MAINSTREET
EQUITY CORP.

Q3 2017

For the three and nine months ended June 30, 2017 and 2016

MAINSTREET EQUITY CORP. is a Canadian real estate company focused on acquiring and managing mid-market rental apartment buildings primarily in Western Canada. Founded in 1997, Mainstreet creates value by purchasing under-performing properties, renovating them to a branded standard, improving operating efficiencies and repositioning them in the market for greater returns.

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

Forward-Looking Information

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

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in the Corporation's Annual Information Form, dated December 6, 2016 under the heading "Risk Factors", that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, environmental and other liabilities, credit risks of tenants, fluctuations in interest rates and availability of capital, and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward- looking statements. Accordingly, readers should not place undue reliance on forward-looking statements contained herein.

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

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

Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Corporation's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

KEY METRICS | Q3 2017 PERFORMANCE HIGHLIGHTS

Rental Revenue from operation	Up 8% to $26.4 million (vs. $24.5 million in Q3 2016)
Rental Revenue – Same Assets Properties	Up 1% to $24.7 million (vs. $24.4 million in Q3 2016)
Net Operating Income (NOI)	
From operations	Up 7% to $16.6 million (vs. $15.5 million in Q3 2016)
Same Assets Properties	Up 2% to $15.7 million (vs. $15.4 million in Q3 2016)
Funds from operations	Up 9% to $6.7 million (vs. $6.2 million in Q3 2016)
FFO per share	Up 11% to $0.76 per share (vs. $0.68 per share in Q3 2016)
Operating Margin	
From operations	63% (vs. 63% in Q3 2016)
Same Assets Properties	64% (vs. 63% in Q3 2016)
Total Acquisition & Capital Expenditures	$20.9 million in Q3 2017 (vs. $5.2 million in Q3 2016)
Stabilized Units	216 properties (9,304 units) out of 234 properties (10,285
Acquisitions (Subsequent to Q3)	131 units for $17.3 million (vs. 478 units for $46 million)
Vacancy rate	10.6% (vs.9.2% in Q3 2016)
Same Asset Vacancy rate	8.1% (vs. 9.2% Q3 2016)

MESSAGE FROM THE PRESIDENT & CEO

For the three months ended June 30, 2017

Mainstreet Equity Corp. ("Mainstreet" or the "Corporation"), an add-value, mid-market consolidator of apartments in Western Canada, is announcing its operating and financial results for the three months ended June 30, 2017.

We believe our Q3 results are an early indication of stability in some of our core markets. For the third consecutive quarter, Mainstreet saw a level trend in same-store revenues. Several other key metrics also improved notably. Our vacancy rate on a same-store basis, for example, decreased to 11.2% in Alberta and Saskatchewan, down from 12.5% in the year prior. While we remain cautious in our overall outlook, we believe these results reflect a steadying macro economic picture in our core markets.

FINANCIAL HIGHLIGHTS FOR Q3 2017

- Displayed a substantial improvement in key metrics. Rental revenues rose 8% to $26.4 million; Net Operating Income ("NOI") from operations increased 7% to $16.6 million, while NOI on a same-asset basis rose 2% to $15.7 million.
- Continued to demonstrate the effectiveness of our 100% organic, non-dilutive growth model by growing our portfolio without increasing share capital of 8.8 million common shares. Since its inception Mainstreet's portfolio has grown to 10,313 units while avoiding equity dilution. In Q3 we purchased 103 units of residential apartments for $13 million ($126,000 per unit). Subsequent to Q3 2017, we acquired an additional 28 units for $4.3 million ($154,000 per unit).
- Maintained our sizeable year-to-date estimated liquidity position of $140 million, including a cash balance of $42 million, to pursue further potential growth opportunities.
- Vancouver/Lower Mainland remains robust (BC comprises 27% of our portfolio). The region continues to outperform the balance of Western Canada, maintaining a vacancy rate below 1% and NOI growth of 16% compared to Q3 2016.

For more detailed analysis of Mainstreet operating results for Q3 2017, please refer to the sections titled "Funds from Operations" and "Rental Operations" in our MD&A.

RESULTS

Rental revenues increased 8% to $26.4 million, compared with $24.5 million in Q3 2016; this came alongside a 1% increase in same-asset rental revenues to $24.7 million, from $24.4 million in Q3 2016. NOI increased 7% to $16.6 million, and increased 2% to $15.9 million on a same-asset basis. Operating margins remained at 63%, and increased by 1% to 64% on the same- asset basic.

In Q3 2017, Funds From Operations ("FFO") increased 9% to $6.7 million, compared with $6.2 million in Q3 2016. FFO per basic share increased 11% to $0.76, compared with $0.68 in Q3 2016.

The vacancy rate on a same-asset basis dropped to 8.1%, compared with 9.2% in Q3 2016. Overall vacancy increased to 10.6%, due to the recent acquisitions of unstabilized assets.

CHALLENGES

Broad economic trends have become more difficult to forecast in recent years, particularly in our Alberta and Saskatchewan markets. This economic uncertainty remains our biggest challenge. Lower petroleum and natural gas commodity prices have also added to this increased volatility. Markets have rebounded from their 2016 lows, but prices for products such as petroleum, natural gas and potash are below the level needed to spur major new capital investments.

The Bank of Canada's decision to raise its overnight interest rate will make future borrowing more costly for Mainstreet. However, in anticipation of rising interest rates, management made the decision to refinance all or our pre-matured debts for the fiscal years 2017 and 2018. We managed to lock in approximately $195 million in 10-year, CMHC-insured loans at an average interest rate of 2.47% (5.09% before refinancing). This resulted in approximately $2.4 million in annualized interest savings, or $24 million over 10 years and raised additional fund of about $100 million, including an early pay-out penalty of $2.9 million. Except for $3 million mortgage loan which will be repaid in Q4 2017, the next mortgage loan will not be due until Q1 2019.

Operating costs have increased in response to the introduction of a carbon tax in Alberta, which targets property owners. Heating has also become more costly along with marginally higher natural gas prices.

Mainstreet's overall vacancy rate in Q3 remained high at 10.6%. While management views the current vacancy rate as high, our total acquisitions over the past 18 months of close to $100 million (982 unstabilized units) has consistently raised vacancy rates over the period. Furthermore, management believes this is a finite trend as we continue to undergo the stabilization process through ongoing renovations. As of the quarter end date, 981 units, or 9% of the portfolio, remained in the stabilization and reposition and construction process.

Negative economic forces over the past two years have likewise caused significant short positions in respect of Mainstreet's stock. As of June 30, 2017, the short position in respect of Mainstreet totaled 711,600 common shares. However, that short position is smaller than the previous quarter ended March 31, 2017, when it totaled 771,800 common shares. Management believes these short positions are partly responsible for MEQ shares trading well below NAV.

OUTLOOK

Despite softening commodity prices, migration into Alberta and Saskatchewan remains steady. Annual net migration into Alberta since Q1 2017 totaled more than 28,000 people, according to Statistics Canada. Net migration in Q1 grew 25% compared to the prior quarter—a total of approximately 5,000 people, and the fourth-highest level in the country. Net migration into Saskatchewan totaled 1,589 in Q1, a 3% rise from prior quarter. Alberta's population is expected to grow by 1.6% in 2017 and 1.7% in 2018, well above the national average. Saskatchewan's population is expected to grow by 1.3% in 2018, down from 1.4% in 2016.

Rising population estimates come alongside encouraging employment numbers in the prairie provinces. Alberta added 23,700 new jobs in the first six months of 2017 alone, and both provinces are expected to see gradual growth in new jobs through the year, according to Statistics Canada.

As in-migration levels stabilize, we believe the current oversupply in the rental market will continue to be gradually absorbed. This current oversupply is largely the result of a rapid build out of investor-owned condominiums during times of high economic growth, many of which were later converted into rental units that spilled over into the broader rental market.

Meanwhile, despite stable economic activity, consumers remain cautious. We believe Mainstreet is well positioned to capitalize on this persisting caution as renters tend to favour middle market prices as they delay major investments like new homes. Again, we believe our price point average rental rate between $900 and $1,000 perfectly aligns with that mid-market demand.

Economic volatility in turn provides Mainstreet with acquisition opportunities. Year-to-date, we have purchased $45 million in new assets across our portfolio. We will continue to pursue additional acquisitions on an opportunistic basis.

RUNWAY ON EXISTING PORTFOLIO

1) Closing the NOI gap: Over Q3 2017, 9% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO. However, we expect to close this gap over time after stabilization.
2) Growing through bricks and mortar: Our 100% organic growth model will allow us to continue to boost NOI and FFO while avoiding equity dilution.
3) Buying back common shares at a discount to NAV: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our common shares on an opportunistic basis under our normal course issuer bid.

Bob Dhillon
President & CEO

Calgary, Alberta
July 18, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") as at and for the three and nine months ended June 30, 2017 and 2016. 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 for the three and nine months ended June 30, 2017 and 2016, and the MD&A and audited consolidated financial statements and accompanying notes for the years ended September 30, 2016 and 2015. These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been reviewed and approved by the Audit Committee and Board of Directors of the Corporation and is effective as of July 18, 2017. 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 indicate otherwise, reference herein to 2017 and 2016 refers to the three and nine month periods ended June 30, 2017 and 2016, respectively.

BUSINESS OVERVIEW

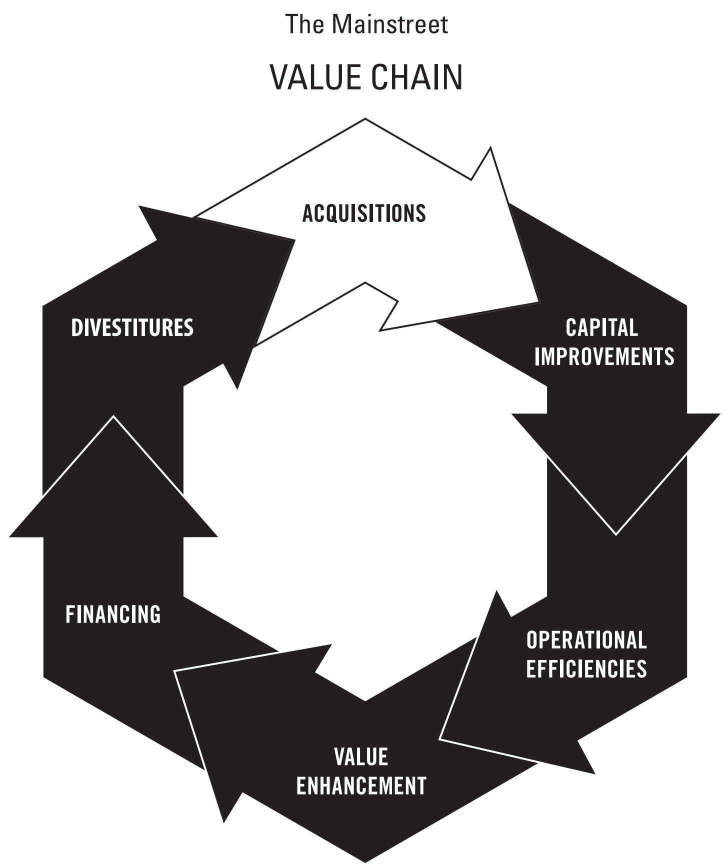
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/ Lower Mainland, Southern Alberta (including the City of Calgary and Lethbridge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

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

BUSINESS STRATEGY

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

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



INTERNATIONAL FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements of the Corporation prepared in conjunction with this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards 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

The fair value of investment properties held by the Corporation as of September 30, 2016, was determined by 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. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The appraisers also reviewed changes in market conditions affecting the underlying assumptions used for the fair value assessment during the period and management estimated the fair value of the investment properties based on the current market conditions at June 30, 2017 except for four properties acquired during the nine months ended June 30, 2017 for which the cost of acquisition was used as the best estimate of the fair market value as of June 30, 2017.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at $1,486 million at June 30, 2017 ($1,460 million at September 30, 2016). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at June 30, 2017 and September 30, 2016, respectively.

As of June 30, 2017	Number of properties	Number of units	Market value ($ million)	Average value per unit ($000)	Average capitalization rate as at June 30, 2017
Surrey, British Columbia	10	1,775	$ 284	$ 160	4.41%
Abbotsford, British Columbia	15	975	$ 128	$ 131	5.13%
Calgary and Southern Alberta, Alberta (Note 1)	37	1,897	$ 380	$ 200	4.98%
Edmonton, Alberta (Note 2)	125	4,172	$ 529	$ 127	5.92%
Saskatoon, Saskatchewan	47	1,466	$ 165	$ 113	6.89%
Total investment properties	234	10,285	$ 1,486	$ 144	5.34%

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

Note (2) – includes the City of Fort Saskatchewan

As of September 30, 2016	Number of properties	Number of units	Market value ($ million)	Average value per unit ($000)	Average capitalization rate as at Sep. 30, 2016
Surrey, British Columbia	10	1,775	$ 272	$ 153	4.56%
Abbotsford, British Columbia	15	975	$ 128	$ 131	5.13%
Calgary and Southern Alberta, Alberta (Note 1)	34	1,813	$ 390	$ 215	4.86%
Edmonton, Alberta (Note 2)	120	3,883	$ 503	$ 130	5.92%
Saskatoon, Saskatchewan	46	1,432	$ 167	$ 117	6.77%
Total investment properties	225	9,878	$ 1,460	$ 148	5.41%

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

Note (2) – includes the City of Fort Saskatchewan

Acquisitions & Growth

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2017	2016	2017	2016
	Calgary, AB, Edmonton, AB, and Saskatoon, SK		Calgary, AB, Edmonton, AB, and Saskatoon, SK	Abbotsford, BC, Calgary, AB and Saskatoon, SK
Number of rental units	**103**	–	**406**	50
Total costs	**$ 13,026**	$ –	**$ 41,454**	$ 6,159
Average price per unit	**$ 126**	$ –	**$ 102**	$ 123

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. Due to current economic conditions in the Provinces of Alberta and Saskatchewan, management has adopted a fairly conservative approach in evaluation of all potential acquisitions in an anticipation of a possible drop in real estate value. In Q3 2017, Mainstreet acquired 69 residential units in Calgary, Alberta, 33 residential units in Edmonton, Alberta and 1 residential unit in Saskatoon, Saskatchewan for a total consideration of $13.0 million – an average purchase price of $126,000 per residential unit.

Mainstreet also acquired 1 corporate unit in Calgary, Alberta for a total consideration of $255,000 in Q3 2017.

As of June 30, 2017, Mainstreet's portfolio included 10,285 residential units, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments. 90% of these residential units were rented, while 7% were being renovated and the remainder left vacant because of current unfavourable rental market conditions, primarily in the Province of Alberta and the Province of Saskatchewan.

Since 1997, the Corporation's portfolio has increased from 10 to 234 buildings, while the fair value of the investment properties within this portfolio has grown from approximately $17 million to $1,486 million as of June 30, 2017.

The following table sets forth the growth of the Corporation by region since the end of the previous financial year ended September 30, 2016.

	Number of units as at October 1, 2016	Acquisitions/ disposition nine months ended June 30, 2017	Number of units as at June 30, 2017
Surrey, British Columbia	1,775	–	1,775
Abbotsford, British Columbia	975	–	975
Calgary and Southern Alberta, Alberta (Note 1)	1,813	84	1,897
Edmonton, Alberta (Note 2) (Note 3)	3,883	289	4,172
Saskatoon, Saskatchewan	1,432	34	1,466
Investment properties	9,878	407	10,285

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

Note (2) – including the City of Fort Saskatchewan

Note (3) – including one unit converted from extra space in an existing property

CAPITAL IMPROVEMENTS

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

In Q3 2017, the Corporation spent $7.4 million (Q3 2016 - $5.3 million), of which $6.3 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 $5.0 million on renovations in the remaining three months of fiscal year 2017. These improvements are expected to be financed through existing cash balances, funds from operations and on-going refinancing of existing properties. Mainstreet expects to complete most of these renovations of existing properties within the next 6 to 18 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, and increases in labour and material costs, all of which could have a material impact on the timing and cost of completing these renovations.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

	Three months ended June 30,			Nine months ended June 30,		
	2017	2016	% change	2017	2016	% change
Gross revenue	$ 26,532	$ 24,556	8%	$ 78,712	$ 75,360	8%
Loss and comprehensive income from operations	$ (10,216)	$ (259)	3844%	$ (16,134)	$ (35,842)	-55%
Fair value loss	17,282	5,273	228%	33,575	57,758	-42%
Depreciation	110	93	18%	295	264	12%
Income tax – current and deferred	(433)	1,184	-137%	508	(1,372)	-137%
Funds from operations before current income tax	$ 6,743	$ 6,291	7%	$ 18,244	$ 20,808	-12%
Current income tax	–	84	-100%	–	204	-100%
Funds from operations (Note 1)	**$ 6,743**	**$ 6,207**	**9%**	**$ 18,244**	**$ 20,604**	**-11%**
Interest income	$ (152)	$ (40)	280%	$ (440)	$ (174)	153%
General and administrative expenses	2,702	2,327	16%	7,803	6,549	19%
Mortgage interest	6,655	6,369	4%	21,763	19,227	13%
Financing cost	672	599	12%	2,154	1,745	23%
Current income tax	-	84	-100%	-	204	-100%
Net operating income (Note 2)	$ 16,620	$ 15,546	7%	$ 47,124	$ 48,155	(7%)
Operating margin from operations	63%	63%		60%	64%	
Loss per share						
Basic	$ (1.15)	$ (0.03)	3733%	$ (1.82)	$ (3.66)	-50%
Fully diluted	$ (1.15)	$ (0.03)	3733%	$ (1.82)	$ (3.66)	-50%
Funds from operations per share						
Basic	$ 0.76	$ 0.68	11%	$ 2.05	$ 2.12	-3%
Fully diluted	$ 0.70	$ 0.63	11%	$ 1.91	$ 1.98	-4%
Weighted average number of shares						
Basic	8,868,574	9,086,815		8,878,319	9,798,525	
Fully diluted	9,567,986	9,787,960		9,570,376	10,488,655	

June 30, 2017	
Total Assets	$1,539,639
Total Long term liabilities	$ 942,051

1. Funds from operations ("FFO") is calculated as profit before fair value gain (loss), depreciation of property, plant 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.
2. Net operating income ("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.

REVENUE

In Q3 2017, revenue was primarily comprised of rental and ancillary rental income totalling $26.5 million (Q3 2016 – $24.6 million) and interest income. The 8% increase in revenue over Q3 2016 is mainly due to increases in the rental and ancillary rental income from newly acquired properties, which is discussed and analyzed in the section entitled "Rental Operations" below.

LOSS

For the three and nine months ended June 30, 2017, Mainstreet reported a loss from operations of $10.2 million ($1.15 per basic share) and $16.1 million ($1.82 per basic share), respectively, as compared to a loss of $259,000 ($0.03 per basic share) and $35.8 million ($3.66 per basic share), respectively, in 2016.

Loss from operations is further analyzed as follows:

(000s of dollars)

	Three months ended June 30			Nine months ended June 30		
	2017	2016	% change	2017	2016	% change
Funds from operations before current income tax	$ 6,743	$ 6,291	7%	$ 18,244	$ 20,808	-12%
Fair value loss	(17,282)	(5,273)	228%	(33,575)	(57,758)	-42%
Depreciation	(110)	(93)	18%	(295)	(264)	12%
	$ (10,649)	$ 925	-1251%	$ (15,626)	$ (37,214)	-58%
Income tax -current and deferred	$ (433)	1,184	-137%	508	(1,372)	-137%
Loss and comprehensive income from operations	$ (10,216)	$ (259)	3844%	$ (16,134)	$ (35,842)	-55%

The loss from operations in Q3 2017 included fair value loss of $17.3 million (Q3 2016 - $5.3 million) which are analyzed as follows:

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
Fair value (loss) gain from appraisals	2017	2016	2017	2016
Surrey, British Columbia	$ 11,551	$ -	$ 11,552	$ 13,450
Abbotsford, British Columbia	-	-	-	(130)
Calgary and Southern Alberta	(20,591)	-	(21,568)	-
Edmonton, Alberta	(63)	-	(1,499)	(57,482)
Saskatoon, Saskatchewan	(716)	-	(4,383)	(115)
	$ (9,819)	$ -	$ (15,898)	$ (44,277)
Capital expenditure	(7,462)	(5,273)	(17,677)	(13,482)
Fair value loss	$ (17,281)	$ (5,273)	$ (33,575)	$ (57,759)

The losses in Q3 2017 and Q3 2016 will be further discussed and analyzed in the following section entitled "Funds From Operations".

FUNDS FROM OPERATIONS

Management believes that FFO rather than profit, as defined in the preceding footnote, is a more meaningful performance measurement for a real estate company's operating performance as FFO excludes these nonoperating income and expenses namely fair value gain (loss), 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.

In Q3 2017, Mainstreet's FFO from operations increased by 9% to $6.7 million as compared to $6.2 million in Q3 2016. The increase in FFO was mainly attributable to increases in net operating income, which will be discussed and analyzed in the following section entitled "Rental Operations".

(000s of dollars)

	Three months ended June 30			Nine months ended June 30		
	2017	2016	% change	2017	2016	% change
Funds from operations	$ **6,743**	$ 6,207	9%	$ **18,244**	$ 20,604	-11%
Insurance settlement	–	–	–	**2,400**	–	100%
Pay-out penalties	–	–	–	**(2,130)**	(413)	416%
Funds from operations before insurance settlement and pay-out penalties	$ **6,743**	$ 6,207	9%	$ **18,514**	$ 20,191	-8%

FFO in Q3 2017 was further affected by increased G&A expenses of $375,000 from Q3 2016, which will be discussed and analyzed in the section entitled "General & Administrative (G&A) Expenses below.

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries. In Q3 2017, G&A expenses increased by 16% to $2.7 million as compared to $2.3 million in Q3 2016, mainly resulting from increase of advertising and salaries expenses. The Corporation continues to build up its management team in anticipation of continued growth.

MORTGAGE INTEREST

Mortgage interest expenses increased by 4% to $6.7 million in Q3 2017 compared to $6.4 million in Q3 2016. The rise was mainly attributable to an increase in mortgage loans. In anticipation of rising interest rates, management decided to refinance all pre-maturity mortgages for the fiscal years 2017 and 2018 Mainstreet completed its entire early refinancing plan and managed to lock in approximately $195 million in 10-year, CMHC-insured loans at an average interest rate of 2.47% (5.09% before refinancing). This resulted in approximately $2.4 million in annualized interest savings, or $24 million over 10 years and raised $100 million additional fund, including an early pay-out penalty of $2.9 million.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
Three months ended June 30	2017	2016	% change	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	**$ 26,380**	$ 24,516	8%	**$ 24,736**	$ 24,409	1%	**$ 1,644**	$ 107	1,436%
Operating expenses	**9,760**	8,970	9%	**8,864**	8,918	-1%	**896**	52	1,623%
Net operating income	**$ 16,620**	$ 15,546	7%	**$ 15,872**	$ 15,491	2%	**$ 748**	$ 55	1,260%
Operating margin	**63%**	63%		**64%**	63%		**45%**	51%	
Average vacancy rate	**10.6%**	9.2%	15%	**8.1%**	9.2%	-12%	**35.1%**	14.9%	136%
Weighted average number of units	**10,228**	9,345	9%	**9,301**	9,301	0%	**927**	44	2007%
Average rental rate per unit per month	**$ 860**	$ 874	-2%	**$ 886**	$ 875	1%	**$ 591**	$ 811	-27%
Average operating expense per unit per month	**$ 318**	$ 320	-1%	**$ 318**	$ 320	-1%	**$ 322**	$ 394	-18%

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
Nine months ended June 30	2017	2016	% change	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	$ 78,272	$ 75,186	4%	$ 74,060	$ 74,993	-1%	$ 4,212	$ 193	2082%
Operating expenses	31,148	27,031	15%	28,957	26,939	7%	2,191	92	2282%
Net operating income	$ 47,124	$ 48,155	-2%	$ 45,103	$ 48,054	-6%	$ 2,021	$ 101	1901%
Operating margin	60%	64%		61%	64%		48%	52%	
Average vacancy rate	10.4%	8.4%	24%	8.4%	8.7%	-3%	34.6%	4.6%	652%
Weighted average number of units	10,066	9,325	8%	9,301	9,301	0%	765	24	3088%
Average rental rate per unit per month	$ 864	$ 896	-4%	$ 885	$ 896	-1%	$ 612	894	-32%
Average operating expense per unit per month	$ 344	$ 322	7%	$ $ 346	$ 322	7%	$ 318	$ 426	-25%

Despite the increase in vacancy rate to 10.6% in Q3 2017 from 9.2% in Q3 2016 and a drop in the average monthly rental rate to $860 per unit in Q3 2017 from $874 per unit in Q3 2016, the overall rental revenue and ancillary rental income increased by 8% to $26.4 million in Q3 2017 from $24.5 million in Q3 2016. This was due to the continued growth of the Corporation's portfolio during the period of economic recession. The weighted average number of units increased by 9% to 10,228 units in Q3 2017 from 9,345 units in Q3 2016.

For same asset properties, which refer to properties owned by the Corporation for the entire three and nine-month periods ended June 30, 2017 and 2016, the rental revenue increased by 1% to $24.7 million in Q3 2017 compared to $24.4 million in Q3 2016. This was mainly due to the improved vacancy of 8.1% in Q3 2017 as compared to 9.2% in Q3 2016. Overall, the average rental rate per unit per month increased by 1% to $886 in Q3 2017 from $875 per unit in Q3 2016.

Mainstreet's operating expenses have been slightly reduced over the quarter. Both overall and same-asset properties average operating cost per month per unit have decreased by 1% over Q3 2016.

Overall, net operating income increased by 7% to $16.6 million in Q3 2017, compared to $15.5 million in Q3 2016. Net operating income for "same assets" properties increased by 2% to $15.9 million in Q3 2017, compared to $15.5 million in Q3 2016. As a result, net operating margin maintained at 63% for total portfolio and increased by 1% to 64% for same asset properties.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

In Q3 2017, the average vacancy rate improved slightly from 1.0% in Q3 2016 to 0.7% in Q3 2017, mainly attributed to overall economic performance in British Columbia, which is the strongest in economic performance among all provinces, according to Statistics Canada. Due to the strong economy and continuously improved vacancy rate, rental revenue per unit increased by 6% to $912 per month in Q3 2017 from $858 per month in Q3 2016.

The operating expense per unit decreased to $259 per month compared to $296 per month in Q3 2016, resulting the net operating income increased by 16% and the net operating margin increased to 72% as compared to 66% in Q3 2016.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	$ **7,523**	$ 7,063	7%	$ **22,268**	$ 20,614	8%
Operating expenses	**2,136**	2,435	-12%	**7,593**	7,223	5%
Net operating income	$ **5,387**	$ 4,628	16%	$ **14,675**	$ 13,391	10%
Weighted average number of units	2,750	2,743	0%	**2,750**	2,729	1%
Average rent per unit per month	$ **912**	$ 858	6%	$ **900**	$ 839	7%
Operating cost per unit per month	$ **259**	$ 296	-13%	$ **307**	$ 294	4%
Average vacancy rate	**0.7%**	1.0%		**1.0%**	1.8%	
Operating margin	**72%**	66%		**66%**	65%	

Alberta

Mainstreet achieved a growth of 9% in its Alberta portfolio in Q3 2017; the average number of rental units grew to 6,012 units, compared to 5,518 units in Q3 2016. The average vacancy rate increased to 13.6% in Q3 2017 from 12.1% in Q3 2016. The overall vacancy rate was negatively affected by the recent acquisitions of new properties with substantial high vacancy rates. Excluding these newly acquired properties, the same asset vacancy rate in Alberta has improved from 12.0% in Q3 2016 to 9.8% in Q3 2017. Broader economic trends in the province remain uncertain and have become more difficult to forecast in recent years. Lower commodity prices for petroleum and natural gas has also added to this increased volatility.

Rental revenue per unit decreased by 5% to $865 per month in Q3 2017 from $910 per month in Q3 2016 as a result of the increased vacancy rate, rental incentives and bad debts during the period.

The operating expense per unit increased by 4% to $354 per month in Q3 2017 from $339 per month in Q3 2016. The increase in operating expense was mainly due to increased property tax and utility expenses in the quarter. As a result, the net operating income dropped by 3% and the net operating margin decreased to 59% as compared to 63% in Q3 2016.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	$ **15,598**	$ 15,068	4%	$ **46,185**	$ 47,348	-2%
Operating expenses	**6,389**	5,615	14%	**19,495**	16,905	15%
Net operating income	$ **9,209**	$ 9,453	-3%	$ **26,690**	$ 30,443	-12%
Weighted average number of units	**6,012**	5,518	9%	**5,865**	5,518	6%
Average rent per unit per month	$ **865**	$ 910	-5%	$ **875**	$ 953	-8%
Operating cost per unit per month	$ **354**	$ 339	4%	$ **369**	$ 340	8%
Average vacancy rate	**13.6%**	12.1%		**13.3%**	10.1%	
Operating margin	**59%**	63%		**58%**	64%	

Saskatchewan

Mainstreet achieved a significant 35% unit growth in the Saskatchewan portfolio in Q3 2017; the average number of rental units grew to 1,466 units, compared to 1,084 units in Q3 2016. As a result, the rental revenue increased substantially by 37% to $3.3 million in Q3 2017 from $2.4 million in Q3 2016.The average vacancy rate increased to 16.9% in Q3 2017 from 15.3% in Q3 2016. The rental revenue per unit increased by 1% to $741 per month in Q3 2017 compared with $733 per month in Q3 2016 which was mainly due to increased rental income of certain properties after stabilization.

The operating expense per unit decreased by 1% to $281 per month in Q3 2017 compared to $283 per month in Q3 2016. Overall, the net operating margin increased to 62% as compared to 61% in Q3 2016.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	$ 3,259	$ 2,385	37%	$ 9,819	$ 7,224	36%
Operating expenses	1,235	920	34%	4,060	2,903	40%
Net operating income	$ 2,024	$ 1,465	38%	$ 5,759	$ 4,321	33%
Weighted average number of units	1,466	1,084	35%	1,451	1,078	35%
Average rent per unit per month	$ 741	$ 733	1%	$ 752	$ 745	1%
Operating cost per unit per month	$ 281	$ 283	-1%	$ 311	$ 299	4%
Average vacancy rate	16.9%	15.3%		16.0%	16.5%	
Operating margin	62%	61%		59%	60%	

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 weakening market conditions in the Province of Alberta and Saskatchewan, 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 June 30, 2017.

		Stabilized properties				Unstabilized properties				
City	Total number of units	Number of stabilized units	Current net rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	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	975	937	$ 832	0.32%	$ 883	38	$ 752	0.00%	$ 920	$ 648
Surrey, BC	1,775	1,775	$ 935	0.62%	$ 1,011	–	$ –	0.00%	$ –	$ –
Calgary, AB	1,897	1,813	$ 1,040	8.05%	$ 1,215	84	$ 996	26.19%	$ 1,029	$ 4,551
Edmonton, AB	4,172	3,707	$ 937	11.20%	$ 1,032	465	$ 996	56.77%	$ 1,008	$ 9,540
Saskatoon, SK	1,466	1,072	$ 861	19.59%	$ 989	394	$ 904	14.21%	$ 1,057	$ 4,261
	10,285	9,304	$ 937	8.44%	$ 1,043	981	$ 950	34.86%	$ 1,026	$19,000

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Jun 30 2017	Mar 31 2016	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2015	Dec 31 2015	Sep 30 2015
Rental revenue	**$ 25,952**	$ 25,579	$ 25,499	$ 24,761	$ 24,225	$ 24,828	$ 25,055	$ 25,295
Ancillary rental income	**$ 428**	$ 469	$ 344	$ 341	$ 291	$ 450	$ 337	$ 340
Interest income	**$ 152**	$ 174	$ 114	$ 32	$ 40	$ 100	$ 34	$ 39
Total revenue from operations	**$ 26,532**	$ 26,222	$ 25,957	$ 25,134	$ 24,556	$ 25,378	$ 25,426	$ 25,674
Fair value (loss) gain	**$ (17,282)**	$ (8,545)	$ (7,748)	$ 54,723	$ (5,273)	$ (36,432)	$ (16,053)	$ 75,860
(Loss) profit from operations	**$ (10,216)**	$ (2,219)	$ (3,698)	$ 53,012	$ (259)	$ (27,098)	$ (8,484)	$ 72,228
Net (loss) profit per share								
– Basic	**$ (1.15)**	$ (0.25)	$ 0.42	$ 5.97	$ (0.03)	$ (2.67)	$ (0.83)	$ 7.19
– Diluted	**$ (1.15)**	$ (0.25)	$ 0.42	$ 5.54)	$ (0.03)	$ (2.67)	$ (0.83)	$ 6.74
Average vacancy rate	**10.6%**	10.7%	9.7%	10.3%	9.2%	8.3%	7.8%	7.5%
Net operating income	**$ 16,620**	$ 14,814	$ 15,690	$ 15,868	$ 15,546	$ 15,975	$ 16,634	$ 17,894
Same assets rent and ancillary rental income	**$ 24,736**	$ 24,596	$ 24,725	$ 22,848	$ 23,012	$ 23,800	$ 24,026	$ 23,066
Same assets net operating income	**$ 15,872**	$ 14,141	$ 15,083	$ 14,477	$ 14,683	$ 15,082	$ 15,722	$ 16,200
Stabilized FFO	**$ 6,427**	$ 6,820	$ 3,915	$ 5,236	$ 5,774	$ 5,973	$ 6,807	$ 8,739
Funds from continuing operations	**$ 6,743**	$ 7,208	$ 4,294	$ 5,614	$ 6,207	$ 6,746	$ 7,651	$ 8,741
Funds from operations per share								
– Basic	**$ 0.76**	$ 0.81	$ 0.48	$ 0.63	$ 0.68	$ 0.67	$ 0.75	$ 0.85
– Diluted	**$ 0.70**	$ 0.75	$ 0.45	$ 0.59	$ 0.63	$ 0.62	$ 0.71	$ 0.80

Highlights of the Corporation's financial results for the third quarter ended June 30, 2017:

- In Q3 2017, rental income was $26.0 million compared to $25.6 million in Q2 2017 and $24.2 million in Q3 2016.
- In Q3 2017, the average vacancy rate for the quarter was 10.6% compared to 10.7% in Q2 2017 and 9.2% in Q3 2016.
- Fair value loss for the quarter was $17.3 million compared to a loss of $8.5 million in Q2 2017 and a loss of $5.3 million in Q3 2016.

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 that reason, past experience shows the average stabilization process in BC is approximately three years.

As of June 30, 2017, 216 properties (9,304 units) out of 234 properties (10,285 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2017.

	October 1, 2016	Up to current period Acquisition	Up to current period Disposition	Number of units stabilized	June 30, 2017
Stabilized units (Note 1)	8,714	1	–	589	**9,304**
Unstabilized units	1,164	406	–	(589)	**981**
Total units	9,878	407	–	–	**10,285**

Note (1) – including one unit converted from extra space in an existing property

The following table summarizes the progress of the Corporation's stabilization progress since the beginning of fiscal year 2017.

	Oct. 1, 2016	No. of units stabilized during the period	No. of unstabilized unit acquired/ disposed during the period	June 30, 2017
Numbers of unstabilized units held for renovation	1,164	(589)	406	**981**
		Number of months		
Average time spent on stabilization	13	28	1	**9**
Estimated remaining time for stabilization	17	–	23	**16**

During the nine month period ended June 30, 2017, the Corporation acquired 406 unstabilized units in the Provinces of Alberta and Saskatchewan that required substantial renovation and with rents considered well below the market for stabilized units. The Corporation has stabilized 589 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For Q3 2017, FFO from operations of Mainstreet's stabilized property portfolio amounted to $6.4 million ($0.72 per basic share and $0.67 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended June 30, 2017			Nine months ended June 30, 2017		
	Stabilized properties	Unstabilized properties	Total	Stabilized properties	Unstabilized properties	Total
Rental and ancillary rental income	$ 24,611	$ 1,769	$ 26,380	$ 73,829	$ 4,443	$ 78,272
Property operating expenses	8,866	894	9,760	28,921	2,227	31,148
Net operating income	$ 15,745	$ 875	$ 16,620	$ 44,908	$ 2,216	$ 47,124
Operating margin	64%	49%	63%	61%	50%	60%
Vacancy rate	8.1%	35.1%	10.6%	8.4%	32.3%	10.4%
Interest income	$ 138	$ 14	$ 152	$ 404	$ 36	$ 440
Insurance settlement	–	–	–	–	2,400	2,400
General & administrative expenses	2,437	265	2,702	7,135	668	7,803
Mortgage interest	6,387	268	6,655	20,964	799	21,763
Financing cost	632	40	672	1,999	155	2,154
Funds from operations	$ 6,427	$ 316	$ 6,743	$ 15,214	$ 3,030	$ 18,244
Funds from operations per share						
– basic	$ 0.72	$ 0.04	$ 0.76	$ 1.71	$ 0.34	$ 2.05
– diluted	$ 0.67	$ 0.03	$ 0.70	$ 1.59	$ 0.32	$ 1.91
Weighted average number of shares						
– basic	8,868,574			8,878,319		
– diluted	9,567,986			9,570,376		

In Q3 2017, FFO of the stabilized property portfolio increased 11% to $6.4 million as compared to $5.8 million in Q3 2016, while the number of stabilized units increased by 10% to 9,304 units as of June 30, 2017 compared to 8,486 units as of June 30, 2016.

(000s)

	Three months ended June 30,			Nine months ended June 30,		
	2017	2016	% change	2017	2016	% change
Stabilized FFO	$ 6,427	$ 5,774	11%	$ 17,419	$ 18,991	-8%
Number of stabilized units	9,304	8,486	10%	9,247	8,354	11%

LIQUIDITY & CAPITAL RESOURCES

Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In Q3 2017, after payments of all required expenses, the Corporation generated funds from operations of $6.7 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.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In Q3 2017, the Corporation spent approximately $7.4 million on capital improvement. 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, primarily CMHC insured mortgages at lower interest rates.

In anticipation of rising interest rates, management decided to refinance all pre-maturity mortgages for the fiscal years 2017 and 2018. By Q2 2017, Mainstreet completed its entire early refinancing plan and managed to lock in approximately $195 million in 10-year, CMHC-insured loans at an average interest rate of 2.47% (5.09% before refinancing). This resulted in approximately $2.4 million in annualized interest savings, or $24 million over 10 years and raised additional fund of about $100 million, including an early pay-out penalty of $2.9 million. Except for $3 million mortgage loan which will be repaid in Q4 2017, the next mortgage loan will not be due until Q1 2019.

As of June 30, 2017, the Corporation owned the following 24 clear title properties and 2 development lots having an aggregate fair value of approximately $130 million:

Clear Title Asset List as of June 30, 2017

(000s of dollars except unit information)

Property	Number of units		Cost of Acquisition		Fair Value
103 Village Acres NW, Edmonton, AB	186	$	17,800	$	17,800
11720,11730 127 St. / 12702,12706,12707,12710,12714 117 Ave. / 12711,12715 118 Ave., Edmonton, AB	178	$	14,472	$	19,060
3147 – 151 Avenue, Edmonton, AB	99	$	10,000	$	10,392
525,529,601,605 AVE X S / 2309 – 17 St. W, Saskatoon, SK	69	$	4,945	$	7,972
1122 – 8 Avenue SW, Calgary, AB	50	$	1,975	$	12,250
2121 17 Street SW, Calgary, AB	45	$	5,650	$	5,650
10625 & 10635 – 115 Street, Edmonton, AB	43	$	4,693	$	4,940
33361 Old Yale Road, Abbotsford, BC	38	$	3,940	$	5,100
10615 111 Street NW, Edmonton, AB	33	$	3,366	$	3,366
2010 – 22 Street W, Saskatoon, SK	31	$	2,025	$	2,470
1817 – 22 Street W, Saskatoon, SK	30	$	2,100	$	2,100
1335 & 1339 – 10 Ave. SE, Calgary, AB	29	$	3,000	$	6,250
14224 McQueen Road, Edmonton, AB	27	$	950	$	4,086
11343 – 124 Street, Edmonton, AB	25	$	624	$	2,832
127 13 Avenue SW, Calgary, AB	24	$	3,960	$	3,960
2024 – 22 Street West, Saskatoon, SK	24	$	2,190	$	2,385
10625 – 113 Street NW, Edmonton, AB	22	$	1,980	$	2,580
10741 – 108 Street NW, Edmonton, AB	22	$	1,980	$	2,430
13608 – 109A Avenue, Edmonton, AB	17	$	574	$	2,035
322 – 6 Avenue North, Saskatoon, SK	16	$	1,644	$	2,450
1805 – 17 Street SW, Calgary, AB	15	$	2,075	$	2,300
10435 – 156 Street NW, Edmonton, AB	12	$	1,200	$	1,220
336 to 338 – 18 Avenue SW, Calgary, AB	7	$	–	$	3,300
322 – 18th Avenue SW, Calgary, AB	1	$	1,275	$	1,650
10125 - 114 Street, Edmonton, AB (Development lot)	–	$	1,103	$	1,070
33283 Bourquin Cr E, Abbotsford, BC (Development lot)	–	$	306	$	450
Total as of June 30, 2017	1,043	$	93,827	$	130,098

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 of below 70%. The current ratio is approximately 56%, which management believes will leave considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

The Corporation has a revolving banking facility for a maximum amount of $85 million with a syndicate of Canadian chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.75%. The facility requires monthly interest payments and matures on December 6, 2019. The facility is renewable every three years subject to the mutual agreement of the lenders and the Corporation. As at June 30, 2017, the Corporation has drawn $Nil (September 30, 2016 - $40.1 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 56% and 1.28 respectively, which were calculated as follows:

Overall funded debt to gross book value ratio as of June 30, 2017

(000s of dollars)	
Total funded debt	
Mortgages payable	$ 834,610
Bank indebtedness	–
	$ 834,610
Gross book value of assets	
Investment properties	$ 1,485,636
Property, plant and equipment	5,210
	$ 1,490,846
Overall funded debt to gross book value ratio	56%

Debt service coverage ratio

Earnings before interest, tax, depreciation, amortization, fair value loss, and nonrecurring earnings and gain

For 12 months ended June 30, 2017	
Net loss	$ 36,879
Add (deduct):	
Mortgage interest	26,137
Income tax	7,526
Depreciation	398
Amortization of deferred financing costs	2,789
Fair value loss	(21,148)
	$ 52,581
Principal and interest payments	$ 41,038
Debt service coverage ratio	1.28

CONTRACTUAL OBLIGATIONS

As of June 30, 2017, the Corporation had the following contractual obligations, which are anticipated to be met using using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of June 30, 2017 are as follows:

12 months ending June 30,	Amount
2018	$ 19,172
2019	44,074
2020	57,995
2021	84,733
2022	59,403
Subsequent	589,087
	854,464
Deferred financing costs	(19,854)
	$ 834,610

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average (%) interest rate
Fixed rate debt			
– CMHC-insured	$ 824,738	97%	3.05%
– non-CMHC-insured	29,726	3%	3.61%
Total fixed rate debt	854,464	100%	3.07%
Deferred financing costs	(19,854)		
	$ 834,610		

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

As of June 30, 2017, total mortgages payable was $835 million compared to $714 million on September 30, 2016 – an increase of 17% due to financing during the nine months ended June 30, 2017.

At June 30, 2017, management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 56% of fair value of investment properties. About 97% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with 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 (%)
2017	$ 3,096	0%	4.97%
2018	–	–	–
2019	29,056	3%	5.06%
2020	47,439	6%	3.66%
2021	73,974	9%	3.98%
Subsequent	700,899	82%	2.84%
	$ 858,464	100%	3.07%

The average maturing term of mortgage loans is 8.0 years as of June 30, 2017 compared to 7.0 years as of September 30, 2016.

All mortgage loans maturing in 2017 are expected to be refinanced to long term CMHC insured mortgages by the end of the fiscal year 2017.

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 the Corporation 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".

In Q3 2017, the CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P and ICFR as at June 30, 2017. This evaluation confirmed that the Corporation's DC&P and ICFR were effective as at June 30, 2017.

No changes were made to the Corporation's DC & P during the quarter ended June 30, 2017.

As at June 30, 2017, Mainstreet confirmed the design of ICFR to provide reasonable assurances regarding the reliability of the financial reporting and the preparation of financial statements and information for external purposes in accordance with IFRS and that the ICFR operated effectively throughout the reported period. The Corporation may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that these systems evolve with the Corporation's business. There were no changes in the Corporation's ICFR during the quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

Financial Instruments & Risk Management

Fair value of financial assets and liabilities

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

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

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

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and

– Level 3: Values based on valuation techniques for which any significant input is not based on observable market data.

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

(000s of dollars)

		June 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	$ 2,675	$ 2,675	$ 2,858	$ 2,858
Cash and cash equivalents	Level 1	41,938	41,938	1,095	1,095
Trade and other receivables	Level 2	906	906	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
Financial liabilities:					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	834,610	855,738	714,481	769,086
Trade and other payables	Level 2	6,626	6,626	6,898	6,898
Refundable security deposits	Level 1	4,040	4,040	4,100	4,100

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

(000s of dollars)

		June 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	$1,485,636	$1,485,636	$1,460,080	$1,460,080

Risk Associated with Financial Assets & Liabilities

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

SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Nine months ended June 30, 2017		Year ended September 30, 2016	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	8,883,333	$ 24,315	10,271,251	$ 28,114
Shares purchased for cancellation	(32,225)	(88)	(1,387,918)	(3,799)
Exercise of stock options	6,200	57	–	–
Issued and outstanding,				
– end of the period	8,857,308	$ 24,284	8,883,333	$ 24,315

All common shares share an equal right to dividends.

On May 30, 2017, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 479,437 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2017. The current NCIB expires on May 31, 2018. The Corporation's previous NCIB expired on May 30, 2017. During the three and nine months ended June 30, 2017 and 2016, the Corporation purchased and cancelled 29,825 (2016-31,792) and 32,225 (2016-170,128) common shares under the NCIB at an average price of $36.87 per common shares (2016-$35.72), and $36.72 per common share (2016-$32.47), respectively. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

On April 22, 2016, Mainstreet purchased for cancellation 1.2 million of its common shares at a purchase price of $36 per common share for an aggregate purchase price of $43.2 million (not including fees and expenses), pursuant to a substantial issuer bid made in accordance with applicable securities laws.

STOCK OPTION

A summary of the Corporation's stock option plan as of June 30, 2017, and September 30, 2016 and changes during the periods are presented below:

	June 30, 2017		September 30, 2016	
Stock option	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning of the period	**828,200**	**$ 5.51**	828,200	$ 5.51
Exercised	**(6,200)**	**$ 5.51**	–	–
Outstanding and exercisable,				
– end of the period	**822,000**	**$ 5.51**	828,200	$ 5.51
Weighted average contractual life-years	**1.69**		2.44	
Prices	**$ 5.51**		$ 5.51	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 26, 2010, March 21, 2013 and March 18, 2016, the Corporation was entitled to grant options to its directors, officers, employees and consultants of the Corporation, subsidiaries and affiliated companies for up to 20% of the issued and outstanding common shares until but not after March 26, 2017. 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 nine months ended June 30, 2017, a director of the Corporation exercised 6,200 stock options. The stock option plan will remain in place until all stock options granted thereunder are exercised or expired, provided that no further stock options may be granted under the stock option plan after March 26, 2017.

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 renewal by the shareholders of the Corporation on March 18, 2016.

Until recently securities legislation in Canada required a take-over bid to be open for at least 35 days, resulting in the board of directors of the Corporation being concerned that this was too short a period of time for companies that are subject to unsolicited take-over bids to be able to respond to ensure that shareholders are offered full and fair value for their shares. The Rights Plan is designed to give the Corporation's shareholders sufficient time to properly assess a take-over bid without undue pressure and to give the board of directors time to consider alternatives designed to allow the Corporation's shareholders to receive full and fair for their common shares. The Rights Plan is not intended to prevent a take-over bid or deter offers for the common shares of the Corporation. It is designed to encourage any bidder to provide shareholders with equal treatment and full and fair value for their common shares.

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.
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, ie. 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. 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 and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property;

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

iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock option, expected volatility rate of and expected dividend rates;

iv) Allocation of purchase cost in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and

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

Actual results could differ from estimates.

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. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the three and nine months ended June 30, 2017 were $21,000 (2016 – $Nil) and $143,100 (2016 – $53,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.

b) The Corporation paid legal and professional fees and reimbursements for the transactions conducted by the Corporation in its normal course of business for the three and nine months ended June 30, 2017 amounting to $11,000 (2016 - $18,000) and $208,500 (2016 - $147,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As at June 30, 2017, the amounts payable to the law firm were $1,200 (September 30, 2016 - $600).

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for Q3 2017.

Subsequent Events

Subsequent to the quarter ended June 30, 2017, the Corporation acquired 28 residential units in Calgary, Alberta for total consideration of $4.3 million.

Risk Assessment & 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. In addition, worldwide falling petroleum and natural gas commodity prices and speculation that lower commodity prices will continue over an extended period of time have resulted in a significant economic slowdown in Western Canada, particularly in the prairie provinces. 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.

This 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 by $1.00 commencing in October, 2016 and increasing to $15.00 an hour by 2018; or increases to operating costs resulting from the recently enacted carbon tax in Alberta, similar pending 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 approximately $3 million are subject to renewal in the next 6 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates 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 recently implemented carbon tax by the Government of Alberta has increased the costs of natural gas by an additional $1.12 per gigajoule ("GJ") effective January 1, 2017, increasing to $1.65 per GJ in 2018. 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;
- 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 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 as a result of 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 including property taxes 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 June 30, 2017, rents due from current tenants amounted to $335,000 (September 30, 2016 - $336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.0 million (September 30, 2016 - $4.1 million) and provisions for bad debts of $130,000 (September 30, 2016 - $130,000).

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 liability obligations. The Corporation manages its liquidity risk by monitoring forecast cash flows on a regular basis to meet expected operating expenses, by maintaining financial adequate banking facilities 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 Matters

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. 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 Mainsteet, 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.

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 such entity'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. To the extent possible the Corporation intends to minimize these risks by creating a separate entity for each separate property to be acquired.

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.

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% over annual inflation. 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 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

Broad economic trends have become more difficult to forecast in recent years, particularly in Mainstreet's Alberta and Saskatchewan markets. This economic uncertainty remains Mainstreet's biggest challenge. Lower commodity prices have also added to this increased volatility. Markets have rebounded from the 2016 lows, but prices for products such as petroleum, natural gas and potash are below the level needed to spur major new capital investments.

The Bank of Canada's decision to raise its overnight interest rate will make future borrowing more costly for Mainstreet. However, in anticipation of rising interest rates, management made the decision to refinance all of the Corporation's pre-matured debts for the fiscal years 2017 and 2018. Mainstreet managed to lock in approximately $195 million in 10-year, CMHC-insured loans at an average interest rate of 2.47% (5.09% before refinancing). This resulted in approximately $2.4 million in annualized interest savings, or $24 million over 10 years and raised additional fund of about $100 million, including an early pay-out penalty of $2.9 million. Except for $3 million mortgage loan which will be repaid in Q4 2017, the Corporation's next mortgage loan will not be due until Q1 2019.

Operating costs have increased in response to the introduction of a carbon tax in Alberta, which targets property owners. Heating has also become more costly along with marginally higher natural gas prices.

Mainstreet's overall vacancy rate in Q3 remained high at 10.6%. While management views the current vacancy rate as high, total acquisitions over the past 18 months of close to $100 million (982 unstabilized units) has consistently raised vacancy rates over the period. Furthermore, management believes this is a finite trend as Mainstreet continues to undergo the stabilization process through ongoing renovations. As of the quarter end date, 981 units, or 9% of the portfolio, remained in the stabilization and reposition and construction process.

Negative economic forces over the past two years have likewise caused significant short positions in respect of Mainstreet's stock. As of June 30, 2017, the short position in respect of Mainstreet totaled 711,600 common shares. However, that short position is smaller than the previous quarter ended March 31, 2017, when it totaled 771,800 common shares. Management believes these short positions are partly responsible for the company's shares trading well below NAV.

OUTLOOK

Despite softening commodity prices, migration into Alberta and Saskatchewan remains steady. Annual net migration into Alberta since Q1 2017 totaled more than 28,000 people, according to Stats Canada. Net migration in Q1 grew 25% compared to the prior quarter—a total of approximately 5,000 people, and the fourth-highest level in the country. Net migration into Saskatchewan totaled 1,589 in Q1, a 3% rise from prior quarter. Alberta's population is expected to grow by 1.6% in 2017 and 1.7% in 2018, well above the national average. Saskatchewan's population is expected to grow by 1.3% in 2018, down from 1.4% in 2016.

Rising population estimates come alongside encouraging employment numbers in the Prairie Provinces. Alberta added 23,700 new jobs in the first six months of 2017 alone, and both provinces are expected to see gradual growth in new jobs through the year, according to Statistics Canada.

As in-migration levels stabilize, Mainstreet believes the current oversupply in the rental market will continue to be gradually absorbed. This current oversupply is largely the result of a rapid build out of investor-owned condominiums during times of high economic growth, many of which were later converted into rental units that spilled over into the broader rental market.

Meanwhile, despite stable economic activity, consumers remain cautious. Management believes Mainstreet is well positioned to capitalize on this persisting caution as renters tend to favour middle market prices as they delay major investments like new homes. Again, management believes Mainstreet's price point average rental rate between $900 and $1,000 perfectly aligns with that mid-market demand.

Economic volatility in turn provides Mainstreet with acquisition opportunities. Year-to-date, Mainstreet has purchased $45 million in new assets across its portfolio. Mainstreet will continue to pursue additional acquisitions on an opportunistic basis.

RUNWAY ON EXISTING PORTFOLIO

1) Closing the NOI gap: Over Q3 2017, 9% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in Mainstreet's business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect NOI and FFO. However, management expects to close this gap over time after stabilization.
2) Growing through bricks and mortar: Mainstreet's 100% organic growth model will allow it to continue to boost NOI and FFO while avoiding equity dilution.
3) Buying back shares at discount: Mainstreet believes its shares continue to trade well below the NAV. Mainstreet will therefore continue to buy back its common shares on an opportunistic basis under the 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.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

($000s of Canadian dollars)

	June 30, 2017	September 30, 2016
Assets		
Non-current assets		
Investment properties [Note 4]	$ 1,485,636	$ 1,460,080
Property, plant and equipment	5,210	4,822
Intangible assets	464	423
	1,491,310	1,465,325
Current assets		
Prepaid assets	1,980	1,774
Prepaid current income tax	451	1,261
Trade and other receivables	906	1,614
Restricted cash	2,675	2,858
Inventory	379	338
Mortgage receivable	–	2,500
Cash and cash equivalents	41,938	1,095
	48,329	11,440
Total Assets	$ 1,539,639	$ 1,476,765
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	$ 818,381	$ 666,824
Deferred tax liabilities	123,670	123,162
	942,051	789,986
Current liabilities		
Mortgages payable [Note 5]	16,229	47,657
Trade and other payables	6,626	6,898
Refundable security deposits	4,040	4,100
Bank indebtedness [Note 6]	–	40,148
	26,895	98,803
Total Liabilities	968,946	888,789
Equity		
Share capital [Note 7]	24,284	24,315
Contributed surplus	2,382	2,404
Retained earnings	544,027	561,257
Total Equity	570,693	587,976
Total Liabilities and Equity	$ 1,539,639	$ 1,476,765

See accompanying notes to these condensed consolidated financial statements.

Bob Dhillon
Director

Joe Amantea
Director

July 18, 2017

CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS

Unaudited

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Rental revenue	$ 25,952	$ 24,225	$ 77,032	$ 74,108
Ancillary rental income	428	291	1,240	1,078
	26,380	24,516	78,272	75,186
Property operating expenses	9,760	8,970	31,148	27,031
Net operating income	16,620	15,546	47,124	48,155
Interest income	152	40	440	174
	16,772	15,586	47,564	48,329
Mortgage interest	6,655	6,369	21,763	19,227
Amortization of deferred financing cost	672	599	2,154	1,745
General and administrative expenses	2,702	2,327	7,803	6,549
Depreciation	110	93	295	264
	10,139	9,388	32,015	27,785
Profit before other items and income tax	6,633	6,198	15,549	20,544
Fair value loss [Note 4]	(17,282)	(5,273)	(33,575)	(57,758)
Insurance settlement	–	–	2,400	–
(Loss) profit before income tax	(10,649)	925	(15,626)	(37,214)
Current income tax	–	84	–	204
Deferred income tax (recovery) expense	(433)	1,100	508	(1,576)
Net loss and total comprehensive loss	$ (10,216)	$ (259)	$ (16,134)	$ (35,842)
Loss per share				
– basic [Note 8]	$ (1.15)	$ (0.03)	$ (1.82)	$ (3.66)
– diluted [Note 8]	$ (1.15))	$ (0.03)	$ (1.82)	$ (3.66)

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

($000s of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2015	$ 28,114	$ 2,404	$ 589,888	$ 620,406
Shares purchased for cancellation	(3,750)	–	(45,212)	(48,962)
Loss for the period	–	–	(35,842)	(35,842)
Balance, June 30, 2016	$ 24,364	$ 2,404	$ 508,834	$ 535,602
Shares purchased for cancellation	(49)	–	(590)	(639)
Profit for the period	–	–	53,013	53,013
Balance, September 30, 2016	$ 24,315	$ 2,404	$ 561,257	$ 587,976
Balance, October 1, 2016	$ 24,315	$ 2,404	$ 561,257	$ 587,976
Shares purchased for cancellation	(31)	–	(1,096)	(1,127)
Exercise of stock option	–	(22)	–	(22)
Loss for the period	–	–	(16,134)	(16,134)
Balance, June 30, 2017	$ 24,284	$ 2,382	$ 544,027	$ 570,693

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

($000s of Canadian dollars)

	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Cash obtained from (used in) operating activities		
Net loss	$ (16,134)	$ (35,842)
Adjustments for:		
Amortization of deferred financing cost	2,154	1,745
Depreciation	295	264
Fair value loss	33,575	57,758
Deferred income tax expense	508	(1,576)
Mortgage interest	21,763	19,227
Interest paid on mortgages payable	(21,763)	(19,220)
	20,398	22,356
Change in working capital		
Prepaid assets	(206)	(2,094)
Prepaid current income tax	810	(1,149)
Trade and other receivables	708	(424)
Inventory	(41)	140
Restricted cash	183	448
Mortgage receivables	2,500	–
Trade and other payables	(340)	(1,128)
Current income tax payable	–	(1,671)
Refundable security deposits	(60)	(280)
Cash from operating activities	23,952	16,198
Financing activities		
Bank indebtedness	(40,148)	(19,411)
Financing of investment properties	193,468	119,620
Repayment of mortgages payable	(76,219)	(47,420)
Repurchase of shares	(1,127)	(48,962)
Exercise of stock option	(22)	–
Cash from financing activities	75,952	3,827
Investing activities		
Purchase of and additions to investment properties	(58,337)	(19,759)
Purchase of and additions to property, plant and equipment	(683)	(299)
Purchase of and additions to intangible assets	(41)	(109)
Cash used in investing activities	(59,061)	(20,167)
Net increase in cash and cash equivalents	40,843	(142)
Cash and cash equivalents, beginning of period	1,095	1,526
Cash and cash equivalents, end of period	$ 41,938	$ 1,384
Cash and cash equivalents are comprised of:		
Cash (Overdraft)	$ 490	$ (164)
Short-term deposits	41,448	1,548
	41,938	1,384

See accompanying notes to these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited
(Thousands of Canadian dollars, except share and per share amounts and amounts within narrative)
For the three and nine months ended June 30, 2017 and 2016

1. GENERAL

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The condensed consolidated financial statements of the Corporation have been prepared in compliance with International Accounting Standards ("IAS") 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and adopted by the Chartered Professional Accountants of Canada ("CPA"). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed and, therefore, these condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended September 30, 2016

b) Basis of presentation

These condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2016.

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

c) Basis of consolidation

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

d) Key accounting estimates and assumptions

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

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate 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 for similar loans with similar credit ratings and the same maturities;
- iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock options, expected volatility rate of and expected dividend rates;
- iv) Allocation of purchase cost in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and
- v) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

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

Certain new IFRSs which are related to accounting periods beginning on January 1, 2018 or later are not expected to have a significant effect on the consolidated financial statements. The following accounting policies have not yet been adopted by Mainstreet.

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

The IASB has undertaken a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") with IFRS 9 Financial Instruments ("IFRS 9"). In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current 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. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. IFRS 9 is still available for early adoption. The full impact of the standard on the Corporation's financial statements will not be known until the assessment by the Corporation is complete.

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

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new Standard on its financial statements.

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

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

4. INVESTMENT PROPERTIES

	Nine months ended June 30, 2017	Year ended Sept. 30, 2016
Balance, beginning of period	$ 1,460,080	$ 1,386,035
Additions	41,454	63,938
Building improvements	17,677	13,142
Fair value loss	(33,575)	(3,035)
Balance, end of period	$ 1,485,636	$ 1,460,080

The fair value of investment properties held by the Corporation as of September 30, 2016, was determined by independent qualified real estate appraisers who are members of the Appraisal nstitute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The appraisers also reviewed changes in market conditions affecting the underlying assumptions used for the fair value assessment during the period and management estimated the fair value of the investment properties based on the current market conditions at June 30, 2017 except for four properties acquired during the nine months ended June 30, 2017 for which the cost of acquisition was used as the best estimate of the fair market value as of June 30, 2017.

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

	June 30, 2017	Sept. 30, 2016
Surrey, BC	4.41%	4.56%
Abbotsford, BC	5.13%	5.13%
Calgary, AB	4.98%	4.86%
Edmonton, AB	5.92%	5.92%
Saskatoon, SK	6.89%	6.77%
Investment properties	5.34%	5.41%

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

As at June 30, 2017						
Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 76,953	$ 78,540	$ 79,333	$ 80,126	$ 81,713
Capitalization rate						
-0.25%	5.09%	$ 26,210	$ 57,382	$ 72,968	$ 88,554	$ 119,727
Cap rate used	5.34%	$ (44,569)	$ (14,856)	$1,485,636	$ 14,856	$ 44,569
+0.25%	5.59%	$ (109,018)	$ (80,634)	$ (66,442)	$ (52,250)	$ (23,866)

As at September 30, 2016						
Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 76,621	$ 78,200	$ 78,990	$ 79,780	$ 81,360
Capitalization rate						
-0.25%	5.16%	$ 24,816	$ 55,432	$ 70,740	$ 86,049	$ 116,665
Cap rate used	5.41%	$ (43,802)	$ (14,601)	$1,460,080	$ 14,601	$ 43,802
+0.25%	5.66%	$ (106,359)	$ (78,447)	$ (64,491)	$ (50,535)	$ (22,624)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.07% (September 30, 2016 – 3.39%) per annum and are payable in monthly principal and interest installments totaling $3.5 million (September 30, 2016 - $3.2 million), maturing from 2017 to 2027 and are secured by specific charges against specific investment properties, having a fair value of $1,354 million (September 30, 2016 - $1,282 million).

	June 30, 2017	Sept. 30, 2016
Non-current	$ 818,381	$ 666,824
Current	16,229	47,657
	$ 834,610	$ 714,481

Estimated principal payments required to retire the mortgage obligations as of June 30, 2017 are as follows:

12 months ending June 30	Amount
2018	$ 19,172
2019	44,074
2020	57,995
2021	84,733
2022	59,403
Subsequent	589,087
	854,464
Deferred financing costs	(19,854)
	$ 834,610

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a new banking facility to a maximum amount 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 1.75%. 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 obtained and extension of the maturity date to December 6, 2019. As at June 30, 2017, the Corporation has drawn $Nil (September 30, 2016 - $40.1 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 56% and 1.28, respectively.

Overall funded debt to gross book value ratio as of June 30, 2017

(000s of dollars)	
Total funded debt	
Mortgages payable	$ 834,610
Bank indebtedness	–
	$ 834,610
Gross book value of assets	
Investment properties	$ 1,485,636
Property, plant and equipment	5,210
	$ 1,490,846
Overall funded debt to gross book value ratio	56%

Debt service coverage ratio

Earnings before interest, tax, depreciation, amortization, fair value loss, and nonrecurring earnings and gain

For 12 months ended June 30, 2017	
Net loss	$ 36,879
Add (deduct):	
Mortgage interest	26,137
Income tax	7,526
Depreciation	398
Amortization of deferred financing cost	2,789
Fair value loss	(21,148)
	$ 52,581
Principal and interest payments	$ 41,038
Debt service coverage ratio	1.28

7. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Nine months ended June 30, 2017		Year ended September 30, 2016	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	8,883,333	$ 24,315	10,271,251	$ 28,114
Shares purchased for cancellation	(32,225)	(88)	(1,387,918)	(3,799)
Exercise of stock options	6,200	57	–	–
Issued and outstanding,				
– end of the period	8,857,308	$ 24,284	8,883,333	$ 24,315

All common shares have an equal right to dividends.

On May 30, 2017, the Corporation obtained approval from the Toronto Stock Exchange (“TSX”) to repurchase up to 479,437 common shares of the Corporation under a Normal Course Issuer Bid (“NCIB”) commencing June 1, 2017. The current NCIB expires on May 31, 2018. The Corporation’s previous NCIB expired on May 30, 2017. During the three and nine months ended June 30, 2017 and 2016, the Corporation purchased and cancelled 29,825 (2016-31,792) and 32,225 (2016-170,128) common shares under the NCIB at an average price of $36.87 per common share (2016-$35.72), and $36.72 per common share (2016-$32.47), respectively. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

On April 22, 2016, Mainstreet purchased for cancellation 1.2 million of its common shares at a purchase price of $36 per common share for an aggregate purchase price of $43.2 million (not including fees and expenses), pursuant to a substantial issuer bid made in accordance with applicable securities laws.

8. LOSS PER SHARE

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

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

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

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Numerator				
Net loss	$ (10,216)	$ (259)	$ (16,134)	$ (35,842)
Denominator				
For basic loss per share and diluted loss per share				
– Weighted average shares	8,868,574	9,086,815	8,878,319	9,798,525
Loss per share				
– basic	$ (1.15)	$ (0.03)	$ (1.82)	$ (3.66)
– diluted	$ (1.15)	$ (0.03)	$ (1.82)	$ (3.66)

Due to reported losses, the dilution calculation does not include 822,000 common shares and 828,200 common shares, respectively issuable upon proper exercise of outstanding stock options, for the nine months ended June 30, 2017 and 2016. If included, these items would be anti-dilutive and therefore are not included in the computation of diluted loss per common share.

9. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of June 30, 2017 and September 30, 2016 and changes during the periods are presented below:

	June 30, 2017		September 30, 2016	
Stock option	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning of the period	828,200	$ 5.51	828,200	$ 5.51
Exercised	(6,200)	$ 5.51	–	–
Outstanding and exercisable,				
– end of the period	822,000	$ 5.51	828,200	$ 5.51
Weighted average contractual life-years	1.69		2.44	
Prices	$ 5.51		$ 5.51	

During the nine months ended June 30, 2017, a director of the Corporation exercised 6,200 stock options. No stock options may be granted under the Corporation's stock option plan after March 24, 2017.

10. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, mortgage 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 the financial assets and liabilities. The inputs used to measure fair value determine different levels of the fair value hierarchy categorized as follows:

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

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

(000s of dollars)

		June 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	$ 2,675	$ 2,675	$ 2,858	$ 2,858
Cash and cash equivalents	Level 1	41,938	41,938	1,095	1,095
Trade and other receivables	Level 2	906	906	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
Financial liabilities:					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	834,610	855,738	714,481	769,086
Trade and other payables	Level 2	6,626	6,626	6,898	6,898
Refundable security deposits	Level 1	4,040	4,040	4,100	4,100

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

(000s of dollars)

		June 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	$1,485,636	$1,485,636	$1,460,080	$1,460,080

11. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. Most of the Corporation's financial assets and liabilities are short term in nature and, accordingly, the fluctuation in the fair value is therefore minimal.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totaling approximately $3 million are subject to renewal during the financial year ending September 30, 2017. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would not have resulted in any change in interest expense for the nine months ended June 30, 2017.

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 June 30, 2017, rents due from current tenants amounted to $335,000 (September 30, 2016 - $336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.0 million (September 30, 2016 - $4.1 million) and provisions for bad debts of $130,000 (September 30, 2016 - $130,000).

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

Liquidity Risk

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

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	$ 19,172	44,074	57,995	84,733	648,490	$ 854,464
Mortgage interest payable	$ 26,211	25,560	23,650	21,641	70,709	$ 167,771
Trade and other payables	$ 6,626	–	–	–	–	$ 6,626
Refundable security deposits	$ 4,040	–	–	–	–	$ 4,040

12. GUARANTEES, CONTINGENCIES, COMMITMENTS

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

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

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

As of June 30, 2017 and September 30, 2016, no amounts have been recorded and none are required to be disclosed in the condensed consolidated financial statements with respect to guarantees, contingencies and commitments.

13. RELATED PARTY TRANSACTIONS

a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the three and nine months ended June 30, 2017 were $21,000 (2016 – $Nil) and $143,100 (2016 – $53,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.

b) The Corporation paid legal and professional fees and reimbursements for the transactions conducted by the Corporation in its normal course of business for the three and nine months ended June 30, 2017 amounting to $11,000 (2016 - $18,000) and $208,500 (2016 - $147,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As at June 30, 2017, the amounts payable to the law firm were $1,200 (September 30, 2016 - $600).

14. SEGMENTED INFORMATION

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

RENTAL OPERATIONS

	Three months ended June 30		Nine months ended June 30	
	2017	2016	2017	2016
BRITISH COLUMBIA				
Rental revenue	$ 7,399	$ 6,987	$ 21,857	$ 20,358
Ancillary rental income	124	76	411	256
Fair value gain or (loss)	10,365	(2,074)	8,381	9,044
Property operating expenses	2,136	2,435	7,593	7,223
ALBERTA				
Rental revenue	$ 15,319	$ 14,867	$ 45,443	$ 46,569
Ancillary rental income	279	201	742	779
Fair value (loss)	(26,101)	(2,695)	(35,527)	(65,551)
Property operating expenses	6,389	5,615	19,495	16,905
SASKATCHEWAN				
Rental revenue	$ 3,234	$ 2,371	$ 9,732	$ 7,181
Ancillary rental income	25	14	87	43
Fair value (loss)	(1,545)	(504)	(6,429)	(1,251)
Property operating expenses	1,235	920	4,060	2,903
TOTAL				
Rental revenue	$ 25,952	$ 24,225	$ 77,032	$ 74,108
Ancillary rental income	428	291	1,240	1,078
Fair value (loss)	(17,281)	(5,273)	(33,575)	(57,758)
Property operating expenses	9,760	8,970	31,148	27,031
Unallocated revenue*	152	40	2,840	174
Unallocated expenses**	9,707	10,572	32,523	26,413
Loss for the period	$ (10,216)	$ (259)	$ (16,134)	$ (35,842)

* Unallocated revenue represents interest income and insurance settlement.

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

IDENTIFIABLE ASSETS AND LIABILITIES

	June 30, 2017	Sept. 30, 2016
BRITISH COLUMBIA		
Investment properties	$ 411,952	$ 400,400
Property, plant and equipment	15	19
Mortgages payable	241,200	156,543
Refundable security deposits	1,318	1,290
ALBERTA		
Investment properties	$ 908,671	$ 892,480
Property, plant and equipment	5,182	4,794
Mortgages payable	499,103	467,555
Refundable security deposits	2,177	2,218
SASKATCHEWAN		
Investment properties	$ 165,013	$ 167,200
Property, plant and equipment	13	9
Mortgages payable	94,307	90,383
Refundable security deposits	545	592
TOTAL		
Investment properties	$ 1,485,636	$ 1,460,080
Property, plant and equipment	5,210	4,822
Mortgages payable	834,610	714,481
Refundable security deposits	4,040	4,100

IDENTIFIABLE CAPITAL EXPENDITURES

	Nine months ended June 30, 2017	Year ended Sept. 30, 2016
BRITISH COLUMBIA	$ 3,171	$ 9,917
ALBERTA	52,438	28,044
SASKATCHEWAN	4,249	39,736
TOTAL	$ 59,858	$ 77,697

15. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and, on occasion, bank loans or lines of credit when drawn on. The Corporation's total capital resources as at June 30, 2017 amounted to

$1,405 million (September 30, 2016 - $1,343 million).

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

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

The total managed capital for the Corporation is summarized below:

	June 30, 2017	Sept. 30, 2016
Mortgages payable	$ 834,610	$ 714,481
Bank indebtedness	–	40,148
Total equity	570,693	587,976
Total capital	$ 1,405,303	$ 1,342,605

The Corporation's policy for capital risk management is to keep a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at June 30, 2017 is approximately 56% (September 30, 2016 – 52%) which management believes leaves a sufficient capacity to raise additional funds from refinancing before the Corporation reaches its internal policy target ratio of 70%.

As at the dates set forth below, the debt to market value ratios were as follows:

	June 30, 2017	Sept. 30, 2016
Mortgages payable	$ 834,610	$ 714,481
Bank indebtedness	–	40,148
Total debts	$ 834,610	$ 754,629
Investment properties	$ 1,485,636	$ 1,460,080
Debt to fair value ratio	56%	52%

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

16. SUBSEQUENT EVENTS

Subsequent to the quarter ended June 30, 2017, the Corporation acquired 28 residential units in Calgary, Alberta for total consideration of $4.3 million.

17. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on July 18, 2017.

CORPORATE INFORMATION

OFFICERS

President & CEO
Bob Dhillon
Calgary, AB

Chief Financial Officer & Chief Operating Officer
Johnny Lam
Calgary, AB

Secretary
Joe Amantea
Calgary, AB

BOARD OF DIRECTORS

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair
John Irwin
London, ON

Rich Grimaldi
Westport, CT

Ron B. Anderson
Vancouver, BC

Human Resource Committee

Chair
Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

REGISTRAR & TRANSFER AGENT

REGISTRAR & TRANSFER AGENT

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

AUDITORS

Deloitte LLP
3000 Scotia Centre
700 – 2 St SW
Calgary, AB

SOLICITORS

Warren Benson Amantea LLP
1413 – 2 St SW
Calgary, AB

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

BANKERS

TD Canada Trust
335 – 4 Ave SW
Calgary, AB

Alberta Treasury Branch
Suite 600, 444 –7 Ave SW
Calgary, AB

INVESTOR RELATIONS

Bob Dhillon
Tel: 403 215-6063
Fax: 403 264-8870
bdhillon@mainst.biz

Financial Inquiries

Trina Cui
Tel: 403 215-6061
Fax: 403 266-8867
tcui@mainst.biz

HEAD OFFICE

Mainstreet Equity Corp.

305 – 10 Avenue SE
Calgary, AB T2G 0W2

Tel: 403 215-6060
Fax: 403 266-8867

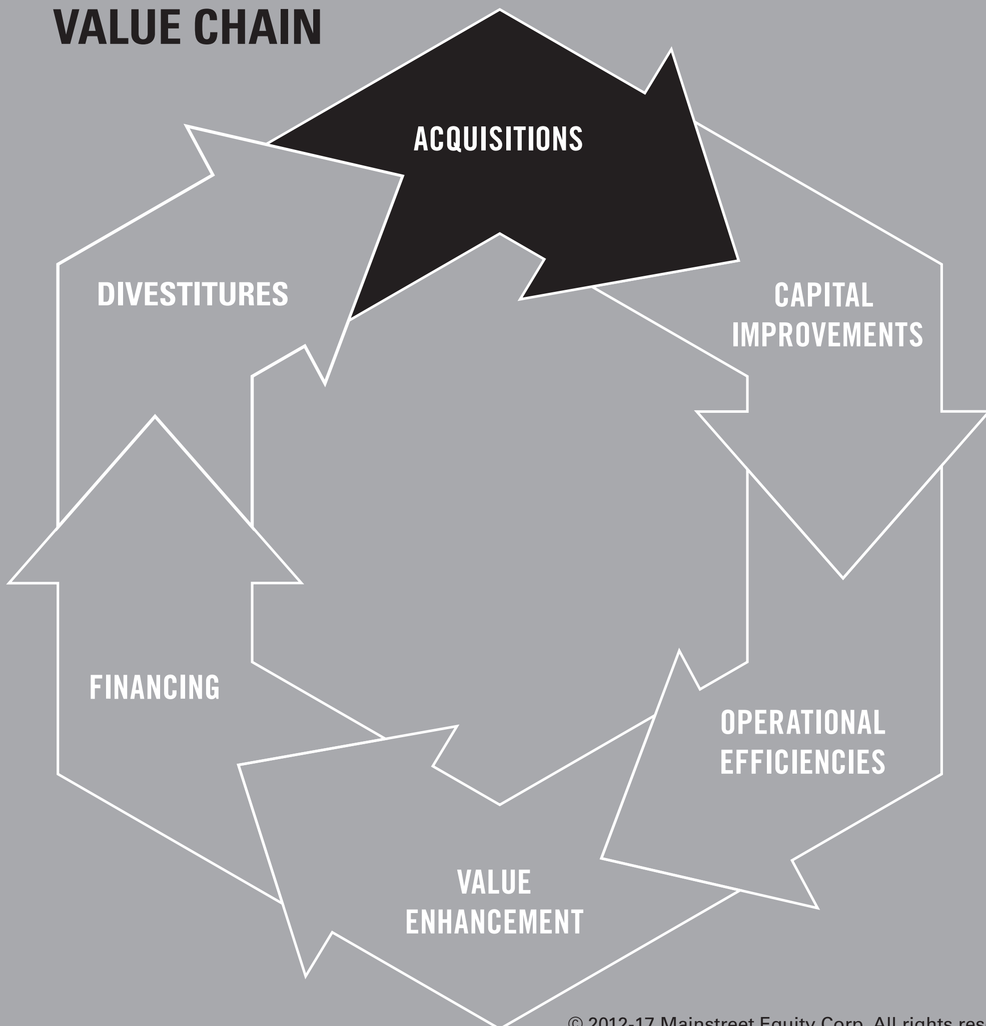
E-mail:
mainstreet@mainst.biz
Web site: www.mainst.biz
Twitter: @BobDhillon_MEQ

STOCK EXCHANGE

Toronto Stock Exchange
Trading symbol: MEQ

The Mainstreet

VALUE CHAIN



How do we create value? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the "Mainstreet Value Chain". It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. **Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of $17 million to 10,313 units (YTD) with appraised values of approximately $1.5 billion with minimal equity dilution.**