GROWTH



FINANCIAL HIGHLIGHTS:

- **Operations:** 13% growth in rental revenue, 12% growth in NOI and 18% growth in FFO. On a same-asset basic, both NOI and rental revenue increased 5%. We achieved these results despite a high number of acquisitions that would typically drive down operating results
- **Refinancing:** $26 million in additional funds raised through the financing of six clear-title properties at an interest rate of 2.47%
- **Occupancy:** Vacancy rate reduced to 5.9%, compared with 6.7% in Q1 2019
- **Acquisitions:** $11.3 million (134 units) in new acquisitions in Q1 2020, with $36.2 million (236 units) in Calgary and Edmonton subsequent to end of quarter. Year-to-date acquisitions amounted to $47.5 million (370 units)
- **Mortgage:** 95% of mortgage portfolio locked in as CMHC-insured mortgages at an average interest rate of 2.98% with an average maturity period of 6 years, substantially lowering exposure to interest rate risks
- **Liquidity:** $147 million liquidity position to fund future growth

CHALLENGES

Despite our achievements, Mainstreet faces challenges on several fronts. Higher municipal property taxes and other policies have continued to raise operating costs. The federal carbon tax, which targets property owners through higher heating costs, came into force in Alberta in 2020. New federal regulations under the 'Clean Fuel Standard' are anticipated to come into force around 2023, layering new costs onto natural gas consumption. Our efforts to reduce stabilization cycle times have also increased expenses for human resources, materials and other operational necessities.

Market volatility also remains a challenge. Prices for West Texas Intermediate, an American crude oil benchmark, hovered around US$55 per barrel in 2019, well below prices five years ago. Industry investment has likewise fallen as producers delay major decisions, denting the economic output of oil-dependent provinces like Alberta and Saskatchewan.

Low oil prices have underscored deeper shortfalls in Canada's regulatory and legal regime, which have caused delays in major projects. Two multi-billion dollar developments in B.C., the Trans Mountain pipeline and LNG Canada natural gas facility, have now entered the early construction phase, which we view as positive. However, we believe that the broader uncertainty around project approvals in Canada could yet cause a further cooling in investor appetites, as major investment funds look to other markets, particularly the U.S. The federal government's pending approval of the Frontier oilsands mine in northern Alberta, expected by the end of February, will likely feed into investor sentiments.

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

We also see risks in the recent outbreak of the coronavirus, causing global travel restrictions, border closures, factories and business closures in China, which could ripple out into the Canadian economy in 2020.

OUTLOOK

Even in the face of some challenges, Mainstreet has benefited over the last four years from a vast improvement in almost every possible macroeconomic measure. We believe that employment levels, population growth, and GDP across Canada appear to be on the upswing. This trend supports our plan to accelerate our acquisition strategy in 2020, funded by low interest, long-term, CMHC-insured financing. We will also continue efforts over the past two years to re-stabilize units at a record pace, boosting NOI and cash flows.

We believe that it appears that positive macroeconomic trends appear poised to continue. According to Statistics Canada, Canada's population could reach 48 million by 2050 under a medium growth scenario. Under a high growth scenario, that could reach as high as 56 million. The province of Alberta, which makes up 54% of Mainstreet's portfolio, could reach 6.6 million by 2046, or an increase of 2.3 million, according to estimates by the provincial government.

We believe that positive international and inter-provincial migration numbers, coupled with a steady rise in foreign student enrolments, could continue to bolster this trend. More than 720,000 foreign students enrolled in Canadian institutions in 2018 (Immigration, Refugees and Citizenship Canada, 2019), higher than many developed nations. International in-migration into Canada reached 437,000 (Statistic Canada) in 2019, nearly on par with the 595,000 (Census Bureau) people who entered the U.S.

We expect that improved population and in-migration levels could translate into economic growth over the long term. At a projected growth rate of 1.6% in 2020, Canada's economy is comparable to that of the U.S. (1.9%), but still below the Bank of Canada's target inflation rate of 2%. Job growth remains robust. Unemployment levels across Canada were 5.6% in December 2019, among the lowest in years. In Alberta, unemployment in December was 7.0%, roughly in line with its five-year average. British Columbia, which makes up 21% of our portfolio, has continued to outperform the national average, with an unemployment rate of 4.8% in December 2019 (sources: Statistics Canada and Bank of Canada).

Mainstreet believes these positive indicators will continue to return the rental market to balance. Rental markets have been oversupplied following a rapid build out of condominiums during years of high economic growth, which then spilled over into the broader rental space. But we believe that recent data suggests absorption of that oversupply is already underway. Vacancy rates for purpose-built rental units in metropolitan Edmonton fell to 4.9% in 2019, down from 5.3% a year earlier, according to CMHC data. Vacancies in Calgary have fallen as low as 3.9%, directly in line with a year earlier. Vancouver remained among the lowest vacancy rates in Canada (1.1%), while vacancies fell sharply in Saskatoon (down to 5.7% from 8.3%) and remained unchanged in Regina (7.7%).

We also believe that expected increases in housing prices will continue to push more young people into the rental market. In our opinion, Mainstreet's mid-market rental rate, with a price-point average between $900 and $1,000, are perfectly positioned to attract would-be renters in today's market. We believe that renters, which often include millennials, foreign students and new migrants, tend to favour mid-market prices as they defer major investments like new homes. We believe we are uniquely positioned to capture renters who fall within this bracket.

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

RUNWAY ON EXISTING PORTFOLIO

1) **Pursuing our 100% organic, non-dilutive growth model:** Using our strong potential liquidity position of approximately $147 million, we believe there is significant opportunity to continue acquiring new assets at low cost.
2) **Closing the NOI gap:** In Q1 2020, 12% of the Mainstreet portfolio was going through the stabilization process. Once stabilized, we believe same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved.
3) **Leveraging our loss-to-lease:** We believe our Vancouver/Lower Mainland market, which makes up 21% of our portfolio (2,799 units), offers a significant opportunity for future same-store NOI growth. This is partly due to a continued increase in market rates, combined with rules under the provincial Tenancy Act that has kept some annual rent rate increases substantially below the rest of the market, resulting in loss-to-lease of approximately $258 per unit per month. Currently, over 91% of our tenants in the region are below the market average. With an average annual turnover rate of about 25%, we expect our NOI will continue to improve while we reduce our loss-to-lease over time.
4) **Lowering interest costs:** Approximately $130 million of Mainstreet mortgage loans with an average interest rate of 4.1% are maturing in 2020 and 2021. The current 10-year, CMHC-insured mortgage rate is about 2.5%. We expect interest rates to remain low, and our refinancing of these maturing debts will result in a substantial reduction in future mortgages expenses.
5) **Buying back shares at a discount:** We believe MEQ shares continue to trade below their true NAV. We will therefore continue to buy back our own common shares on an opportunistic basis under our normal course issuer bid.

(Signed)

"Bob Dhillon"
President & CEO

Calgary, Alberta
February 5, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") as at and for the three months ended December 31, 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 months ended December 31, 2019 and 2018, and the MD&A and audited consolidated financial statements and the accompanying notes for the years ended September 30, 2019 and 2018. 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 February 5, 2020. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form ("AIF") is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicated otherwise, reference herein to 2019 and 2018 refers to the three months ended December 31, 2019 and 2018, respectively.

NON-IFRS MEASURES

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

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".

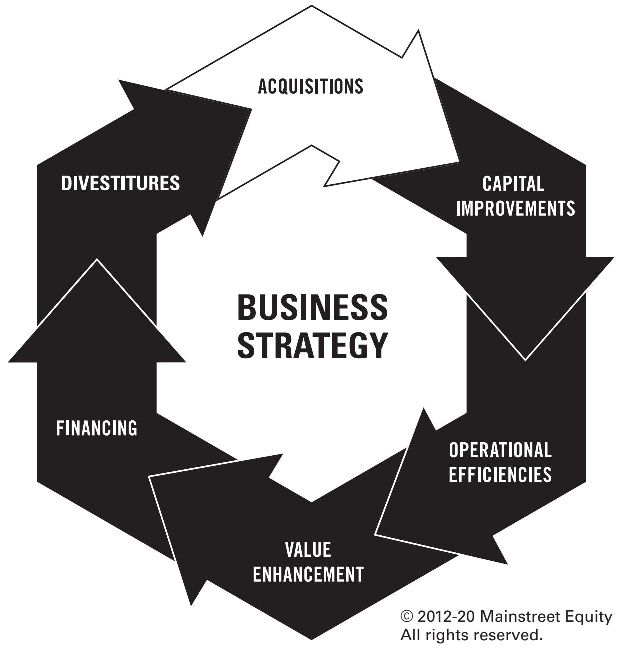
BUSINESS STRATEGY

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; and
- Divestitures: Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties.

The Mainstreet

VALUE CHAIN



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 financial reporting, external valuations were obtained from independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in the relevant locations. In addition, the Corporation has established an internal valuation model, which is based on the same assumptions and valuation techniques used by the external valuation professionals. The Corporation grouped its investment properties in each city by their types and geographic locations. Samples were selected in each group for independent appraisal. The appraised values of the samples selected were compared with their carrying values. The percentage changes in values of those samples selected were applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of December 31, 2019 and September 30, 2019. 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 December 31, 2019 ($2.0 billion as of September 30, 2019). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at December 31, 2019 and September 30, 2019, respectively.

As of December 31, 2019	Number of properties	Number of units	Market value ($ million)	Average value per unit ($000)	Average capitalization rate as at Dec. 31, 2019
Surrey, British Columbia	10	1,775	$ 395	$ 223	4.74%
Abbotsford, British Columbia (Note 3)	16	1,024	171	167	4.85%
Calgary, Alberta (Note 1)	67	2,761	554	201	4.83%
Edmonton, Alberta (Note 2)	130	4,308	572	133	5.70%
Saskatoon, Saskatchewan	58	2,301	254	110	6.54%
Regina, Saskatchewan	59	866	101	117	6.32%
Total investment properties	340	13,035	$ 2,047	$ 157	5.34%

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

Note (2) – includes the City of Fort Saskatchewan

Note (3) – includes the City of Kamloops

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

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

Note (2) – includes the City of Fort Saskatchewan

Acquisitions & Growth

(000s of dollars)

Three months ended December 31,	2019	2018
	Calgary, Edmonton, Saskatoon and Kamloops	Calgary, Edmonton, Saskatoon and Regina
Number of rental units (Note 1)	**134**	421
Total costs	**$ 11,318**	$ 49,800
Average price per apartment unit (Note 1)	**$ 84**	$ 118

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 Q1 2020, Mainstreet acquired 134 units in the Provinces of Alberta, Saskatchewan and

British Columbia for a total consideration of $11.3 million. Since Mainstreet's previous financial year-end (September 30, 2019), the Corporation has grown its portfolio of properties by 1%.

As of December 31, 2019, Mainstreet's portfolio included 13,032 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 340 buildings, while the fair value of the investment properties within this portfolio has grown from approximately $17 million to $2.0 billion as of December 31, 2019.

The following table demonstrates the growth of the Corporation by region since the end of the previous financial year ended September 30, 2019.

	Number of units as at Oct. 1, 2019	Acquisitions/ disposition 3 months ended Dec. 31, 2019	Number of units as at Dec. 31, 2019	% Growth
Surrey, British Columbia	1,775	–	**1,775**	–
Abbotsford, British Columbia (Note 3)	976	48	**1,024**	5%
Calgary, Alberta (Note 1)	2,753	8	2,761	1%
Edmonton, Alberta (Note 2)	4,285	23	**4,308**	1%
Saskatoon, Saskatchewan	2,246	55	**2,301**	2%
Regina, Saskatchewan	866	–	**866**	–
Investment properties	12,901	134	**13,035**	1%

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

Note (2) – includes the City of Fort Saskatchewan

Note (3) – Includes the City of Kamloops

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 Q1 2020, the Corporation spent $3.2 million (Q1 2019 – $4.9 million) on capital improvements, of which $2.7 million (Q1 2019 – $4.0 million) was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, windows, siding and insulation. These expenditures also covered mechanical and interior upgrades such as new boilers, flooring and paint to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio. Mainstreet plans to spend an estimated total of $20 million on renovations in the fiscal year 2020. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of the renovations of its existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

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

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

Three Months ended December 31,		2019		2018	% change 2018
Gross revenue	$	36,732	$	32,651	12%
Net profit and total comprehensive income		5,576		5,843	(5%)
Change in fair value		(8,308)		(1,308)	535%
Depreciation		63		57	11%
Deferred income tax expense		(2,652)		2,324	(214%)
Funds from operations – Non IFRS Measurement (Note 1)	$	11,295	$	9,532	18%
Interest income		(37)		(43)	(14%)
Other income		–		(210)	100%
Software development cost write off					–
General and administrative expenses		2,816		3,081	(9%)
Financing costs		9,122		8,377	9%
Depreciation (computer and vehicle)		92		56	64%
Net operating income	$	23,288	$	20,793	12%
Operating margin from operations		64%		64%	
Profit per share					
Basic	$	0.59	$	0.66	(11%)
Fully diluted	$	0.59	$	0.61	(3%)
Funds from operations per share					
Basic	$	1.20	$	1.08	11%
Fully diluted	$	1.20	$	1.00	20%
Weighted average number of shares					
Basic		9,381,730		8,832,305	
Fully diluted		–		9,552,715	
Total Assets	$	2,066,556	$	1,934,655	
Total Long term liabilities	$	1,071,202	$	1,042,475	

1. FFO is calculated as profit before change in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items which are not uniquely significant to the real estate industry (such as computers or vehicles). 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 Q1 2020, revenue primarily comprised of rental and ancillary revenue totalling $36.7 million (Q1 2019 – $32.6 million), interest income and other income. Overall, rental revenue increased 12% as compared to Q1 2019, which is discussed and analysed in the session entitled "Rental Operations" below.

NET PROFIT

For the quarter ended December 31, 2019, Mainstreet reported a net profit of $5.6 million ($0.59 per basic share) as compared to a net profit of $5.8 million ($0.66 per basic share) in Q1 2019.

Net profit is further analysed as follows:

(000s of dollars)

Three months ended December 31,		2019		2018	% change
Funds from operations					
– Non IFRS measurement (see note 1 previous table)	$	11,295	$	9,532	18%
Change in fair value		(8,308)		(1,308)	535%
Depreciation		(63)		(57)	11%
Deferred income tax expense		2,652		(2,324)	214%
Net profit and total comprehensive income – IFRS measurement	$	5,576	$	5,843	(5%)

The increase in funds from operations in Q1 2020 is further discussed and analysed below.

In Q1 2020, a fair value loss of $8.3 million was incurred as compared to a fair value loss of $1.3 million in Q1 2019. This was mainly due to changes as identified below:

(000s of dollars)

Change in Fair value

Three months ended December 31,		2019		2018
Surrey	$	8,130	$	2,060
Abbotsford		1,177		1,492
Calgary		(2,207)		(2,852)
Edmonton		(12,110)		2,491
Saskatoon		11		(357)
Regina		(137)		193
		(5,136)		3,027
Gain on disposal		–		575
Capital expenditure		(3,172)		(4,910)
Change in fair value	$	(8,308)	$	(1,308)

The fair value gain (loss) represented the change in the market value of the Corporation's investment properties over the three months ended December 31, 2019 and 2018. The amount of change was determined by the market value of the investment properties at the quarter-end dates December 31, 2019 and 2018, which was regarded as a non-operating expense.

FUNDS FROM OPERATIONS – NON IFRS MEASUREMENT

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

Mainstreet's FFO increased by 18% to $11.3 million in Q1 2020, compared with $9.5 million in Q1 2019. The increase in FFO in Q1 2020 was mainly attributable to the increased rental revenue which will be discussed and analysed in the following section entitled "Rental Operations".

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

GENERAL & ADMINISTRATIVE ("G&A") EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries. In Q1 2020, G&A expenses decreased by 9% to $2.8 million as compared to $3.1 million in Q1 2019, mainly resulting from decreased professional expenses.

FINANCING COSTS

(000s of dollars)

Three months ended December 31,	2019	2018	% change
Mortgage interest	$ 8,259	$ 7,634	8%
Amortization of deferred financing cost	863	743	16%
Financing costs	$ 9,122	$ 8,377	9%

Mortgage interest expenses increased by 8% to $8.3 million in Q1 2020 compared to $7.6 million in Q1 2019.

The rise was mainly attributable to an increase in mortgage loans from financing of clear title assets, as well as utilization of the corporation's credit facility to acquire new properties.

In Q1 2020, the Corporation financed 6 clear-title properties at an interest rate of 2.47% and raised approximately $26.4 million additional funds, which were used to support the Corporation's growth in its core markets.

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

RENTAL OPERATIONS

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
3 months ended December 31,	2019	2018	% change	2019	2018	% change	2019	2018	% change
Rental and ancillary revenue	$ 36,695	$ 32,608	13%	$ 33,660	$ 32,165	5%	$ 3,035	$ 443	585%
Operating expenses	13,407	11,815	13%	12,170	11,688	4%	1,237	127	874%
Net operating income	$ 23,288	$ 20,793	12%	$ 21,490	$ 20,477	5%	$ 1,798	$ 316	469%
Operating margin	63.5%	63.8%		63.8%	63.7%		59.2%	71.3%	
Average vacancy rate	5.9%	6.7%	(11%)	5.4%	6.6%	(18%)	11.7%	15.1%	(22%)
Weighted average number of units	12,948	11,990	8%	11,788	11,788	–	1,160	202	474%
Average rental rate per unit per month	$ 945	$ 907	4%	$ 952	$ 910	5%	$ 872	$ 731	19%
Average operating expense per unit per month	$ 345	$ 328	5%	$ 344	$ 331	4%	$ 355	$ 210	69%

The vacancy rate decreased to 5.9% in Q1 2020, down from 6.7% in Q1 2019. The average monthly rental rate increased to $945 per unit in Q1 2020, compared to $907 per unit in Q1 2019. Overall rental and ancillary revenue increased 13% to $36.7 million in Q1 2020 as compared to $32.6 million in Q1 2019. This was mainly due to improved vacancy rates, decreasing concession expense, and the continued growth of the Corporation's portfolio as the average number of units owned by the Corporation increased by 8% over the year.

For same asset properties, which refer to properties owned by the Corporation for the entire three month period ended December 31, 2019 and 2018, rental and ancillary revenue increased 5% to $33.7 million in Q1 2020 as compared to $32.2 million in Q1 2019. The average monthly rental rate increased 5% to $952 per unit in Q1 2020, up from $910 per unit in Q1 2019. The vacancy rate decreased to 5.4% in Q1 2020 from 6.6% in Q1 2019, mainly due to the modest recovery from a prolonged economic downturn, particularly in Alberta.

Mainstreet's overall operating expenses increased 13% to $13.4 million in Q1 2020 from $11.8 million in Q1 2019, due mainly to the increased number of newly acquired units since Q1 2019.

The overall and same asset operating expenses on a per unit basis increased by 5% and 4% respectively mainly due to increased property tax expenses and insurance costs.

As a result, overall net operating income increased 12% to $23.3 million in Q1 2020 from $20.8 million in Q1 2019, and the net operating margin decreased slightly to 63.5% in Q1 2020 from 63.8% a year earlier.

For same asset properties, net operating income increased 5% to $21.5 million in Q1 2020 from $20.5 million in Q1 2019. The net operating margin remained the same at 64% in both Q1 2020 and Q1 2019.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet achieved a 7% increase in rental revenue in its British Columbia portfolio in Q1 2020 due primarily to an increase in market rents in its British Columbia rental markets. The average vacancy rate increased slightly to 0.4% in Q1 2020 from 0.3% in Q1 2019. An above-average occupancy rate can be largely attributed to the overall economic performance of British Columbia, which is among the strongest in the country, according to information published by Statistics Canada. As a result, due to higher occupied rents and occupancy levels, rental revenue per unit increased by 7% to $1,068 per month in Q1 2020, up from $997 per month in Q1 2019.

Operating expenses per unit increased by 7% to $275 per month in Q1 2020 compared with $258 per month in Q1 2019, due mainly to increased property tax and insurance expenses. As a result, the net operating income increased 8%, and the net operating margin remained the same at 74% in both Q1 2020 and Q1 2019.

(000s of dollars except per unit data)

Three months ended December 31,		2019		2018	% change
Rental and ancillary revenue	$	8,835	$	8,231	7%
Operating expenses		2,272		2,132	7%
Net operating income	$	6,563	$	6,099	8%
Weighted average number of units		2,757		2,751	–
Average rent per unit per month	$	1,068	$	997	7%
Operating cost per unit per month	$	275	$	258	7%
Average vacancy rate		0.4%		0.3%	
Operating margin		74%		74%	

Alberta

Mainstreet achieved growth of 6% in its Alberta portfolio in Q1 2020; the weighted average number of rental units grew to 7,054 units, compared with 6,628 units in Q1 2019. The average vacancy rate decreased to 6.4% in Q1 2020 from 7.8% in Q1 2019. 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 4% to $956 per month in Q1 2020 from $916 per month in Q1 2019.

Operating expenses per unit increased by 2% to $368 per month in Q1 2020 compared to $362 per month in Q1 2019 due mainly to higher property tax, insurance expenses and advertising expenses. As a result, the net operating income increased 13%, and the net operating margin remained the same at 61% in both Q1 2020 and Q1 2019,

(000s of dollars except per unit data)

Three months ended December 31,		2019		2018	% change
Rental and ancillary revenue	$	20,241	$	18,216	11%
Operating expenses		7,794		7,193	8%
Net operating income	$	12,447	$	11,023	13%
Weighted average number of units		7,054		6,628	6%
Average rent per unit per month	$	956	$	916	4%
Operating cost per unit per month	$	368	$	362	2%
Average vacancy rate		6.4%		7.8%	
Operating margin		61%		61%	

Saskatchewan

Mainstreet achieved growth of 20% in its Saskatchewan portfolio in Q1 2020, due mainly to the Corporation's expansion in Regina and Saskatoon markets in 2019. The average number of rental units grew to 3,137 units in Q1 2020, compared with 2,611 units in Q1 2019. The average vacancy rate decreased to 9.7% in Q1 2020 from 10.6% in Q1 2019. Rental revenue per unit increased to $810 per month in Q1 2020 from $787 per month in Q1 2019, as a result of improved occupancy rate in the province.

Operating expenses per unit increased by 12% to $355 per month in Q1 2020, up from $318 per month in Q1 2019, due mainly to increased insurance, utility expenses, and repair and maintenance expenses during the period. As a result, the net operating income increased 17% and the net operating margin decreased to 56% in Q1 2020 as compared to 60% in Q1 2019.

(000s of dollars except per unit data)

Three months ended December 31,		2019		2018	% change
Rental and ancillary revenue	$	7,619	$	6,161	24%
Operating expenses		3,341		2,490	34%
Net operating income	$	4,278	$	3,671	17%
Weighted average number of units		3,137		2,611	20%
Average rent per unit per month	$	810	$	787	3%
Operating cost per unit per month	$	355	$	318	12%
Average vacancy rate		9.7%		10.6%	
Operating margin		56%		60%	

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Rental revenue								
British Columbia	**$ 8,693**	$ 8,521	$ 8,379	$ 8,218	$ 8,099	$ 7,882	$ 7,782	$ 7,631
Alberta	**19,998**	20,109	19,069	18,465	17,986	17,042	16,036	15,387
Saskatchewan	**7,519**	7,346	6,825	6,518	6,107	5,560	5,124	4,922
Total rental Revenue	**$ 36,210**	$ 35,976	$ 34,273	$ 33,201	$ 32,192	$ 30,484	$ 28,942	$ 27,940
Ancillary revenue	**485**	599	420	536	416	496	355	389
Interest income	**37**	40	53	43	43	112	179	134
Total revenue from operations	**$ 36,732**	$ 36,615	$ 34,746	$ 33,780	$ 32,651	$ 31,092	$ 29,476	$ 28,463
Change in fair value	**$ (8,308)**	$ 15,567	$ 5,344	$ 7,305	$ (1,308)	$ 30,544	$ 24,947	$ 7,100
Profit from operations	**$ 5,576**	**$ 29,197**	**$ 11,357**	**$ 12,288**	**$ 5,843**	**$ 33,455**	**$ 25,002**	**$ 10,827**
Net profit per share								
– Basic	**$ 0.59**	$ 3.11	$ 1.21	$ 1.36	$ 0.66	$ 3.79	$ 2.83	$ 1.23
– Diluted	**$ 0.59**	$ 3.11	$ 1.21	$ 1.29	$ 0.61	$ 3.50	$ 2.62	$ 1.13
Same assets rental and ancillary revenue								
British Columbia	**$ 8,812**	$ 8,696	$ 8,519	$ 8,386	$ 8,231	$ 8,042	$ 7,908	$ 7,785
Alberta	**18,598**	18,866	18,275	18,233	17,962	16,523	15,947	15,441
Saskatchewan	**6,250**	6,137	6,097	6,039	5,972	3,648	3,499	3,521
Total same assets rental and ancillary revenue	**$ 33,660**	$ 33,699	$ 32,891	$ 32,658	$ 32,165	$ 28,213	$ 27,354	$ 26,747
Same assets vacancy rate	**5.37%**	5.21%	5.81%	6.15%	6.56%	7.40%	9.60%	11.10%
Same assets net operating income								
British Columbia	**$ 6,540**	$ 6,621	$ 6,019	$ 5,768	$ 6,066	$ 6,824	$ 5,862	$ 5,272
Alberta	**11,391**	11,985	10,841	10,452	10,894	10,048	9,485	8,830
Saskatchewan	**3,559**	3,689	3,469	3,356	3,517	2,133	1,958	1,925
Total same assets net operating income	**$ 21,490**	$ 22,295	$ 20,329	$ 19,576	$ 20,477	$ 19,005	$ 17,305	$ 16,027
Net operating income	**$ 23,288**	$ 24,032	$ 21,327	$ 20,156	$ 20,793	$ 20,604	$ 18,274	$ 16,921
Funds from operations of stabilized properties – Non-IFRS measurement (Note 1)	**$ 10,394**	$ 9,577	$ 7,651	$ 7,007	$ 8,168	$ 8,048	$ 6,747	$ 6,050
"Funds from operations – Non-IFRS measurement"	**$ 11,295**	$ 12,134	$ 9,320	$ 8,272	$ 9,532	$ 9,633	$ 7,204	$ 6,484
Funds from operations of stabilized properties per share – Non-IFRS measurement								
– Basic	**$ 1.11**	$ 1.02	$ 0.82	$ 0.78	$ 0.92	$ 0.91	$ 0.76	$ 0.68
– Diluted	**$ 1.11**	$ 1.02	$ 0.82	$ 0.73	$ 0.86	$ 0.84	$ 0.71	$ 0.63
"Funds from operations per share – Non-IFRS measurement (Note 1)"								
– Basic	**$ 1.20**	$ 1.29	$ 0.99	$ 0.92	$ 1.08	$ 1.09	$ 0.82	$ 0.73
– Diluted	**$ 1.20**	$ 1.29	$ 0.99	$ 0.87	$ 1.00	$ 1.01	$ 0.75	$ 0.68
Average vacancy rate								
British Columbia	**0.4%**	0.3%	0.3%	0.5%	0.3%	0.5%	0.5%	0.4%
Alberta	**6.4%**	6.1%	7.2%	7.5%	7.8%	9.1%	11.8%	14.4%
Saskatchewan	**9.7%**	9.7%	10.3%	10.2%	10.6%	12.5%	16.1%	15.9%
Total average vacancy rate	**5.9%**	5.7%	6.4%	6.5%	6.7%	7.8%	10.0%	11.3%

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

Highlights of the Corporation's financial results for the first quarter ended December 31, 2019:

- Rental and ancillary revenue increased to $36.7 million, compared to $36.6 million in Q4 2019 and $32.6 million in Q1 2019.
- Average vacancy rate for the quarter was 5.9%, compared with 5.7% in Q4 2019 and 6.7% in Q1 2019.
- Change in fair value for the quarter was $8.3 million, compared with a gain of $15.6 million in Q4 2019 and a loss of $1.3 million in Q1 2019.
- Funds from operations for the quarter were $11.3 million, a 7% decrease from $12.1 million in Q4 2019 and a 18% increase from $9.5 million in Q1 2019. See "Non-IFRS Measures".
- Net operating income for the quarter was $23.3 million, a 3% decrease from $24 million in Q4 2019 and a 12% increase from $20.8 million in Q1 2019.
- In Q1 2020, overall economic performance in British Columbia remains among the strongest in the country. As a result, British Columbia continues to achieve below 1% vacancy result and constant revenue growth. Mainstreet's Alberta and Saskatchewan market also showed strong performance in the quarter with a stable same asset vacancy rate and revenue improvement.
- Mainstreet's same asset vacancy rate slightly increased to 5.4% in Q1 2020, from 5.2% in Q4 2019, and same asset revenues decreased 0.1% to $33.7 million, from $33.7 million in Q4 2019 and 5% increase from $32.2 million in Q1 2019.
- Same assets net operating income for the quarter was $21.5 million, a 4% decrease from $22.3 million in Q4 2019 and a 5% increase from $20.5 million in Q1 2019.
- Funds from operations related to stabilized properties were $10.4 million in Q1 2020, a 9% increase from $9.6 million in Q4 2019 and a 27% increase from $8.2 million in Q1 2019.

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 December 31, 2019, 247 properties (11,439 units) out of 340 properties (13,035 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2020.

	Oct. 1, 2019	%	Acquisition/ Creation	Number of units stabilized	Dec. 31, 2019	%
Stabilized Units	10,524	82%	–	915	**11,439**	88%
Unstabilized Units	2,377	18%	134	(915)	**1,596**	12%
Total Units	12,901	100%	134	–	**13,035**	100%

The following table summarizes the progress of the Corporation's stabilization progress since the beginning of fiscal year 2020.

	Oct. 1, 2019	No. of units stabilized during the period	No. of unstabilized units acquired/ created during the period	Dec. 31, 2019
Numbers of unstabilized units held for renovation	2,377	(915)	134	**1,596**
		Number of months		
Average time spent on stabilization	13	23	1	**11**
Estimated remaining time for stabilization	11	–	27	**13**

During the three months ended December 31, 2019, the Corporation acquired 8 unstabilized units in Calgary, Alberta; acquired 23 unstabilized units in Edmonton, Alberta; acquired 55 unstabilized units in Saskatoon, Saskatchewan; and acquired 48 unstabilized units in Kamloops, 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 915 units in Q1 2020, for which renovation work is substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For Q1 2020, FFO of Mainstreet's stabilized property portfolio amounted to $10.4 million ($1.11 per basic share and per fully diluted share). See "Non-IFRS Measures".

(000s of dollars except per share amounts)

Three months ended December 31, 2019	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary revenue	$ 32,673	$ 4,022	$ 36,695
Property operating expenses	11,767	1,640	13,407
Net operating income	**$ 20,906**	**$ 2,382**	**$ 23,288**
Operating margin	64%	59%	63%
Vacancy rate	5.3%	10.5%	5.9%
Interest income	$ (33)	$ (4)	$ (37)
General & administrative expenses	2,429	387	2,816
Financing cost	8,034	1,088	9,122
Depreciation (computer and vehicle)	82	10	92
Funds from operations – Non-IFRS measurement	$ 10,394	$ 901	$ 11,295
Depreciation			$ 63
Change in fair value			(8,308)
Deferred income tax expense			(2,652)
Net profit and total comprehensive income			**$ 5,576**
Funds from operations per share – Non-IFRS measurement			
– basic	$ 1.11	$ 0.09	$ 1.20
– diluted	$ 1.11	$ 0.09	$ 1.20
Weighted average number of shares			
– basic			9,381,730
– diluted			–

(000s of dollars except per share amounts)

Three months ended December 31, 2018		Stabilized properties		Non-stabilized properties		Total
Rental and ancillary revenue	$	27,952	$	4,656	$	32,608
Property operating expenses		9,993		1,822		11,815
Net operating income	$	17,959	$	2,834	$	20,793
Operating margin		64%		61%		64%
Vacancy rate		5.3%		13.6%		6.7%
Interest income	$	(36)	$	(7)	$	(43)
Other income		(210)		–		(210)
General & administrative expenses		2,502		579		3,081
Financing cost		7,487		890		8,377
Depreciation (computer and vehicle)		48		8		56
Funds from operations – Non-IFRS measurement	$	8,168	$	1,364	$	9,532
Depreciation					$	57
Change in fair value						(1,308)
Deferred income tax expense						2,324
Net profit and total comprehensive income					**$**	**5,843**
Funds from operations per share – Non-IFRS measurement						
– basic	$	0.92	$	0.16	$	1.08
– diluted	$	0.86	$	0.14	$	1.00
Weighted average number of shares						
– basic						8,832,305
– diluted						9,552,715

In Q1 2020, FFO of the stabilized property portfolio increased 27% to $10.4 million as compared to $8.2 million in Q1 2019, while the number of stabilized units increased 13% to 11,439 units as of December 31, 2019 compared to 10,126 units as of December 31, 2018. The increase in the FFO for stabilized properties was due to the increased number of stabilized units.

(000s of dollars)

Three months ended December 31,		2019		2018	% change
FFO of stabilized properties (note 2)	**$**	**10,394**	$	8,168	27%
Number of stabilized units		**11,439**		10,126	13%

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 Q1 2020, after payments of all required expenses, the Corporation generated funds from operations of $11.3 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 December 31, 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 Q1 2020, the Corporation spent approximately $15.0 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 Q1 2020, the Corporation financed 6 clear-title properties at an interest rate of 2.47% and raised approximately $26.4 million additional funds, which were used to support the Corporation's growth in its core markets.

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

As of December 31, 2019, the Corporation owned title to 47 clear title properties and four development lots having an aggregate fair value of approximately $252 million.

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

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

Banking Facility

Effective January 2014, the Corporation was granted a banking facility to a maximum of $85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 5, 2022. As at December 31, 2019, the Corporation has drawn $70.1 million (September 30, 2019 – $56.4 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of December 31, 2019, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.47, respectively.

CONTRACTUAL OBLIGATIONS

As of December 31, 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 December 31, 2019 are as follows:

(000s of dollars)

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

LONG-TERM DEBT

(000s of dollars)

	Amount	% of Debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	$ 966,339	94%	2.92%
– non-CMHC-insured	54,955	5%	3.58%
Floating rate debt			
– CMHC-insured	15,404	1%	4.90%
Total debt	1,036,698	100%	2.99%
Deferred financing costs	(21,463)		
	$ 1,015,235		

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 December 31, 2019, total mortgages payable were $1,015 million compared to $1,020 million on September 30, 2019 – a decrease of 0.5% mainly due to a repayment of a matured mortgage loan in Q1 2020.

As of December 31, 2019, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 50% of the fair value of investment properties. About 95% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with what management believes are interest rates lower than those available through conventional financing.

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

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2020	48,699	5%	4.34%
2021	81,239	8%	3.94%
2022	78,139	8%	3.05%
2023	98,786	9%	3.37%
2024	139,432	13%	3.36%
Subsequent	590,403	57%	2.58%
	$ 1,036,698	100%	2.99%

The average maturing term of mortgage loans is 5.96 years as of December 31, 2019, compared to 5.42 years as of September 30, 2019.

INTERNAL CONTROLS

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

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

As at December 31, 2019, Mainstreet determined that there were no material weaknesses in the design of its ICFR or DC&P.

Mainstreet's Management evaluated, or caused to be evaluated under its supervision, the effectiveness of its ICFR and DC&P as at December 31, 2019. Based on this evaluation, Management has concluded that the Corporation's ICFR and DC&P were effective as at December 31, 2019.

As at December 31, 2019, Mainstreet has confirmed that it has designed DC&P to provide reasonable assurance that: (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the issuer 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. No changes were made to the Corporation's DC&P during the quarter ended December 31, 2019.

As at December 31, 2019, Mainstreet confirmed the design of ICFR to provide reasonable assurances regarding the reliability of the financial reporting and the preparation of financial statements and information for external purposes in accordance with IFRS and that the ICFR operated effectively throughout the reported period. The Corporation may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that these systems evolve with the Corporation's business. There were no changes in the Corporation's ICFR during the quarter ended December 31, 2019, which have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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)

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

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

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

Risk Associated with Financial Assets & Liabilities

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

SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

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

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

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

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

STOCK OPTIONS

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

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

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

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

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

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

Shareholder Rights Plan

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

ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities. Please refer to Note 13 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

Certain new IFRSs which are related to accounting periods beginning on or after January 1, 2019 are not expected to have a significant effect on Mainstreet's financial statements.

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

The new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17. From a lessor perspective, the accounting remains similar to current practice of classifying leases as finance and operating leases. The Corporation believes the adoption of IFRS 16 will not have material impact on its consolidated financial statements.

Transactions with Related Parties

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

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

Off Balance Sheet Arrangements

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

Subsequent Events

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

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

Risk Assessment and Management

Management defines risk as the evaluation of the probability that an event that could negatively affect the financial condition or results of the Corporation may happen in the future. The following section describes specific and general risks that could affect the Corporation. As it is difficult to predict whether any risk will occur or what its related consequences might be, the actual effect of any risk on the business of the Corporation could be materially different than anticipated. The following discussion of risk does not include all possible risks as there may be other risks of which the Corporation is currently unaware.

Vacancy Risk

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

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

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

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

Economic Uncertainty

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

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

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totalling $48.7 million are subject to renewal before the financial year ending September 30, 2020. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages and fixed-rate mortgage financings are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of $214,000 in interest expense of the floating rate debt for the quarter ended December 31, 2019.

Utilities and Tax Risk

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

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

- where possible, electrical sub-metering devices have been installed, passing on the responsibility for electrical charges to the end tenant / customer;
- where possible, direct metering conversion programs have been implemented which effectively introduced a volume-based consumption system rather than a flat rate, in turn lowering operating costs for the Corporation.

- in other cases, rents have been, or will be adjusted upward to cover increased costs; and
- where possible, the Corporation enters into long term supply contracts at a fixed price.

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

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

Risks of Real Estate Property Ownership

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

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

Each segment in the real estate industry is capital intensive and is typically sensitive to interest rates. Any proceeds generated by the sale of real estate assets depend upon general economic conditions and, accordingly, the ability to repay its financing may be affected by changes in those conditions. The Corporation will be required to make certain significant expenditures in respect of its business including, but not limited to, the payment of property taxes, mortgage payments, property management costs, insurance costs and related charges which must be made regardless of whether real estate assets are producing sufficient income to service such expenses. If the Corporation is unable or unwilling to meet the payment obligations on such loans, losses could be sustained as a result of the exercise by the lenders of their rights of foreclosure or sale. As a result, the Corporation's ability to make interest payments or distributions of cash could be adversely affected.

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

Renovation Risks

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

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of December 31, 2019, rents due from current tenants amounted to $651,000 (September 30, 2019 – $501,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.7 million (September 30, 2019 – $4.8 million) and provisions for bad debts of $145,000 (September 30, 2019 – $145,000).

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

(000s of dollars)

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

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

Liquidity Risk

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

Financing Risk

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

Disclosure Controls & Procedures on Internal Control over Financial Reporting Risk

Mainstreet's business could be adversely impacted if it has deficiencies in its disclosure controls and procedures or internal control over financial reporting. The design and effectiveness of Mainstreet's disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While Management continues to review the design and effectiveness of Mainstreet's disclosure controls and procedures and internal control over financial reporting, Mainstreet provides no assurance that its disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time.

Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of Mainstreet's results of operations, restatements of its financial statements, a decline in the share price, or otherwise materially adversely affect Mainstreet's business, reputation, results of operation, financial condition or liquidity.

Reliance on Key Employees

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

Income Tax Risk

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

Market Risks

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

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

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

Acquisitions Risks

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

Appraisals of Properties

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

Environmental, Health and Safety Risks

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

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

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

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

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

Cyber Security Risk

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

Climate Change Risk

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

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

No History of Dividends

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

Workforce Availability

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

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

Uninsured Losses

The Corporation carries comprehensive general liability, fire, flood, earthquake, tornado, natural disaster, extended coverage, rental loss and vacancy insurance with policy specifications, limits and deductibles customarily carried for similar properties. However, there are certain types of risks, generally of a catastrophic nature, such as wars, terrorist attacks or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, the Corporation could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

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

Substitutions for Residential Rental Units

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

Litigation Risks and Adverse Changes in Law

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

Regulatory Risks

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

Rent Control

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

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

Under British Columbia's rent control legislation, a landlord is entitled to increase the rent for existing tenants once every twelve months by no more than the "guideline amount" established by regulations. The current guideline amount is 2.5% and effective January 2020 will be 2.6%. When a unit is vacant, however, the landlord is entitled to lease the unit to a new tenant at any rental amount, after which annual increases are limited to the applicable guideline amount. The landlord may also be entitled to a greater increase in rent for a unit under certain circumstances, including, for example, where extra expenses have been incurred as a result of a renovation of that unit.

To manage this risk, prior to entering a market where rent controls are in place, extensive time is spent researching existing rules, and, where possible, the Corporation will ensure it utilizes employees who are experienced in working in these controlled environments. In addition, the Corporation adjusts forecast assumptions on new acquisitions to ensure they are reasonable given the rent control environment.

Operational Risks

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

Public Market Risk

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

Potential Conflicts of Interest

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

CHALLENGES

Despite Mainstreet's achievements, the Corporation faces challenges on several fronts. Higher municipal property taxes and other policies have continued to raise operating costs. The federal carbon tax, which targets property owners through higher heating costs, came into force in Alberta in 2020. New federal regulations under the 'Clean Fuel Standard' are anticipated to come into force around 2023, layering new costs onto natural gas consumption. Mainstreet's efforts to reduce stabilization cycle times have also increased expenses for human resources, materials and other operational necessities.

Market volatility also remains a challenge. Prices for West Texas Intermediate, an American crude oil benchmark, hovered around US$55 per barrel in 2019, well below prices five years ago. Industry investment has likewise fallen as producers delay major decisions, denting the economic output of oil-dependent provinces like Alberta and Saskatchewan.

Low oil prices have underscored deeper shortfalls in Canada's regulatory and legal regime, which have caused delays in major projects. Two multi-billion dollar developments in B.C., the Trans Mountain pipeline and LNG Canada natural gas facility, have now entered the early construction phase, which Mainstreet views as positive. However, Mainstreet believes that the broader uncertainty around project approvals in Canada could yet cause a further cooling in investor appetites, as major investment funds look to other markets, particularly the U.S. The federal government's pending approval of the Frontier oilsands mine in northern Alberta, expected by the end of February, will likely feed into investor sentiments.

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

The Corporation also sees risks in the recent outbreak of the coronavirus, causing global travel restrictions, border closures, factories and businesses closures in China, which could ripple out into the Canadian economy in 2020.

OUTLOOK

Even in the face of some challenges, Mainstreet has benefited over the last four years from a vast improvement in almost every possible macroeconomic measure. The Corporation believes that employment levels, population growth, and GDP across Canada appear to be on the upswing. This trend supports Mainstreet's plan to accelerate its acquisition strategy in 2020, funded by low interest, long-term, CMHC-insured financing. Mainstreet will also continue efforts over the past two years to re-stabilize units at a record pace, boosting NOI and cash flows.

Mainstreet believes that it appears that positive macroeconomic trends appear poised to continue. According to Statistics Canada, Canada's population could reach 48 million by 2050 under a medium growth scenario. Under a high growth scenario, that could reach as high as 56 million. The province of Alberta, which makes up 54% of Mainstreet's portfolio, could reach 6.6 million by 2046, or an increase of 2.3 million, according to estimates by the provincial government.

The Corporation believes that positive international and inter-provincial migration numbers, coupled with a steady rise in foreign student enrolments, could continue to bolster this trend. More than 720,000 foreign students enrolled in Canadian institutions in 2018 (Immegration,Refugees and Citizenship Canada 2019), higher than many developed nations. International in-migration into Canada reached 437,000 (Statistic Canada)in 2019, nearly on par with the 595,000 people (Census Bureau) who entered the U.S.

Management expects that improved population and in-migration levels could translate into economic growth over the long term. At a projected growth rate of 1.6% in 2020, Canada's economy is comparable to that of the U.S. (1.9%), but still below the Bank of Canada's target inflation rate of 2%. Job growth remains robust. Unemployment levels across Canada were 5.6% in December 2019, among the lowest in years. In Alberta, unemployment in December was 7.0%, roughly in line with its five-year average. British Columbia, which makes up 21% of Mainstreet's portfolio, has continued to outperform the national average, with an unemployment rate of 4.8% in December 2019 (Statistics Canada and Bank of Canada).

Mainstreet believes these positive indicators will continue to return the rental market to balance. Rental markets have been oversupplied following a rapid build out of condominiums during years of high economic growth, which then spilled over into the broader rental space. But the Corporation believes that recent data suggests absorption of that oversupply is already underway. Vacancy rates for purpose-built rental units in metropolitan Edmonton fell to 4.9% in 2019, down from 5.3% a year earlier, according to CMHC data. Vacancies in Calgary have fallen as low as 3.9%, directly in line with a year earlier. Vancouver remained among the lowest vacancy rates in Canada (1.1%), while vacancies fell sharply in Saskatoon (down to 5.7% from 8.3%) and remained unchanged in Regina (7.7%).

Mainstreet also believes that expected increases in housing prices will continue to push more young people into the rental market. In the Corporation's opinion, Mainstreet's mid-market rental rate, with a price-point average between $900 and $1,000, are perfectly positioned to attract would-be renters in today's market. Mainstreet believes that renters, which often include millennials, foreign students and new migrants, tend to favour mid-market prices as they defer major investments like new homes. Management believes the Corporation is uniquely positioned to capture renters who fall within this bracket.

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

RUNWAY ON EXISTING PORTFOLIO

1) **Pursuing 100% organic, non-dilutive growth model:** Using Mainstreet's strong potential liquidity position of approximately $147 million, the Corporation believes there is significant opportunity to continue acquiring new assets at low cost.
2) **Closing the NOI gap:** In Q1 2020, 12% of the Mainstreet portfolio was going through the stabilization process. Once stabilized, Mainstreet believes same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved.
3) **Leveraging loss-to-lease:** Mainstreet believes its Vancouver/Lower Mainland market, which makes up 21% of the Corporation's portfolio (2,799 units), offers a significant opportunity for future same-store NOI growth. This is partly due to a continued increase in market rates, combined with rules under the provincial Tenancy Act that has kept some annual rent rate increases substantially below the rest of the market, resulting in loss-to-lease of approximately $258 per unit per month. Currently, over 91% of Mainstreet's tenants in the region are below the market average. With an average annual turnover rate of about 25%, management expects NOI will continue to improve while Mainstreet reduces its loss-to-lease over time.
4) **Lowering interest costs:** Approximately $130 million of Mainstreet mortgage loans with an average interest rate of 4.1% are maturing in 2020 and 2021. The current 10-year, CMHC-insured mortgage rate is about 2.5%. The Corporation expects interest rates to remain low, and Mainstreet's refinancing of these maturing debts will result in a substantial reduction in future mortgages expenses.
5) **Buying back shares at a discount:** The Corporation believes MEQ shares continue to trade below the true NAV. Mainstreet 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, including its AIF, is available on the Corporation's website at www.mainst.biz

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

($000s of Canadian dollars)

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

See accompanying notes to these interim condensed consolidated financial statements.

(Signed)
"Bob Dhillon"
Director

(Signed)
"Joe Amantea"
Director

February 5, 2020

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

Unaudited

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

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

See accompanying notes to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

($000s of Canadian dollars)

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

See accompanying notes to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited
($000s of Canadian dollars)

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

See accompanying notes to these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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

For the three months ended December 31, 2019 and 2018

1. GENERAL

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

b) Basis of presentation

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

c) Basis of consolidation

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

d) Key accounting estimates and assumptions

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

i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate, net operating income and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 4 for sensitivity analysis;

ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities are outlined in Note 13;

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

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

v) The amount of temporary differences between the carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

Certain new IFRSs which are related to accounting periods beginning on or after January 1, 2019 are not expected to have a significant effect on the Mainstreet's financial statements.

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

The new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17. From a lessor perspective, the accounting remains similar to current practice of classifying leases as finance and operating leases. The Corporation believes the adoption of IFRS 16 will not have material impact on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(000s of dollars)

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

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

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

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

The direct capitalization method requires that an estimated forecasted net operating income ("NOI") be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such, changes in both NOI and Cap Rate would significantly alter the fair value of investment properties. The tables below set out the impact of changes in both NOI and Cap Rate on the Corporation's fair values.

As at December 31, 2019

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

As at September 30, 2019

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

5. MORTGAGES PAYABLE

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

(000s of dollars)

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

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

(000s of dollars)

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

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

(000s of dollars)

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

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a banking facility to a maximum of $85 million with a syndicate of chartered financial institutions. Security for the facility includes a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 5, 2022. As at December 31, 2019, the Corporation has drawn $70.1 million (September 30, 2019 – $56.4 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of December 31, 2019, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.47, respectively.

7. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

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

All common shares have an equal right to dividends.

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

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

8. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

(000s of dollars)

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

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

9. EXPENSES BY NATURE

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

(000s of dollars)

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

10. FINANCING COSTS

The components of financing costs are as follows:

(000s of dollars)

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

11. PROFIT PER SHARE

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

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

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

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

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

12. STOCK OPTION PLAN

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

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

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

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

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

13. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, mortgages payable, trade and other payables, and refundable security deposits. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows.

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

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

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

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

(000s of dollars)

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

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

(000s of dollars)

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

14. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

Market risk

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

Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totaling $48.7 million are subject to renewal before the financial year ending September 30, 2020. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages and fixed-rate mortgage financings are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of $214,000 in interest expense of the floating rate debt for the quarter ended December 31, 2019.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of December 31, 2019, rents due from current tenants amounted to $651,000 (September 30, 2019 – $501,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.7 million (September 30, 2019 – $4.8 million) and provisions for bad debts of $145,000 (September 30, 2019 – $145,000).

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

(000s of dollars)

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

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

Liquidity Risk

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

The timing of cash outflows relating to financial liabilities as at December 31, 2019 are outlined in the table below:

(000s of dollars)

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

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

(000s of dollars)

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

15. GUARANTEES, CONTINGENCIES, COMMITMENTS

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

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

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

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

16. RELATED PARTY TRANSACTIONS

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

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

17. SEGMENTED INFORMATION

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

RENTAL OPERATIONS

(000s of dollars)

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

* Unallocated revenue represents interest income and other income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

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

IDENTIFIABLE ACQUISITION AND CAPITAL EXPENDITURES

(000s of dollars)

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

18. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and, on occasion, bank loans or lines of credit when drawn on. The Corporation's total capital resources as at December 31, 2019 amounted to $1,891 million (September 30, 2019 – $1,850 million).

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

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

The total managed capital for the Corporation is summarized below:

(000s of dollars)

	Dec. 31, 2019	Sep. 30, 2019
Mortgages payable	$ 1,015,235	$ 1,019,723
Bank indebtedness	70,106	56,442
Total equity	805,881	773,708
Total capital	$ 1,891,222	$ 1,849,873

The Corporation's policy for capital risk management is to maintain a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at December 31, 2019 is approximately 53% (September 30, 2019 – 53%) which leaves a sufficient additional capacity for the Corporation to raise additional funds from refinancing before it reaches its internal target ratio of 70%.

The debt to fair value ratios were as follows:

(000s of dollars)

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

In managing the capital requirements of the Corporation, management makes assessments of the capital and liquid resources required to ensure the going concern status of the Corporation. Management believes that the existing liquid resources, funds to be generated from operations, and funds to be raised through the financing and refinancing of debt will be sufficient to support the Corporation's operations on a going concern basis.

19. SUBSEQUENT EVENTS

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

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

20. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

OFFICERS

President & CEO
Bob Dhillon
Calgary, AB

Chief Financial Officer
Trina Cui
Calgary, AB

Chief Operating Officer
Johnny Lam
Calgary, AB

Secretary
Joe Amantea
Calgary, AB

BOARD OF DIRECTORS

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair
John Irwin
London, ON

Rich Grimaldi
Westport, CT

Ron B. Anderson
Vancouver, BC

Executive Compensation Committee

Chair
Ron B. Anderson
Vancouver, BC

Joe Amantea
Calgary, AB

REGISTRAR & TRANSFER AGENT

REGISTRAR & TRANSFER AGENT

Computershare o/a
Montreal Trust Company
of Canada
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AUDITORS

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

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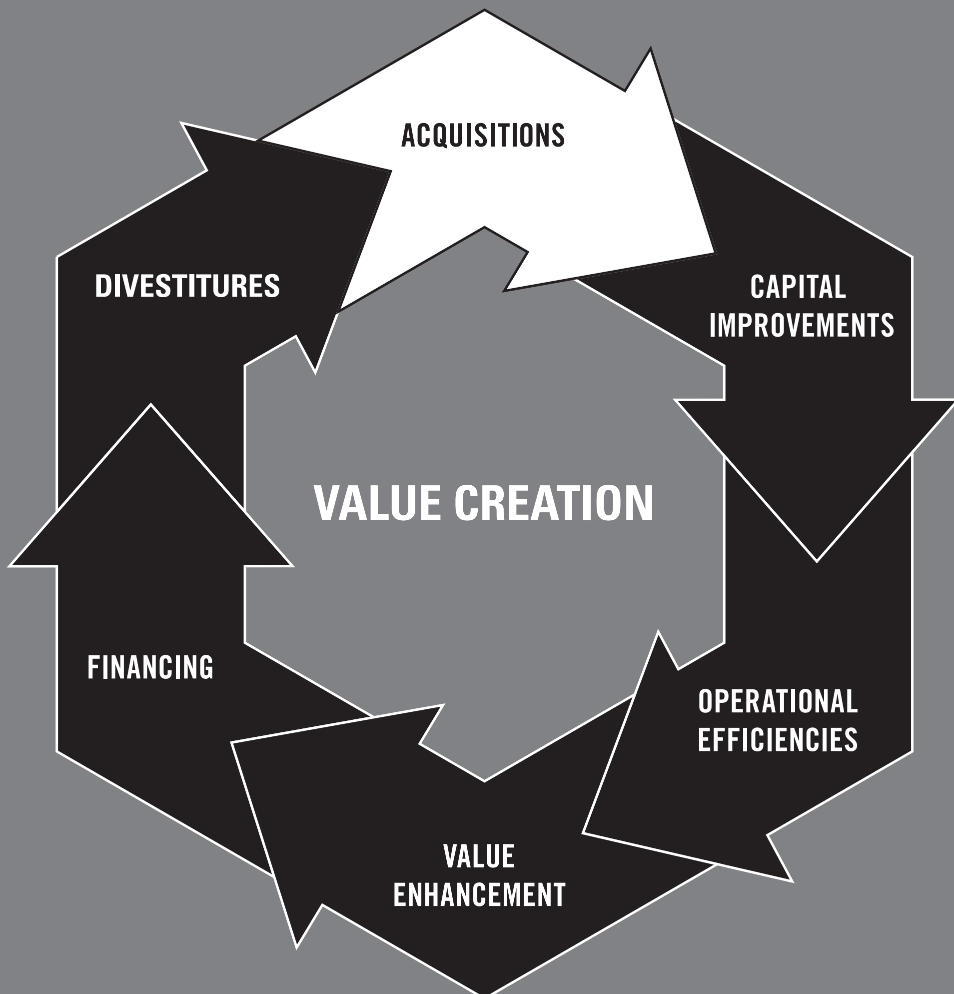
STOCK EXCHANGE

Toronto Stock Exchange
Trading symbol: MEQ

MAINSTREET VALUE CHAIN



How do we create value? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the "Mainstreet Value Chain". It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. **Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of $17 million to 13,271 units (YTD) with appraised values of approximately $2.1 billion with minimal equity dilution.**