MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") as at and for three months ended December 31, 2018 and 2017. 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 ended December 31, 2018 and 2017, and the MD&A and audited consolidated financial statements and accompanying notes for the years ended September 30, 2018 and 2017. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been reviewed and approved by the Audit Committee and Board of Directors of the Corporation and is effective as of February 11, 2019. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicated otherwise, reference herein to 2018 and 2017 refers to the three months ended December 31, 2018 and 2017, respectively.

NON-IFRS MEASURES

Mainstreet Equity Corp. prepares and releases unaudited interim condensed consolidated financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS"). In this MD&A and in earnings releases, as a complement to results provided in accordance with IFRS, Mainstreet Equity Corp. also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS. These include net operating income ("NOI") and funds from operations ("FFO"). NOI and FFO are widely accepted supplemental measures of the performance of Canadian real estate entities, and management believes these Non-IFRS measures are relevant measures of the ability of Mainstreet in raising additional capital and improving the condition of its investment properties in the future. NOI is defined as rental revenue minus property operating expenses. FFO is defined as profit before fair value gain, depreciation of property and equipment and deferred income taxes.

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 both FFO and NOI 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 Lethbridge and the Town of Cochrane), Edmonton (including the City of Fort Saskatchewan), Saskatoon and Regina.

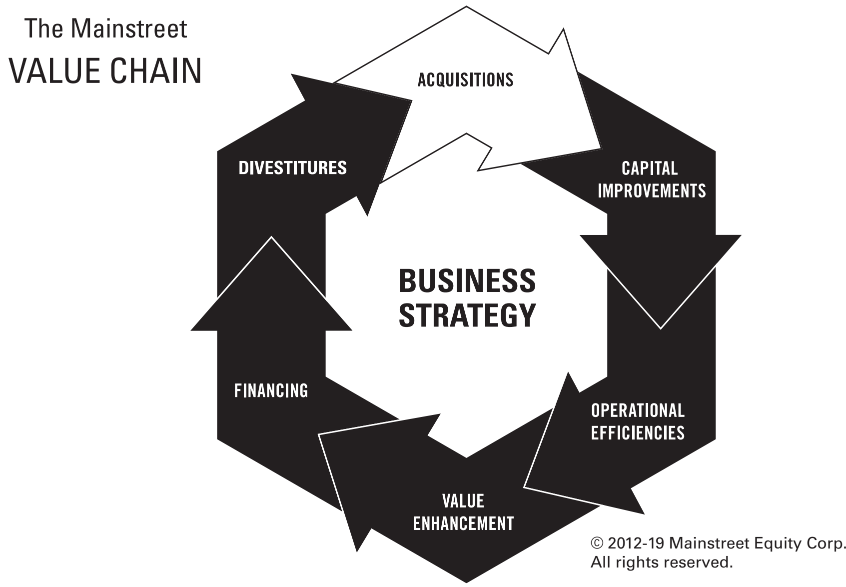
Mainstreet is listed on the Toronto Stock Exchange ("TSX") and its common shares are traded under the symbol "MEQ".

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.



INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements of the Corporation prepared in conjunction with this MD&A have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standard Board ("IASB").

Investment properties

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

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

Method used in determining the Fair Value of investment properties

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

For the Corporation's annual and interim financial reporting, external valuations were obtained from independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in 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 as of September 30, 2018. The percentage changes in values of those samples selected were applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of December 31, 2018. Properties selected as samples are rotated annually and 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 $1,919 million as of December 31, 2018 ($1,866 million as of September 30, 2018). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at December 31, 2018 and September 30, 2018, respectively.

As of December 31, 2018	Number of properties	Number of units	Market value ($ million)	Average value per unit ($000)	Average capitalization rate as at Dec. 31, 2018
Surrey, British Columbia	10	1,775	$ 369	$ 208	4.00%
Abbotsford, British Columbia	15	976	160	164	4.58%
Calgary, Alberta (Note 1)	57	2,418	485	201	4.86%
Edmonton, Alberta (Note 2)	129	4,285	582	136	5.77%
Saskatoon, Saskatchewan	52	1,883	221	117	6.64%
Regina, Saskatchewan	59	866	102	118	5.82%
Total investment properties	322	12,203	$ 1,919	$ 157	5.20%

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

Note (2) – includes the City of Fort Saskatchewan

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

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

Note (2) – includes the City of Fort Saskatchewan

Acquisitions & Growth

(000s of dollars)

Three months ended December 31,	2018	2017
	Calgary, Edmonton, Saskatoon and Regina	Edmonton, Saskatoon and Regina
Number of rental units (Note 1)	**421**	733
Total costs	**$ 49,800**	$ 80,372
Average price per apartment unit (Note 1)	**$ 118**	$ 110

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 Western Canada that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In Q1 2019, Mainstreet acquired 421 units in the Provinces of Alberta and Saskatchewan for a total consideration of $49.8 million. Additionally in Q1 2019, Mainstreet created 6 additional units in the Provinces of Alberta, Saskatchewan and British Colombia. Since Mainstreet's previous financial year-end (September 30, 2018), the Corporation has grown its portfolio of properties by 4%.

As of December 31, 2018, Mainstreet's portfolio included 12,201 residential units and 2 freestanding commercial houses, including townhouses, garden-style apartments, concrete mid-rise and high-rise apartments. A total of 93% of these residential units were rented, while 5% were being renovated and the remaining 2% left vacant primarily in the Provinces of Alberta and Saskatchewan.

Since 1997, the Corporation's portfolio has increased from 10 to 322 buildings, while the fair value of the investment properties within this portfolio has grown from approximately $17 million to $1,919 million as of December 31, 2018.

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

	Number of units as at Oct. 1, 2018	Acquisitions/ disposition 3 months ended Dec. 31, 2018	Additional units created 3 months ended Dec. 31, 2018	Number of units as at Dec. 31, 2018	% Growth
Surrey, British Columbia	1,775	–	–	1,775	–
Abbotsford, British Columbia	975	–	1	976	–
Calgary, Alberta (Note 1)	2,261	155	2	2,418	7%
Edmonton, Alberta (Note 2)	4,260	24	1	4,285	1%
Saskatoon, Saskatchewan	1,818	65	–	1,883	4%
Regina, Saskatchewan	687	177	2	866	26%
Investment properties	11,776	421	6	12,203	4%

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

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

CAPITAL IMPROVEMENTS

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

In Q1 2019, the Corporation spent $4.9 million (Q1 2018 – $5.8 million) on capital improvements, of which $4.0 million (2018 – $4.4 million) was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, windows, siding and insulation. These expenditures also covered mechanical interior upgrades such as new boilers, flooring and paint, to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio. Mainstreet plans to spend an estimated $20 million on renovations in the fiscal year 2019. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of the renovations of its existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

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

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

Three Months ended December 31,		2018		2017	% change 2018
Gross revenue	$	32,651	$	27,198	20%
Net profit and total comprehensive income – IFRS measurement		5,843		3,439	70%
Fair value loss		(1,308)		(1,174)	(11%)
Depreciation		113		101	12%
Deferred income tax expense		2,324		1,635	42%
Funds from operations – Non IFRS Measurement (Note 1)	$	9,588	$	6,349	51%
Interest income		(43)		(139)	(69%)
Other income		(210)		–	100%
General and administrative expenses		3,081		2,771	11%
Financing costs		8,377		7,441	13%
Net operating income – Non IFRS Measurement (Note 2)	$	20,793	$	16,422	27%
Operating margin from operations		64%		61%	
Profit per share					
Basic	$	0.66	$	0.39	69%
Fully diluted	$	0.61	$	0.36	69%
Funds from operations per share					
Basic	$	1.09	$	0.72	51%
Fully diluted	$	1.00	$	0.67	49%
Weighted average number of shares					
Basic		8,832,305		8,832,966	
Fully diluted		9,552,715		9,542,401	

		Dec. 31, 2018
Total Assets	$	1,934,655
Total Long term liabilities	$	1,042,475

1. FFO is calculated as profit before fair value gain, depreciation of property and equipment and deferred income taxes. 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 cashflow generated from operations before repayment of mortgage principal and capital expenditures. This information is critical for assessment of the Corporation's ability in raising additional capital and improving the condition of its investment properties in the future.
2. NOI is rental revenue minus property operating expenses. While Mainstreet uses NOI to measure its operational performance, it is not a recognized measure under IFRS. The IFRS measure most directly comparable to NOI is profit. NOI should not be construed as an alternative to profit determined in accordance with IFRS. Readers are cautioned that NOI may differ from similar calculations used by other comparable entities. A reconciliation of profit to net operating income from continuing operations for the period is provided above. In the Canadian real estate industry, NOI is widely used by appraisers as one of the key factors in determining the fair market value of investment properties. This information is therefore critical for readers to estimate the fair market value of the Corporation's investment properties which is one of the most important investment criteria in for investment decisions in the real estate industry.

REVENUE

In Q1 2019, revenue primarily comprised of rental and ancillary rental income totalling $32.6 million (Q1 2018 – $27.1 million), and interest income. Overall, the rental revenue increased 21% as compared to Q1 2018, which is discussed and analysed in the session entitled "Rental Operations" below.

PROFIT

For the three months ended December 31, 2018, Mainstreet reported a net profit of $5.8 million ($0.66 per basic share), as compared to a net profit of $3.4 million ($0.39 per basic share) in Q1 2018.

Net profit is further analysed as follows:

(000s of dollars)

Three months ended December 31,		2018		2017	%Change
Funds from operations					
– Non IFRS measurement	$	9,588	$	6,349	51%
Fair value loss		(1,308)		(1,174)	(11%)
Depreciation		(113)		(101)	12%
Profit before income tax		8,167		5,074	61%
Deferred income tax expenses		2,324		1,635	42%
Net profit – IFRS measurement	$	5,843	$	3,439	70%

The increase in funds from continuing operations in Q1 2019 is further discussed and analysed below.

In Q1 2019, a fair value loss of $1.3 million was incurred as compared to a fair value loss of $1.2 million in Q1 2018. The fair value loss in Q1 2019 included a gain on disposal of $575,000, which resulted when the Corporation disposed of two small pieces of land (6,000 sq.ft.) forming part of its Surrey properties to the City of Surrey for a total consideration of $0.9 million.

Fair value loss is further analysed as follows:

(000s of dollars)

Fair value loss

Three months ended December 31,		2018		2017
Surrey	$	2,060	$	970
Abbotsford		1,492		–
Calgary		(2,852)		910
Edmonton		2,491		1,110
Saskatoon		(357)		1,670
Regina		193		–
		3,027		4,660
Gain on disposal		575		–
Capital expenditure		(4,910)		(5,834)
Fair value loss	$	(1,308)	$	(1,174)

The fair value loss represented the change in the market value of the Corporation's investment properties over the three months ended December 31, 2018 and 2017. The amount of change was determined by the market value of the investment properties at the quarter-end date December 31, 2018 and 2017, which was regarded as a non-operating expense.

FUNDS FROM OPERATIONS (FFO) – NON IFRS MEASUREMENT

Management believes that FFO is also a meaningful performance measurement for a real estate company's operating performance. FFO excludes non-operating income and expenses namely fair value gain, depreciation and deferred income taxes. Mainstreet generates FFO from three sources: rental revenue and ancillary rental income from investment properties, sale of properties acquired for resale purposes, and the periodic sale of investment properties. Mainstreet generally reinvests the proceeds from the latter into investment properties with greater potential for long-term returns. See "Non-IFRS Measures" for additional information regarding FFO.

Mainstreet's FFO increased by 51% to $9.6 million in Q1 2019, compared with $6.3 million in Q1 2018. Excluding one-time items below, FFO before one-time items increased by 46% to $9.3 million in Q1 2019 as compared to $6.3 million in Q1 2018. The increase in FFO in Q1 2019 was mainly attributable to the increased rental revenue which will be discussed and analysed in the following section entitled "Rental Operations".

(000s of dollars)

Three months ended December 31,	2018	2017	% change
Funds from operations	$ 9,588	$ 6,349	51%
Other Income (Note 1)	(210)	$ –	100%
Refund from water meter program	(82)	–	100%
Funds from operations before one-time items	$ 9,296	$ 6,349	46%

Note (1) – Other income represented a compensation for defective roof work from vendor.

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries. In Q1 2019, G&A expenses increased by 11% to $3.1 million as compared to $2.8 million in Q1 2018, mainly resulting from increased salary expenses as the Corporation continues to build up its management team in anticipation of continued growth.

FINANCING COSTS

(000s of dollars)

Three month ended December 31,	2018	2017	% Change
Mortgage interest	$ 7,634	$ 6,812	12%
Amortization of deferred financing cost	743	629	18%
Financing costs	$ 8,377	$ 7,441	13%

Mortgage interest expenses increased by 12% to $7.6 million in Q1 2019 compared to $6.8 million in Q1 2018.

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

In anticipation of Bank of Canada rate hikes in 2019, the Corporation has continued to take advantage of low interest rates by financing mortgages where possible. In Q1 2019, the Corporation financed 5 clear title assets with 10-year, long-term CMHC-insured mortgage loans for $20.5 million at an average rate of interest of 3.26%.

Subsequent to the quarter ended December 31, 2018, the Corporation also financed 1 clear-title property for $25 million at an interest rate of 3.02%. The additional funds raised will be used to support the Corporation's growth in its core markets.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
3 months ended December 31,	2018	2017	% change	2018	2017	% change	2018	2017	% change
Rental revenue and ancillary rental income	$ 32,608	$ 27,059	21%	$ 28,978	$ 26,732	8%	$ 3,630	$ 327	1,010%
Operating expenses	11,815	10,637	11%	10,360	10,565	(2%)	1,455	72	1,921%
Net operating income	$ 20,793	$ 16,422	27%	$ 18,618	$ 16,167	15%	$ 2,175	$ 255	753%
Operating margin	64%	61%		64%	60%		60%	78%	
Average vacancy rate	6.7%	11.1%	(40%)	6.0%	11.3%	(47%)	11.3%	6.8%	68%
Weighted average number of units	11,990	10,645	13%	10,493	10,493	–	1,497	152	885%
Average rental rate per unit per month	$ 907	$ 847	7%	$ 921	$ 849	8%	$ 808	$ 717	13%
Average operating expense per unit per month	$ 328	$ 333	(2%)	$ 329	$ 336	(2%)	$ 324	$ 158	105%

The vacancy rate decreased substantially to 6.7% in Q1 2019, down from 11.1% in Q1 2018. The average monthly rental rate increased to $907 per unit in Q1 2019, compared to $847 per unit in Q1 2018. Overall rental revenue and ancillary rental income increased 21% to $32.6 million in Q1 2019 as compared to $27.1 million in Q1 2018. This was due to the improved vacancy results and the continued growth of the Corporation's portfolio as the average number of units owned by the corporation increased by 13% over the year.

For same asset properties, which refer to properties owned by the Corporation for the entire three month period ended December 31, 2018 and 2017, rental revenue increased 8% to $29.0 million in Q1 2019 as compared to $26.7 million in Q1 2018. The average monthly rental rate increased 9% to $921 per unit in Q1 2019, up from $849 per unit in Q1 2018. The vacancy rate decreased to 6.0% in Q1 2019 from 11.3% in Q1 2018, mainly due to recovery from the prolonged downturn, particularly in Alberta.

Mainstreet's overall operating expenses have increased by 11% to $11.8 million in Q1 2019 from $10.6 million in Q1 2018, due mainly to the increased number of newly acquired units since Q1 2018.

The Overall and same asset operating expenses on a per unit basis decreased by 2% over the year mainly due to decreased utility expenses.

As a result, overall net operating income increased 27% to $20.8 million in Q1 2019 from $16.4 million in Q1 2018, and the net operating margin increased to 64% in Q1 2019 as compared to 61% in Q1 2018.

For same asset properties, net operating income increased 15% to $18.6 million in Q1 2019 from $16.2 million in Q1 2018. The net operating margin increased to 64% in Q1 2019 as compared to 60% in Q1 2018.

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 2019. The average vacancy rate decreased to 0.3% in Q1 2019 from 1.1% in Q1 2018. An above-average occupancy rate can be largely attributed to the overall economic performance in British Columbia, which is among the strongest in the country, according to information published by Statistics Canada. As a result, rental revenue per unit increased by 7% to $997 per month in Q1 2019, up from $929 per month in Q1 2018.

Operating expenses per unit decreased 14% to $258 per month in Q1 2019 compared with $301 per month in Q1 2018, due mainly to decreased utility expenses including a refund of water consumption adjustment of $82,000. As a result, the net operating income increased 18%, and the net operating margin increased to 74% in Q1 2019 as compared to 68% in Q1 2018.

(000s of dollars except per unit data)

Three months ended December 31,		2018		2017	% change
Rental revenue and ancillary rental income	$	**8,231**	$	7,667	7%
Operating expenses		**2,132**		2,480	(14%)
Net operating income	$	**6,099**	$	5,187	18%
Weighted average number of units		**2,751**		2,750	–
Average rent per unit per month	$	**997**	$	929	7%
Operating cost per unit per month	$	**258**	$	301	(14%)
Average vacancy rate		**0.3%**		1.1%	
Operating margin		**74%**		68%	

Alberta

Mainstreet achieved growth of 8% in its Alberta portfolio in Q1 2019; the weighted average number of rental units grew to 6,628 units, compared with 6,155 units in Q1 2018. The average vacancy rate decreased to 7.8% in Q1 2019 from 14.7% in Q1 2018. The decrease in vacancy rate was due mainly to a modest recovery from a prolonged economic downturn in the province. Rental revenue per unit increased 9% to $916 per month in Q1 2019 from $840 per month in Q1 2018.

Operating expenses per unit increased 2% to $362 per month in Q1 2019 compared to $354 per month in Q1 2018 due mainly to higher property tax, and repair and maintenance expense. As a result, the net operating income increased 23%, and the net operating margin increased to 61% in Q1 2019 as compared to 58% in Q1 2018.

(000s of dollars except per unit data)

Three months ended December 31,		2018		2017	% change
Rental revenue and ancillary rental income	$	18,216	$	15,518	17%
Operating expenses		7,193		6,545	10%
Net operating income	$	11,023	$	8,973	23%
Weighted average number of units		6,628		6,155	8%
Average rent per unit per month	$	916		840	9%
Operating cost per unit per month	$	362		354	2%
Average vacancy rate		7.8%		14.7%	
Operating margin		61%		58%	

Saskatchewan

Mainstreet achieved significant growth of 51% in its Saskatchewan portfolio in Q1 2019 due mainly to the acquisition of 687 units in Regina during the fiscal year 2018 and acquisition of 242 units in Q1 2019. The average number of rental units grew to 2,611 units in Q1 2019, compared with 1,727 units in Q1 2018. The average vacancy rate decreased to 10.6% in Q1 2019 from 14.5% in Q1 2018.

Rental revenue per unit increased to $787 per month in Q1 2019 from $748 per month in Q1 2018, as a result of improved occupancy rate in the province.

Operating expenses per unit increased 2% to $318 per month in Q1 2019, up from $311 per month in Q1 2018, due mainly to increased utility expenses during the period. As a result, the net operating income increased 62% and the net operating margin increased to 60% in Q1 2019 as compared to 58% in Q1 2018.

(000s of dollars except per unit data)

Three months ended December 31,		2018		2017	% change
Rental revenue and ancillary rental income	$	6,161	$	3,874	59%
Operating expenses		2,490		1,612	54%
Net operating income	$	3,671	$	2,262	62%
Weighted average number of units		2,611		1,727	51%
Average rent per unit per month	$	787	$	748	5%
Operating cost per unit per month	$	318	$	311	2%
Average vacancy rate		10.6%		14.5%	
Operating margin		60%		58%	

POTENTIAL GROWTH IN RENTAL REVENUE UNDER OPTIMUM OPERATIONS

Management defines "optimum operations" to be when all rental units reach their respective market rates and the average vacancy rate is at 5%.

The Corporation is not currently operating under optimum operations, mainly due to continuing weak market conditions in the Provinces of Alberta and Saskatchewan and, the stabilization and renovation of newly acquired properties and turnover suites.

The following table indicates the potential increase in rental revenue should the Corporation operate under the optimum operating conditions as defined in the preceding paragraph, as of the quarter-end dated December 31, 2018. The determination of rental income under optimum operating conditions is calculated by taking the current market rents of the Corporation's current properties and applying an occupancy rate of 95%. There is no guarantee that the Corporation will achieve an optimum vacancy rate of 5% in the near term, or ever, and the actual vacancy rate may be materially higher than the optimum vacancy rate of 5%. An increased vacancy rate would result in rental revenues which may be materially less than those shown in the table.

Accordingly, readers should not put undue reliance on the calculation of rental revenue under the optimum operating conditions.

		Stabilized properties				Unstabilized properties				
City	Total number of units	Number of stabilized units	Current net rent rate per unit per month (Note 1)	Current vacancy rate	Current market rent rate per unit per month (Note 2)	Number of unstabilized units	Current net rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	Potential increase in rental revenue under the optimum operations
Abbotsford, BC	976	937	$ 895	0.36%	$ 1,081	39	$ 839	1.71%	$ 1,122	$ 2,214
Surrey, BC	1,775	1,775	1,024	0.24%	1,245	–	–	–	–	4,696
Calgary, AB	2,418	1,927	1,024	4.59%	1,219	491	958	7.08%	1,160	5,550
Edmonton, AB	4,285	3,988	924	7.54%	1,034	297	943	33.56%	1,081	7,551
Saskatoon, SK	1,883	1,499	840	9.54%	1,009	384	946	12.60%	1,088	4,527
Regina, SK	866	–	–	–	–	866	833	11.43%	1,004	2,245
	12,203	10,126	$ 945	5.31%	$ 1,107	2,077	$ 899	13.87%	$ 1,071	$ 26,783

Note (1) – Current net rent rate per unit per month is based on actual rent charged to existing tenants less concessions offered.

Note (2) – Current market rent rate per unit per month is based on actual full market rent charged to new tenants.

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Rental revenue								
British Columbia	**$ 8,099**	$ 7,882	$ 7,782	$ 7,631	$ 7,571	$ 7,488	$ 7,399	$ 7,252
Alberta	**17,986**	17,042	16,036	15,387	15,346	15,324	15,319	15,050
Saskatchewan	**6,107**	5,560	5,124	4,922	3,847	3,165	3,234	3,277
Total rental Revenue	**$ 32,192**	$ 30,484	$ 28,942	$ 27,940	$ 26,764	$ 25,977	$ 25,952	$ 25,579
Ancillary rental income	**416**	496	355	389	295	412	428	469
Interest income	**43**	112	179	134	139	141	152	174
Total revenue from operations	**$ 32,651**	$ 31,092	$ 29,476	$ 28,463	$ 27,198	$ 26,530	$ 26,532	$ 26,222
Fair value (loss) gain	**$ (1,308)**	$ 30,544	$ 24,947	$ 7,100	$ (1,174)	$116,464	$ (17,282)	$ (8,545)
Profit (loss) from operations	**$ 5,843**	$ 33,455	$ 25,002	$ 10,827	$ 3,439	$107,068	$ (10,216)	$ (2,219)
Net profit (loss) per share								
– Basic	**$ 0.66**	$ 3.79	$ 2.83	$ 1.23	$ 0.39	$ 12.10	$ (1.15)	$ (0.25)
– Diluted	**$ 0.61**	$ 3.50	$ 2.62	$ 1.13	$ 0.36	$ 11.21	$ (1.15)	$ (0.25)
Same assets rental and ancillary rental income – Non-IFRS measurement								
British Columbia	**$ 8,231**	$ 8,056	$ 7,899	$ 7,775	$ 7,684	$ 7,683	$ 7,523	$ 7,424
Alberta	**16,895**	15,754	15,277	14,765	14,802	14,851	15,190	15,038
Saskatchewan	**3,852**	3,227	3,085	3,129	3,169	3,157	3,192	3,280
Total same assets rental and ancillary rental income	**$ 28,978**	$ 27,037	$ 26,261	$ 25,669	$ 25,655	$ 25,691	$ 25,905	$ 25,742
Same assets net operating income – Non-IFRS measure								
British Columbia	**$ 6,069**	$ 6,737	$ 5,884	$ 5,299	$ 5,205	$ 5,647	$ 5,387	$ 4,597
Alberta	**10,262**	9,923	9,202	8,504	8,676	9,423	9,096	8,366
Saskatchewan	**2,287**	1,847	1,760	1,750	1,786	1,859	1,976	1,749
Total same assets net operating income	**$ 18,618**	$ 18,507	$ 16,846	$ 15,553	$ 15,667	$ 16,929	$ 16,459	$ 14,712
Net operating income	**$ 20,793**	$ 20,604	$ 18,274	$ 16,921	$ 16,422	$ 17,242	$ 16,620	$ 14,814
Stabilized funds from operations – Non-IFRS measurement	**$ 8,216**	$ 8,103	$ 7,285	$ 6,095	$ 5,874	$ 7,434	$ 6,427	$ 4,604
Funds from operations – Non-IFRS measurement	**$ 9,588**	$ 9,696	$ 7,821	$ 6,536	$ 6,349	$ 7,607	$ 6,743	$ 7,208
Stabilized funds from operations per share – Non-IFRS measurement								
– Basic	**$ 0.93**	$ 0.92	$ 0.83	$ 0.69	$ 0.67	$ 0.84	$ 0.72	$ 0.52
– Diluted	**$ 0.86**	$ 0.85	$ 0.76	$ 0.64	$ 0.62	$ 0.78	$ 0.67	$ 0.48
Funds from operations per share – Non-IFRS measurement								
– Basic	**$ 1.09**	$ 1.10	$ 0.89	$ 0.74	$ 0.72	$ 0.86	$ 0.76	$ 0.81
– Diluted	**$ 1.00**	$ 1.01	$ 0.82	$ 0.68	$ 0.67	$ 0.80	$ 0.70	$ 0.75
Average vacancy rate								
British Columbia	**0.3%**	0.5%	0.5%	0.4%	1.1%	0.7%	0.7%	1.5%
Alberta	**7.8%**	9.1%	11.8%	14.4%	14.7%	14.0%	13.6%	14.0%
Saskatchewan	**10.6%**	12.5%	16.1%	15.9%	14.5%	16.7%	16.9%	15.0%
Total average vacancy rate	**6.7%**	7.8%	10.0%	11.3%	11.1%	10.9%	10.6%	10.7%

Highlights of the Corporation's financial results for the first quarter ended December 31, 2018:

- Rental and ancillary rental income increased to $32.6 million, compared to $31.1 million in Q4 2018 and $27.1 million in Q1 2018.
- In Q1 2019, the average vacancy rate for the quarter was 6.7%, compared to 7.8% in Q4 2018 and 11.1% in Q1 2018.
- Fair value loss for the quarter was $1.3 million, compared to gain of $30.5 million in Q4 2018 and a loss of $1.2 million in Q1 2018.
- Funds from operations for the quarter were $9.6 million, a 1% decrease from $9.7 million in Q4 2018 and a 51% increase from $6.3 million in Q1 2018. See "Non-IFRS Measures".
- Net operating income for the quarter was $20.8 million, a 1% increase from $20.6 million in Q4 2018 and a 27% increase from $16.4 million in Q1 2018. See "Non-IFRS Measures".
- In Q1 2019, overall economic performance in British Columbia is still 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 outcomes in the quarter with improved same asset vacancy rate result and revenue improvement.

STABILIZED PROPERTIES

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

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

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

As of December 31, 2018, 234 properties (10,126 units) out of 322 properties (12,203 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2019.

	Oct. 1, 2018	%	Acquisition/ Creation	Number of units stabilized	Dec. 31, 2018	%
Stabilized Units	10,010	85%	–	116	10,126	83%
Unstabilized Units	1,766	15%	427	(116)	2,077	17%
Total Units	11,776	100%	427	–	12,203	100%

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

	Oct. 1, 2018	No. of units stabilized during the period	No. of unstabilized units acquired/ created during the period	Dec. 31, 2018
Numbers of unstabilized units held for renovation	1,766	(116)	427	2,077
			Number of months	
Average time spent on stabilization	10	19	1	10
Estimated remaining time for stabilization	14	–	23	14

During the three months ended December 31, 2018, the Corporation created 2 units and acquired 155 unstabilized units in Calgary, Alberta; created 1 unit and acquired 24 unstabilized units Edmonton, Alberta; acquired 65 unstabilized units in Saskatoon, Saskatchewan; created 2 units and acquired 177 unstabilized units in Regina, Saskatchewan; and created 1 unit in Abbotsford, British Columbia. Some acquired assets required substantial renovation and had rental rates that are considered well below the market for stabilized units. The Corporation has stabilized 116 units in Q1 2019, for which renovation work is substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES – NON-IFRS MEASUREMENT

For Q1 2019, FFO of Mainstreet's stabilized property portfolio amounted to $8.2 million ($0.93 per basic share and $0.86 per fully diluted share). See "Non-IFRS Measures".

(000s of dollars except per share amounts)

Three months ended December 31, 2018	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	$ 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 costs	7,487	890	8,377
Funds from operations	$ 8,216	$ 1,372	$ 9,588
Funds from operations per share			
– basic	$ 0.93	$ 0.16	$ 1.09
– diluted	$ 0.86	$ 0.14	$ 1.00
Weighted average number of shares			
– basic	8,832,305		
– diluted	9,552,715		

In Q1 2019, FFO of the stabilized property portfolio increased 40% to $8.2 million as compared to $5.9 million in Q1 2018, while the number of stabilized units increased 2% to 10,126 units as of December 31, 2018 compared to 9,907 units as of December 31, 2017. 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,	2018	2017	% change
FFO for stabilized properties	**$ 8,216**	$ 5,874	40%
Number of stabilized units	**10,126**	9,907	2%

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 2019, after payments of all required expenses, the Corporation generated funds from operations of $9.6 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, 2018, 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 2019, the Corporation spent approximately $56 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 2019, the Corporation financed 5 clear title assets with 10-year, CMHC-insured mortgage loans for $20.5 million at an average rate of interest of 3.26%.

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

The additional funds raised will be used to support the Corporation's growth in its core markets.

As of December 31, 2018, the Corporation owned title to the following 41 clear title properties and two development lots having an aggregate fair value of approximately $180.3 million:

Clear Title Asset List as of December 31, 2018

(000s of dollars except unit information)

Property Address	Number of Units	Cost of Acquisition	Fair Value
103 Village Acres NW, Edmonton, AB	186	$ 17,800	$ 23,340
3147 – 151 Avenue, Edmonton, AB	99	10,000	12,330
1103 – 5 Avenue S, Lethbridge, AB	78	8,580	8,580
525, 529, 601, 605 AVE X S / 2309 – 17 St. W, Saskatoon,	78	5,258	9,440
8, 12, 16 and 20 Bateman Crescent, Saskatoon, SK	76	6,729	6,729
4234 & 4238 DeGeer St East, Saskatoon, SK	64	6,688	6,688
7703, 7707, 7711, 7715 & 7719 Elbow Drive SW, Calgary,	60	8,700	8,700
612 – 4 Ave. NE, Calgary, AB	58	8,491	8,491
7107 Elbow Drive SW, Calgary, AB	51	8,288	8,288
1122 – 8 Avenue SW, Calgary, AB	50	1,975	12,290
2025 Rose Street, Regina, SK	46	3,580	3,590
33361 Old Yale Road, Abbotsford, BC	38	3,940	6,750
1424 Victoria Ave, Regina, SK	36	2,491	2,491
27 Kleisinger Crescent, Regina, SK	31	3,592	3,592
10721 – 108 St. NW, Edmonton, AB	26	2,630	3,220
419 – 1 Ave NE, Calgary, AB	25	3,690	3,690
10735 – 107 St. NW, Edmonton, AB	24	2,380	2,380
909 Grey Street, Regina, SK	24	2,719	2,719
1520 – 12 Ave. SW, Calgary, AB	23	3,427	3,427
10610 – 115 Street, Edmonton, AB	23	1,150	2,630
5355 Waverley Dr. SW, Calgary, AB	21	2,810	2,750
1019 & 1023 Northmount Dr NW, Calgary, AB	20	2,600	2,600

(Continued)

Property Address	Number of Units	Cost of Acquisition	Fair Value
2403 – 33 Ave. SW, Calgary, AB	20	2,650	2,650
40 Froom Crescent, Regina, SK	18	1,979	1,979
3 Kleisinger Crescent, Regina, SK	18	2,140	2,140
3319 Argyle Road, Regina, SK	18	1,925	1,925
11930 – 104 Street, Edmonton, AB	18	790	2,260
906 – 19th Ave. SW, Calgary, AB	16	2,342	2,342
1209 – 14th Ave. SW, Calgary, AB	16	2,342	2,342
2619 – 17A St. SW, Calgary, AB	14	2,050	2,050
2701 Coronation Street, Regina, SK	12	1,350	1,350
520 – 5th St NE, Calgary, AB	11	1,611	1,610
3801 Princess Dr, Regina, SK	11	1,261	1,261
2309 – 17th Street SW, Calgary, AB	11	1,394	1,394
324 – 4th Ave NE, Calgary, AB	10	1,464	1,464
3908 – 16 ST SW, Calgary, AB	10	1,302	1,302
2300 & 2320 Abbott Road, Regina, SK	8	925	925
326 to 328 – 18 Avenue SW, Calgary, AB	7	–	3,240
1969 St. John Street, Regina, SK	1	109	109
2409 – 33 Ave. SW, Calgary, AB	1	800	800
322 – 18th Avenue SW, Calgary, AB	1	1,275	2,590
10125 – 114 Street, Edmonton, AB (Development lot)	–	1,103	1,150
33283 Bourquin Cr E, Abbotsford, BC (Development lot)	–	306	687
Total as of December 31, 2018	1,358	$ 146,636	$ 180,285

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 52%, which Management believes will leave considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

Effective January 2014, the Corporation was granted a banking facility to a maximum of $85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 6, 2019. As at December 31, 2018, the Corporation has drawn $33.7 million (September 30, 2018 – $1.9 million) against this credit facility to acquire underperforming properties. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of December 31, 2018, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 52% and 1.36, respectively.

CONTRACTUAL OBLIGATIONS

As of December 31, 2018, 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, 2018 are as follows:

(000s of dollars)

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

LONG-TERM DEBT

(000s of dollars)

		Amount	% of Debt	Average interest rate (%)
Fixed rate debt				
– CMHC-insured	$	880,225	89%	2.95%
– non-CMHC-insured		86,211	9%	2.96%
Floating rate debt				
– CMHC-insured		24,811	2%	3.89%
Total debt		991,247	100%	2.98%
Deferred financing costs		(18,524)		
	$	972,723		

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

As of December 31, 2018, total mortgages payable were $973 million compared to $957 million on September 30, 2018 – an increase of 2% due to financing and acquisition activity during the three months ended December 31, 2018.

As of December 31, 2018, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 52% of fair value of investment properties. About 91% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with what Management believes are interest rates lower than those available through conventional financing.

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

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end		Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2019		2,990	1%	2.44%
2020		107,357	11%	3.23%
2021		83,161	8%	3.94%
2022		83,248	8%	3.00%
2023		100,833	10%	3.37%
Subsequent		613,658	62%	2.74%
	$	991,247	100%	2.98%

The average maturing term of mortgage loans is 6.16 years as of December 31, 2018, compared to 6.0 years as of September 30, 2018. Two mortgage loans totalling $3.0 million will be maturing in fiscal year 2019.

INTERNAL CONTROL

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurances that all material information is gathered and reported to senior management of the Corporation, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") on a timely basis and that all information required to be disclosed in Mainstreet's 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.

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

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

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

As a result of this change in determining fair value of its investment properties and for the reasons discussed above, the following deficiencies were identified: (i) a lack of review of the impact of changes to the groupings of the properties on the ultimate valuation of the Corporation's investment properties; (ii) a lack of consideration in respect of anomalies within individual building valuations that may impact the overall valuation of a grouping of properties; and (iii) lack of proper oversight and review of external independent valuator's work in respect of the sample properties.

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

Based on this evaluation, Management concluded that the Corporation's ICFR has not been effective throughout the period from the 2018 fiscal year. Given this weakness in ICFR, Management has concluded also that there is a material weakness in the Corporation's DCP.

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

Management has already taken important steps to address and remedy the deficiencies identified including by finalizing the criteria used to determine the appropriate grouping for a property, assigning all current properties to a grouping, and having these groupings audited in connection with its year end audit procedures. Although there may be occasions in the future where changes are required to groupings of properties or where new properties are added to the Corporation's holdings, the initial work of creating the criteria for groupings and selecting the sample properties has now been completed and audited. As certain control deficiencies resulted from changes in groupings and sample properties between interim periods in 2018, such control deficiencies are not anticipated to re-occur in future financial years, or in the event there are any changes, it will be on a significantly smaller scale than seen in the initial conversion process during the 2018 financial year.

In addition, the Corporation's remediation plan also includes:

(i) implementing various processes and controls to reduce the risk of potential material misstatement of the Corporation annual or interim financial statements;

(ii) implementing formal control process and procedures to properly evaluate future groupings of properties being used by the Corporation in determining fair value of its investment properties to ensure that sample properties are appropriately representative of each group, including without limitation:

(A) regularly reviewing the criteria for the Corporation's property groupings to ensure that such criteria remains appropriate and relevant;

(B) regularly reviewing the property groupings to ensure that all properties within the grouping are adequately similar;

(C) regularly reviewing the sample properties chosen for each grouping to ensure that they are appropriately representative of all properties within the grouping; and

(D) prior to making any future changes to the properties within a grouping, taking such steps as are necessary to properly understand how such a change will affect the overall valuation of the Corporation's properties;

(iii) allocating additional resources to the finance department of the Corporation's head office to ensure that staff has adequate time and resources to complete the processes and procedures set out in (ii) above and to spend additional time reviewing and analysing all independent third party valuations of sample properties to ensure that all anomalies are identified and analysed further and to identify any errors that may be present in such valuations. Although the Corporation already reviews third party valuations for these purposes, it has determined additional resources are required given the increased materiality of sample property valuations under the new sampling methodology for determining the fair value of the Corporation's investment properties.

No assurance can be provided at this time that the actions and remediation efforts will effectively remediate the material weakness described above or prevent the incidence of other material weaknesses in the Company's DCP and ICFR in the future. Management, including the CEO and CFO, does not expect that DCP or ICFR will prevent all errors, even as the remediation measures are implemented and further improved to address the material weakness. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

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

Financial Instruments & Risk Management

Fair value of financial assets and liabilities

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

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

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

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

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

(000s of dollars)

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

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

See also the Notes to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017 for additional information regarding financial assets and the risks associated therewith.

Risk Associated with Financial Assets & Liabilities

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

SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Three months ended December 31, 2018		Year ended September 30, 2018	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	**8,832,305**	**$ 24,215**	8,835,964	$ 24,225
Shares purchased for cancellation	–	–	(3,659)	(10)
Issued and outstanding,				
– end of the period	**8,832,305**	**$ 24,215**	8,832,305	$ 24,215

All common shares share an equal right to dividends.

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

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

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

STOCK OPTION

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

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

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 quarter ended December 31, 2018, no stock options were granted, exercised or cancelled. As of March 24, 2017 no further stock options may be granted under the Corporation's stock option plan.

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. The Right Plan was amended to extend the time for a take-over bid to be taken up from 60 days to 120 days. The Rights Plan will expire at the termination of the next annual general meeting of shareholders of the Corporation, scheduled for March 29, 2019 and the Corporation will seek approval from the shareholders to renew the Rights Plan at this time.

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

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

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

Certain exemptions exist under the Rights Plans for Portfolio Managers and Grandfathered Persons as such terms are defined in the Rights Plan.

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

Key accounting estimates and assumptions

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

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

ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities are outlined in Note 12 to the interim condensed consolidated financial statements.

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

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

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

Actual results could differ from estimates.

New accounting policies and changes to accounting policies

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

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

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

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

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

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

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

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

Transactions with Related Parties

a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in limited circumstance, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the three months ended December 31, 2018 amounted to $87,836 (2017 – $765,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.

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

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for 2018.

Subsequent Events

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

Risk Assessment and Management

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

Vacancy Risk

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

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

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

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

Economic Uncertainty

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

The slowing of Western Canada's economic growth rate has filtered through to weaker employment prospects in the Prairie Provinces, a tempering of housing and rental demand and a decline in net migration with a corresponding impact on the Corporation's rental and occupancy levels. Still unknown is the impact of various recently enacted or pending government initiatives, including the effect on employment resulting from the minimum wage increase in Alberta effective October 1, 2018 to $15.00 an hour; or increases to operating costs resulting from the carbon tax in Alberta, similar federal tax legislation and the implementation of new climate change plans at both the provincial and federal government levels.

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling $3.0 million are subject to renewal before the financial year ending September 30, 2019. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. The Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

Utilities and Tax Risk

Mainstreet's business is exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices as well as exposure to significant increases in property taxes. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. In recent years, water and sewer costs have increased significantly, as other forms of direct and indirect "taxes" imposed by various municipalities. In addition, the implementation of a carbon tax by the Government of Alberta has increased the costs of natural gas to $1.52 per gigajoule ("GJ") in 2019. Any significant increase in these costs that cannot be passed on to the tenant / customer may have a significant impact on the operations of the Corporation.

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

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

For example, Mainstreet has entered into a rate protected natural gas contract with a maturity date of November 30, 2019 that caps future natural gas costs at $3.50 per GJ in Alberta, but permits the Corporation to purchase natural gas at lower market rates. In Surrey, British Columbia, Mainstreet has completed a water meter conversion program for all its properties.

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

Risks of Real Estate Property Ownership

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

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

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

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

Renovation Risks

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

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of December 31, 2018, rents due from current tenants amounted to $361,000 (September 30, 2018 – $371,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.6 million (September 30, 2018 – $4.5 million) and provisions for bad debts of $140,000 (September 30, 2018 – $140,000).

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

Liquidity Risk

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

Financing Risk

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

Reliance on Key Employees

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

Income Tax Risk

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

Market Risks

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

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

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

Acquisitions Risks

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

Environmental, Health and Safety Risks

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

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

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

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

Mainstreet has policies and procedures to review and monitor environmental exposure, including the completion of environmental audits in connection with the Corporation's due diligence procedures when looking at potential acquisitions when the Corporation deems 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 and increases in the costs of insurance if they result in significant loss of property or other insurable damage.

Workforce Availability

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

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

Uninsured Losses

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

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

Substitutions for Residential Rental Units

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

Litigation Risks

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

Regulatory Risks

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

Rent Control

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

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

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

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

Operational Risks

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

Public Market Risk

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

Potential Conflicts of Interest

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

Appraisals of Properties

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

CHALLENGES

Despite recent improvements, negative macroeconomic forces remain Mainstreet's biggest challenge. This uncertainty has been compounded in recent years by higher operating costs in some of the Corporation's core markets, particularly Alberta, due to carbon taxes, interest rate increases, higher property taxes, higher minimum wages, and higher expenses tied to the conversion of stabilizing apartment units.

Higher operating costs come as interest rates could continue to rise through 2019 and possibly 2020, increasing the cost of Mainstreet's future debt.

Lower international petroleum and natural gas commodity prices have also persisted. Prices for West Texas Intermediate, a US oil benchmark, slumped at the end of 2018, but recovered to above US$50 per barrel as of January 20, 2019, while Western Canada Select, the price obtained by many Alberta producers for oil, slipped to below US$10 per barrel in December 2018. That remains well below prices of roughly US$65 and US$40, respectively one year earlier.

This low price environment was particularly acute for oil producers in Western Canada around the end of 2018, when they suffered the steepest discounts for their product in decades. That discount was a direct result of Canada's inability to build new export pipelines in recent years, which Mainstreet believes has damaged confidence in the national regulatory regime. This regulatory and legal failure could lead to a broader cooling off in the investment climate in Canada, Management believes and continue to hamper Mainstreet's business competitiveness relative to other jurisdictions.

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

OUTLOOK

The new fiscal year offers unique opportunities to build upon Mainstreet's 2018 improvements and continue the Corporation's countercyclical growth strategy. In particular, Management sees the potential for more opportunistic acquisitions in 2019, supported by a slower-than-expected rise in interest rates, immigration growth, and stricter stress tests for mortgages that are expected to push more people into the rental market. Similar to last year, Mainstreet will also continue its aggressive stabilization strategy, which should further grow its top-line revenues and NOI, particularly amid a gradually recovering economy.

Those efforts should be supported by a gradual macroeconomic improvement in the Corporation's core markets, which has led to promising migration numbers. In-migration into Alberta was 14,514 in Q3 2018, a 47.5% increase from Q3 2017, and the highest overall level in four years (Government of Alberta). In-migration into Saskatchewan was 2,079 in Q3 2017, a 14.6% drop year-over-year. The overall population in both Alberta and Saskatchewan has continued to grow in the year ended June 30, 2018, rising 1.49% and 0.98%, respectively.

Higher population growth comes alongside improved labour numbers in the Prairie Provinces. Alberta's unemployment rate dropped to 6.4% in December 2018, down from 7.0% one year earlier. Saskatchewan unemployment was 5.6%, down from 6.5% in December 2017 (Statistics Canada).

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

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

Management believes 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 will make it more difficult for first-time homebuyers to secure financing. Mainstreet 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 Mainstreet's 100% organic, non-dilutive growth model: Using its strong potential liquidity position of approximately $120 million, Mainstreet believes there is significant opportunity to continue acquiring new assets at low cost. Management also believes Mainstreet's business strategy will allow it to continue to boost NOI and FFO while improving quality of living standards for middle class Canadians.
2) Closing the NOI gap: In Q1 2019, 17% of the Mainstreet portfolio was going through the stabilization process, even as Mainstreet achieved lower overall vacancy rates compared to 2018. This inherent challenge in Mainstreet's business model is further increased by its record-high volume of acquisitions in recent years, which causes higher rates of unstabilized properties that decreases its NOI, FFO and margins. However, Mainstreet plans to focus its efforts on stabilizing units through 2019.
3) Buying back common shares at a discount to NAV: Mainstreet believe MEQ shares continue to trade well below their NAV. Mainstreet will therefore continue to buy back its own common shares on an opportunistic basis under normal course issuer bid.

ADDITIONAL INFORMATION

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