



Q2 2017

For the three and six months ended March 31, 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](http://www.sedar.com)).

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## Forward-Looking Information

*Certain statements contained herein constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to future acquisitions, dispositions and capital expenditures, reduction of vacancy rates, increase of rental rates and rental revenue, future income and profitability, timing of refinancing of debt, access to low-cost, long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans, completion, timing and costs of renovations, 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 | Q2 PERFORMANCE HIGHLIGHTS

Rental Revenue from operation	Up 3% to \$26.0 million (vs. \$25.3 million in Q2 2016)
Rental Revenue – Same Assets Properties	Down 2% to \$24.6 million (vs. \$25.2 million in Q2 2016)
<b>Net Operating Income (NOI)</b>	
From operations	Down 7% to \$14.8 million (vs. \$16.0 million in Q2 2016)
Same Assets Properties	Down 11% to \$14.1 million (vs. \$15.9 million in Q2 2016)
<b>Funds from operations</b>	
Including insurance settlement	Up 5% to \$7.2 million (vs. \$6.9 million in Q2 2016)
Including insurance settlement per share	Up 19% to \$0.81 per share (vs. \$0.68 per share in Q2 2016)
Before insurance settlement and pay-out penalties	Down 30% to \$5.0 million (vs. \$7.1 million in Q2 2016)
Before insurance settlement and pay-out penalties per share	Down 19% to \$0.57 per share (vs. \$0.70 per share in Q2 2016)
<b>Operating Margin</b>	
From operations	57% (vs. 63% in Q2 2016)
Same Assets Properties	57% (vs. 63% in Q2 2016)
Total Acquisition & Capital Expenditures	\$28.3 million in Q2 2017 (vs. \$9.8 million in Q2 2016)
Stabilized Units	216 properties (9,303 units) out of 231 properties (10,182 units)
Acquisitions	245 units for \$23.1 million (\$94,000/unit)
Vacancy rate	10.7% (vs. 8.3% in Q2 2016)
Same Asset Vacancy rate	8.7% (vs. 8.6% in Q2 2016)

## MESSAGE FROM THE PRESIDENT & CEO

Q2 2017 ended March 31, 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 Q2 2017.

After 9 quarters of volatile economic conditions, we saw our core Alberta and Saskatchewan markets beginning to show signs of stability. In Q1 2017, after posting the first increase in same-asset revenues since Q2 2015, Mainstreet management suggested that we might be witnessing the tail end of a prolonged downward curve. The revenues of Q2 2017 appear to reinforce that belief. Amid this improving outlook, we now believe there is opportunity to pursue a targeted growth strategy through opportunistic future acquisition.

### FINANCIAL HIGHLIGHTS FOR Q2 2017

- We 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 surpassed 10,000 units (we now have a total of 10,182 units) while avoiding equity dilution.
- Purchased 245 units of residential apartments for \$23.1 million (\$94,000 per unit) in Q2 2017 in Edmonton, Calgary and Saskatoon, as we continue to pursue our strategy of growth through opportunistic acquisitions during periods of slower economic growth.
- Refinanced \$48.2 million in debts at an average interest rate of 2.84%, including \$9.7 million in pre-maturity debts at an average interest rate of 4.95% and \$28.6 million in clear title assets at an average rate of 2.88% to mostly 10-year, long-term CMHC insured mortgages. These financings resulted in interest savings of \$2.1 million for the entire term of 10 years and raised \$38.5 million in additional funds after pay-out of related penalties.
- Maintained our sizeable year-to-date estimated liquidity position of \$143 million, including a cash balance of \$58 million, to pursue further potential growth opportunities.

While we see leveling results in our Alberta and Saskatchewan markets, 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 2% and net operating income (“NOI”) growth of 5% year to date. We believe there will be substantial potential for further increases in market rental rates in the region, which could raise our NOI and funds from operations (“FFO”) in future quarters.

For more detailed analysis of Mainstreet operating results for Q2 2017, please refer to the sections titled “Funds from Operations” and “Rental Operations” in our MD&A.

## RESULTS

Rental revenues increased 3% to \$26 million, compared with \$25.3 million in Q2 2016; this came alongside a 2% fall in same asset rental revenues to \$24.6 million, from \$25.2 million in Q2 2016. NOI decreased 7% to \$14.8 million, while falling 11% to \$14.1 million on a same-asset basis. Operating margins dropped to 57% compared to 63% in Q2 2016.

In Q2 2017, FFO increased 5% to \$7.2 million, compared with \$6.9 million in Q2 2016. FFO for the quarter was impacted by one-time pay-out penalties of \$197,000 and an insurance settlement totaling \$2.4 million. Excluding one-time items, FFO decreased 30% to \$5.0 million, compared with \$7.1 million in Q2 2016.

The same-asset vacancy rate remained fairly constant at 8.7%, compared with 8.6% in Q2 2016.

## CHALLENGES

The potential for market volatility remains our biggest challenge, despite improvements in the macro-economic climate in Canada. While Mainstreet is not immune to these broader economic forces, economic risk is inherent in our business model.

The particularly harsh winter in Western Canada coupled with the introduction of new taxes caused operating costs to rise in Q2. Unusually low temperatures, especially in the British Columbia market, led to higher-than-expected heating costs. Heavy snowfall also induced higher snow removal costs and other one-time maintenance expenses. In Alberta specifically, the introduction of a provincial carbon tax increased heating costs by an estimated 15%.

Mainstreet’s overall vacancy rate in Q2 remained high at 10.7%. Our uncommonly high level of strategic acquisitions over the quarter was largely responsible for the rise. While management views the current vacancy rate as high, our total acquisitions over the past 18 months of more than \$85 million (886 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, 879 units, or 9% of the portfolio, remained in the stabilization, reposition and/or construction process.

Negative economic forces over the past two years have likewise caused significant short positions in Mainstreet’s stock. As of April 13, 2017, the short position in Mainstreet totaled 727,219 common shares. However, that short position is smaller than on 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

Management believes that nearly all of the key indicators suggest that the macro economic outlook in Western Canada is stabilizing. Oil prices in April 2017 were roughly 20% higher than the year prior, and energy companies appear to have begun gradually raising their annual capital spending plans. Oil and gas drilling activity also appears to be growing. In January 2017, utilization rates of drilling rigs in Canada were the highest in two years at 43%, according to Petroleum Services Association of Canada (PSAC) data. On a weekly basis, PSAC data show rig counts in Prairie Provinces remain very robust compared to the year prior.

Broader economic indicators also suggest markets could be on the upswing, particularly in Alberta and Saskatchewan. Alberta added 20,000 new full-time jobs in March 2017, retail sales reached \$6.4 billion in January 2017, marking a 4.8% rise compared with the year earlier. Retail sales in Saskatchewan, meanwhile, increased 6% year-over-year to \$1.7 billion (Statistics Canada).

Alberta's population continues to grow, adding more than 11,000 new residents in Q4 of 2016 according to Statistics Canada. Population growth in Alberta year-over-year was 1.51% in 2016, well above the national average of 0.26%. Saskatchewan's year-over-year population growth rate was exactly equal to Alberta at 1.51%. While in-migration into both provinces remains lower than years prior, net migration numbers appear to be stable.

During prior years of high economic growth, there was a rapid build out of condominiums—particularly in Edmonton and Calgary—which caused oversupply in the market. As a result, some of these investor-owned condos were converted into rental spaces that then spilled over into the broader rental market. However, we believe that steady in-migration levels and improving employment conditions will gradually absorb this oversupply in coming years.

Moreover, despite heightened 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.

The labour market remains much cooler than when economic activity was at its peak. This provided Mainstreet the opportunity to bulk up on senior and middle management personnel over the past year as we anticipate rapid future growth. While the increased salary expense has negatively impacted our operating and G&A expenses in the short-term, we believe that building a strong management team is crucial to realizing Mainstreet's long-term growth plans.

## **RUNWAY ON EXISTING PORTFOLIO**

- 1) Closing the NOI gap: Over Q2 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 see room to shrink our NOI gap in the second half of 2017, as activity in rental markets is historically higher in Q3 and Q4.
- 2) Buying back shares at discount: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our own shares on an opportunistic basis under our normal course issuer bid.
- 3) Leveraging our ample liquidity: Finally, we maintain a substantial year to date liquidity position that will allow us to capitalize on opportunities for acquisitions. Management anticipates that our estimated year to date liquidity of \$143 million will translate into roughly \$570 million in acquisition opportunities based on a leverage level of 75%. Following any future acquisitions, we believe our continued organic, non-dilutive growth could significantly boost our NOI per share and FFO per share in the long term.

(Signed)

"Bob Dhillon"  
President & CEO

Calgary, Alberta  
May 4, 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 six months ended March 31, 2017 and 2016, respectively. 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 six months ended March 31, 2017 and 2016, respectively, 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 May 4, 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](http://www.sedar.com)).

Unless indicate otherwise, reference herein to 2017 and 2016 refers to the three and six month periods ended March 31, 2017 and 2016, respectively.

### BUSINESS OVERVIEW

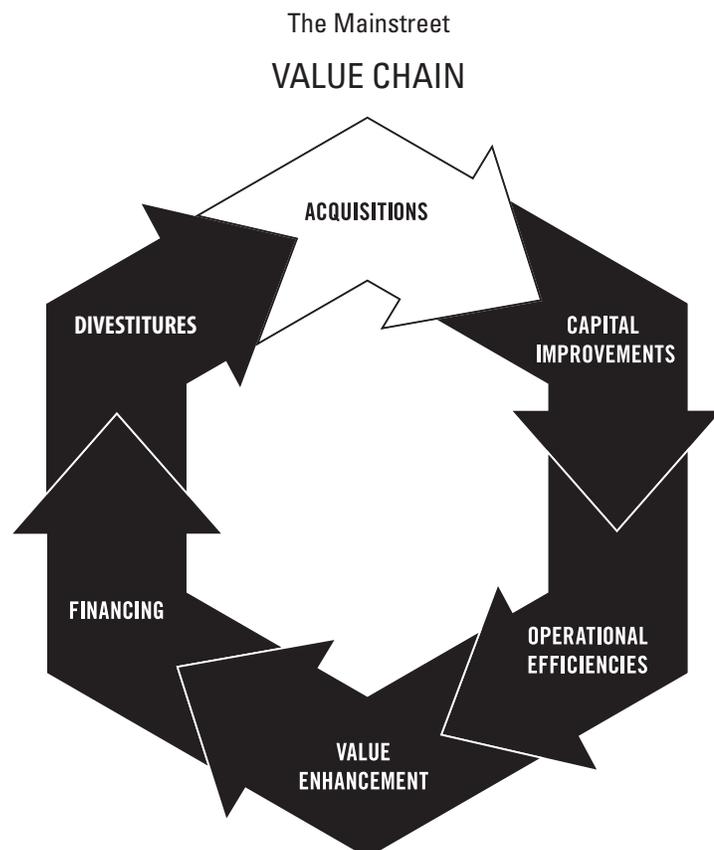
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/ Lower Mainland, Southern Alberta (including the City of Calgary and Lethbridge 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 March 31, 2017 except for seven properties acquired during the six months ended March 31, 2017 for which the cost of acquisition was used as the best estimate of the fair market value as of March 31, 2017.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,482 million as of March 31, 2017 (\$1,460 million as of 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 March 31, 2017 and September 30, 2016, respectively.

As of March 31, 2017	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Mar. 31, 2017
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)	35	1,828	\$ 391	\$ 214	4.86%
Edmonton, Alberta (Note 2)	124	4,139	\$ 525	\$ 127	5.92%
Saskatoon, Saskatchewan	47	1,465	\$ 166	\$ 113	6.90%
<b>Total investment properties</b>	<b>231</b>	<b>10,182</b>	<b>\$ 1,482</b>	<b>\$ 146</b>	<b>5.43%</b>

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%
<b>Total investment properties</b>	<b>225</b>	<b>9,878</b>	<b>\$ 1,460</b>	<b>\$ 148</b>	<b>5.41%</b>

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 March 31		Six months ended March 31	
	2017	2016	2017	2016
	Calgary, AB, Edmonton, AB, and Saskatoon, SK	Abbotsford, BC, Calgary, AB and Saskatoon, SK	Calgary, AB, Edmonton, AB, and Saskatoon, SK	Abbotsford, BC, Calgary, AB and Saskatoon, SK
Number of rental units	245	48	304	50
Total costs	\$ 23,147	\$ 6,044	\$ 28,428	\$ 6,159
Average price per unit	\$ 94	\$ 126	\$ 94	\$ 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 Province 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 Q2 2017, Mainstreet acquired 15 residential units in Calgary, Alberta, 198 residential units in Edmonton, Alberta and 32 residential units in Saskatoon, Saskatchewan for a total consideration of \$23.1 million – an average purchase price of \$94,000 per residential unit. Further, 1 additional residential unit was added by converting extra space in an existing property in Edmonton, Alberta.

As of March 31, 2017, Mainstreet's portfolio included 10,182 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 231 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,482 million as of March 31, 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 six months ended March 31, 2017	Number of units as at March 31, 2017
Surrey, British Columbia	1,775	–	1,775
Abbotsford, British Columbia	975	–	975
Calgary and Southern Alberta, Alberta (Note 1)	1,813	15	1,828
Edmonton, Alberta (Note 2) (Note 3)	3,883	256	4,139
Saskatoon, Saskatchewan	1,432	33	1,465
Investment properties	9,878	304	10,182

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 Q2 2017, the Corporation spent \$5.2 million (Q2 2016 – \$3.8 million), of which \$4.4 million was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, windows, siding and insulation. These expenditures also covered mechanical interior upgrades such as new boilers, flooring and paint, to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio,

Mainstreet plans to spend an estimated \$9.8 million on renovations in the remaining six 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 3 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 Mar. 31,			Six months ended Mar. 31,		
	2017	2016	% change	2017	2016	% change
Gross revenue	\$ 26,222	\$ 25,378	3%	\$ 52,180	\$ 50,804	3%
Loss and comprehensive income from operations	\$ (2,219)	\$ (27,098)	(92%)	\$ (5,918)	\$ (35,582)	(83%)
Fair value loss	8,545	36,432	(77%)	16,293	52,486	(69%)
Depreciation	97	88	10%	186	170	9%
Income tax – current and deferred	785	(2,556)	(131%)	941	(2,556)	(137%)
Funds from operations	\$ 7,208	\$ 6,866	5%	\$ 11,502	\$ 14,518	(21%)
Interest income	\$ (174)	\$ (100)	74%	\$ (289)	\$ (134)	116%
General and administrative expenses	2,702	2,052	32%	5,101	4,222	21%
Mortgage interest	6,802	6,573	3%	15,107	12,858	17%
Financing cost	676	584	16%	1,483	1,146	29%
Insurance settlement	(2,400)	–	(100%)	(2,400)	–	(100%)
Net operating income (Note 2)	\$ 14,814	\$ 15,975	(7%)	\$ 30,504	\$ 32,610	(6%)
Operating margin from operations	57%	63%		59%	64%	
Loss per share						
Basic	\$ (0.25)	\$ (2.67)	(91%)	\$ (0.67)	\$ (3.50)	(81%)
Fully diluted	\$ (0.25)	\$ (2.67)	(91%)	\$ (0.67)	\$ (3.50)	(81%)
Funds from operations per share						
Basic	\$ 0.81	\$ 0.68	19%	\$ 1.29	\$ 1.43	(10%)
Fully diluted	\$ 0.75	\$ 0.63	19%	\$ 1.20	\$ 1.34	(10%)
Weighted average number of shares						
Basic	8,882,957	10,132,915		8,883,147	10,152,436	
Fully diluted	9,575,465	10,821,334		9,570,988	10,836,309	

### March 31, 2017

Total Assets	\$1,554,563
Total Long term liabilities	\$ 949,916

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 Q2 2017, revenue was primarily comprised of rental and ancillary rental income totalling \$26.2 million (Q2 2016 – \$25.4 million) and interest income. The 3% increase in revenue over Q2 2016 is mainly due to increases in the rental and ancillary rental income from newly acquired properties, which is discussed and analysed in the section entitled “Rental Operations” below.

## LOSS

For the three and six months ended March 31, 2017, Mainstreet reported a loss from operations of \$2.2 million (\$0.25 per basic share) and \$5.9 million (\$0.67 per basic share), respectively, as compared to a loss of \$27.1 million (\$2.67 per basic share) and \$35.6 million (\$3.50 per basic share), respectively, in 2016. The loss from operations in Q2 2017 included fair value loss of \$8.5 million (Q2 2016 – \$36.4 million). The fair value loss comprised an adjustment of \$3.2 million to the fair value of the Corporation's Alberta and Saskatoon properties due to weakening of the local real estate market and the capital expenditure incurred in the quarter written off against the fair value of the properties in accordance with the IFRS. The loss from operations for the three and six month periods in 2017 also included pay-out penalties of \$197,000 (2016 – \$240,000) and \$2.1 million (2016 – \$413,000), respectively, incurred for refinancing of pre-maturity debts and an insurance settlement of \$2.4 million recorded in Q2 2017.

The losses in Q2 2017 and Q2 2016 will be further discussed and analysed in the following session 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 non-operating 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 Q2 2017, Mainstreet's FFO increased 5% to \$7.2 million as compared to \$6.9 million in Q2 2016. The increase in FFO was mainly attributable to the insurance settlement of \$2.4 million received in the quarter for a property destroyed by fire in Edmonton, Alberta. For the three and six month periods ended March 31, 2017, one-time pay-out penalties were \$197,000 (2016 – \$240,000) and \$2.1 million (2015 – \$413,000) respectively. Excluding these one-time items, FFO decreased by 30% to \$5.0 million in Q2 2017 as compared to \$7.1 million in Q2 2016.

(000s of dollars)

	Three months ended Mar. 31,			Six months ended Mar. 31,		
	2017	2016	% change	2017	2016	% change
Funds from operations	\$ 7,208	\$ 6,866	5%	\$ 11,502	\$ 14,518	(21%)
Insurance settlement	2,400	–	100%	2,400	–	100%
Pay-out penalties	197	240	(18%)	2,130	413	416%
Funds from operations before insurance settlement and pay-out penalties	\$ 5,005	\$ 7,106	(30%)	\$ 11,232	\$ 14,931	(25%)

The decrease in FFO was mainly attributable to the decrease in net operating income by \$1.2 million, which will be discussed and analysed in the following section entitled “Rental Operations”.

FFO in Q2 2017 was further affected by increased G&A expenses of \$650,000 from Q2 2016, which will be discussed and analysed 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 Q2 2017, G&A expenses increased by 32% to \$2.7 million as compared to \$2.1 million in Q2 2016, mainly resulting from one time professional fees incurred to appeal increased property tax assessment and increase of salaries expenses. With increases in available labour resulting from the recent economic recession in Western Canada, the Corporation continues to build up the senior and middle management team to support further growth of the Corporation.

## MORTGAGE INTEREST

Mortgage interest expenses increased 3% to \$6.8 million in Q2 2017 compared to \$6.6 million in Q2 2016. The rise was mainly attributable to an increase in mortgage loans. To take advantage of current low interest rates, management decided to refinance all pre-maturity mortgages which would become due prior to the end of the calendar year ending December 2017. During Q2 2017, the Corporation refinanced \$9.7 million of pre-maturity mortgages and incurred pay-out penalties in an aggregate amount of \$197,000. The refinancing reduced the average interest rate from 4.95% to 2.78% resulting in annualized interest savings of \$210,000 and raised additional low cost capital of \$9.7 million after pay-out penalty for further growth of the Corporation.

## RENTAL OPERATIONS

(000s of dollars except per unit data)

Three months ended March 31	Total Portfolio			Same Asset			Acquisition		
	2017	2016	% change	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	\$ 26,048	\$ 25,278	3%	\$ 24,596	\$ 25,189	(2%)	\$ 1,452	\$ 89	1,531%
Operating expenses	11,234	9,303	21%	10,455	9,260	13%	779	43	1,712%
Net operating income	\$ 14,814	\$ 15,975	(7%)	\$ 14,141	\$ 15,929	(11%)	\$ 673	\$ 46	1,363%
Operating margin	57%	63%		57%	63%		46%	52%	
Average vacancy rate	10.7%	8.3%	29%	8.7%	8.6%	1%	34.6%	4.9%	606%
Weighted average number of units	10,073	9,334	8%	9,301	9,301	–	772	33	2,239%
Average rental rate per unit per month	\$ 862	\$ 903	(5%)	\$ 881	\$ 903	(2%)	\$ 627	\$ 899	(30%)
Average operating expense per unit per month	\$ 372	\$ 332	12%	\$ 375	\$ 332	13%	\$ 336	\$ 434	(23%)

(000s of dollars except per unit data)

Six months ended March 31	Total Portfolio			Same Asset			Acquisition		
	2017	2016	% change	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	\$ 51,891	\$ 50,670	2%	\$ 49,324	\$ 50,584	92%)	\$ 2,567	\$ 86	2,885%
Operating expenses	21,387	18,060	18%	20,089	18,020	11%	1,298	40	3,145%
Net operating income	\$ 30,504	\$ 32,610	(6%)	\$ 29,235	\$ 32,564	(10%)	\$ 1,269	\$ 46	2,659%
Operating margin	59%	64%		59%	64%		49%	53%	
Average vacancy rate	10.2%	8.1%	26%	8.5%	8.3%	2%	34.4%	4.9%	602%
Weighted average number of units	9,985	9,315	7%	9,301	9,301	–	684	14	4,786%
Average rental rate per unit per month	\$ 866	\$ 907	(4%)	\$ 884	\$ 906	(2%)	\$ 625	\$ 1,024	(39%)
Average operating expense per unit per month	\$ 357	\$ 323	10%	\$ 360	\$ 323	11%	\$ 316	\$ 476	(34%)

Despite the increase in vacancy rate to 10.7% in Q2 2017 from 8.3% in Q2 2016 and a drop in the average monthly rental rate to \$862 per unit in Q2 2017 from \$903 per unit in Q2 2016, the overall rental revenue and ancillary rental income increased by 3% to \$26.0 million in Q2 2017 from \$25.3 million in Q2 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 8% to 10,073 units in Q2 2017 from 9,334 units in Q2 2016.

For same asset properties, which refer to properties owned by the Corporation for the entire three and six-month period ended March 31, 2017 and 2016, the rental revenue dropped by 2% to \$24.6 million in Q2 2017 from \$25.2 million in Q2 2016. This was mainly due to the increased vacancy loss and rental incentive expenses in the Alberta and Saskatoon portfolios. Overall, the average rental rate per unit per month decreased by 2% to \$881 in Q2 2017 from \$903 per unit in Q2 2016. The same asset vacancy rate increased slightly to 8.7% in Q2 2017 from 8.6% in Q2 2016.

Mainstreet's operating expenses have also increased substantially. The overall and same asset properties average operating cost per month per unit has increased by 12% and 13% over Q2 2016, respectively.

The increase in operating expenses was mainly due to increased utility expenses, repair and maintenance expenses and property tax. The newly introduced carbon tax in the province of Alberta has increased the Corporation's natural gas

heating expenses by 15% in Q2 2017. This economic broad based tax is structured in a way that charges the owners of buildings while offering rebates to tenants, which in turn increases Mainstreet's heating expenses. In addition, the particularly harsh winter in Western Canada in Q2 2017 also caused higher-than-expected heating costs as well as higher snow removal costs and other one-time maintenance expenses.

Mainstreet has also increased spending related to the upkeep of its properties in an attempt to remain competitive in the rental market. Substantial amounts of building improvement expenses have been incurred on improving the conditions of the properties that are ready for refinancing. As a result, the net operating income decreased by 7% to \$14.8 million in Q2 2017 from \$16.0 million in Q2 2016 and the net operating margin dropped to 57% in Q2 2017 from 63% in Q2 2016.

For same asset properties, the net operating income decreased by 11% to \$14.1 million in Q2 2017 from \$15.9 million in Q2 2016 and the net operating margin dropped to 57% in Q2 2017 from 63% in Q2 2016.

## RENTAL OPERATIONS BY PROVINCE

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

### British Columbia

Mainstreet achieved a unit growth of 1% in its British Columbia portfolio in Q2 2017; the average number of rental units grew to 2,750 units compared to 2,733 units in Q2 2016. The average vacancy rate also improved slightly from 1.6% in Q2 2016 to 1.5% in Q2 2017, mainly due to an improved occupancy rate in both the Surrey and Abbotsford markets.

A better than average vacancy rate could also be 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 7% to \$900 per month in Q2 2017 from \$838 per month in Q2 2016.

The operating expense per unit increased to \$343 per month compared to \$304 per month in Q2 2016, due mainly to higher than expected heating costs and snow removal expenses caused by unexpected heavy snowfall and unusual cold weather in BC. As a result, the net operating income increased by 5% and the net operating margin decreased to 62% as compared to 64% Q2 2016.

(000s of dollars except per unit data)

	Three months ended Mar. 31,			Six months ended Mar. 31,		
	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	\$ 7,424	\$ 6,872	8%	\$ 14,745	\$ 13,551	9%
Operating expenses	2,827	2,493	13%	5,457	4,788	14%
Net operating income	\$ 4,597	\$ 4,379	5%	\$ 9,288	\$ 8,763	6%
Weighted average number of units	2,750	2,733	1%	2,750	2,723	1%
Average rent per unit per month	\$ 900	\$ 838	7%	\$ 894	\$ 829	8%
Operating cost per unit per month	\$ 343	\$ 304	13%	\$ 331	\$ 293	13%
Average vacancy rate	1.5%	1.6%		1.2%	2.3%	
Operating margin	62%	64%		63%	65%	

### Alberta

Mainstreet achieved a unit growth of 6% in its Alberta portfolio in Q2 2017; the average number of rental units grew to 5,868 units, compared to 5,518 units in Q2 2016. The average vacancy rate increased to 14.0% in Q2 2017 from 10.1% in Q2 2016. The overall vacancy rate was negatively affected by the recent acquisitions of new properties with substantial high vacancy rates. Excluding those newly acquired properties, the average same asset vacancy rate is 10.7% in Q2 2017. The increased vacancy rate from Q2 2016 is due to the weakened economic conditions in the province. The oil prices have dropped significantly over the past two years, but in recent months have levelled off around \$50 per barrel. This is an indication that the oil and gas industry in Western Canada has started to stabilize. The same asset vacancy rate in Alberta has improved from 12.1% in Q4 2016 to 10.7% in Q2 2017.

Rental revenue per unit decreased by 10% to \$870 per month in Q2 2017 from \$965 per month in Q2 2016 as a result of the increased vacancy rate, rental incentives and bad debts during the period.

The operating expense per unit increased by 12% to \$390 per month in Q2 2017 from \$350 per month in Q2 2016. The increase in operating expense was mainly due to increased repairs and maintenance expenses to improve conditions of the properties which are ready for refinancing and increased utility expenses caused by the newly introduced Alberta carbon tax in the quarter. As a result, the net operating income dropped by 17% and the net operating margin decreased to 55% as compared to 64% in Q2 2016.

(000s of dollars except per unit data)

	Three months ended Mar. 31,			Six months ended Mar. 31,		
	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	\$ 15,307	\$ 15,982	(4%)	\$ 30,586	\$ 32,280	(5%)
Operating expenses	\$ 6,868	\$ 5,787	19%	\$ 13,105	\$ 11,289	16%
Net operating income	\$ 8,439	\$ 10,195	(17%)	\$ 17,481	\$ 20,991	(17%)
Weighted average number of units	5,868	5,518	6%	5,791	5,517	5%
Average rent per unit per month	\$ 870	\$ 965	(10%)	\$ 880	\$ 975	(10%)
Operating cost per unit per month	\$ 390	\$ 350	12%	\$ 377	\$ 341	11%
Average vacancy rate	14.0%	10.1%		13.2%	9.2%	
Operating margin	55%	64%		57%	65%	

### Saskatchewan

Mainstreet achieved a significant 34% unit growth in the Saskatchewan portfolio in Q2 2017; the average number of rental units grew to 1,455 units, compared to 1,083 units in Q2 2016. The average vacancy rate decreased to 15.0% in Q2 2017 from 16.7% in Q2 2016. As a result, the rental revenue increased substantially by 37% to \$3.3 million in Q2 2017 from \$2.4 million in Q2 2016. The rental revenue per unit increased by 2% to \$760 per month in Q2 2017 compared with \$746 per month in Q2 2016 which was mainly due to increased rental rate after stabilization of certain properties.

The operating expense per unit increased by 12% to \$353 per month in Q2 2017 from \$315 per month in Q2 2016, due mainly to higher property tax, repair and maintenance expenses. In Q2 2017, the Corporation also incurred one-time special assessment fee of \$160,000 from a condominium property partially owned by Mainstreet. As a result, the net operating income increased by 27% but the net operating margin decreased to 54% compared with 58% in Q2 2016.

(000s of dollars except per unit data)

	Three months ended Mar. 31,			Six months ended Mar. 31,		
	2017	2016	% change	2017	2016	% change
Rental revenue and ancillary rental income	\$ 3,317	\$ 2,424	37%	\$ 6,560	\$ 4,839	36%
Operating expenses	\$ 1,539	\$ 1,023	50%	\$ 2,825	\$ 1,983	42%
Net operating income	\$ 1,778	\$ 1,401	27%	\$ 3,735	\$ 2,856	31%
Weighted average number of units	1,455	1,083	34%	1,444	1,074	34%
Average rent per unit per month	\$ 760	\$ 746	2%	\$ 757	\$ 751	1%
Operating cost per unit per month	\$ 353	\$ 315	12%	\$ 326	\$ 308	6%
Average vacancy rate	15.0%	16.7%		15.6%	17.1%	
Operating margin	54%	58%		57%	59%	

### 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 Provinces 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 March 31, 2017.

City	Stabilized properties				Unstabilized properties					
	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	\$ 815	0.85%	\$ 815	38	\$ 745	0.00%	\$ 745	\$ –
Surrey, BC	1,775	1,775	\$ 917	0.79%	\$ 918	–	\$ –	–	\$ –	\$ –
Calgary, AB	1,828	1,813	\$ 1,059	10.42%	\$ 1,206	15	\$ 1,145	40.00%	\$ 880	\$ 4,314
Edmonton, AB	4,139	3,707	\$ 941	9.82%	\$ 1,020	432	\$ 986	65.28%	\$ 990	\$ 8,457
Saskatoon, SK	1,465	1,071	\$ 869	16.99%	\$ 977	394	\$ 928	8.63%	\$ 982	\$ 3,060
	10,182	9,303	\$ 938	8.14%	\$ 1,011	879	\$ 952	36.63%	\$ 974	\$15,831

## SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Mar. 31 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015
Rental revenue	\$ 25,579	\$ 25,499	\$ 24,761	\$ 24,225	\$ 24,828	\$ 25,055	\$ 25,295	\$ 24,700
Ancillary rental income	\$ 469	\$ 344	\$ 341	\$ 291	\$ 450	\$ 337	\$ 340	\$ 390
Interest income	\$ 174	\$ 114	\$ 32	\$ 40	\$ 100	\$ 34	\$ 39	\$ 35
Total revenue								
from operations	\$ 26,222	\$ 25,957	\$ 25,134	\$ 24,556	\$ 5,378	\$ 25,426	\$ 25,674	\$ 25,125
Fair value (loss) gain	\$ (8,545)	\$ (7,748)	\$ 54,723	\$ (5,273)	\$ (36,432)	\$ (16,053)	\$ 75,860	\$ (10,993)
(Loss) profit								
from operations	\$ (2,219)	\$ (3,698)	\$ 53,012	\$ (259)	\$ (27,098)	\$ (8,484)	\$ 72,228	\$ (9,325)
Net (loss) profit per share								
– Basic	\$ (0.25)	\$ (0.42)	\$ 5.97	\$ (0.03)	\$ (2.67)	\$ (0.83)	\$ 7.19	\$ (0.90)
– Diluted	\$ (0.25)	\$ (0.42)	\$ 5.54	\$ (0.03)	\$ (2.67)	\$ (0.83)	\$ 6.74	\$ (0.90)
Average vacancy rate	10.72%	9.74%	10.27%	9.20%	8.34%	7.77%	7.47%	8.00%
Net operating income	\$ 14,814	\$ 15,690	\$ 15,868	\$ 15,546	\$ 15,975	\$ 16,634	\$ 17,894	\$ 16,843
Same assets rent and ancillary rental income	\$ 24,596	\$ 24,725	\$ 22,848	\$ 23,012	\$ 23,800	\$ 24,026	\$ 23,066	\$ 23,125
Same assets net operating income	\$ 14,141	\$ 15,083	\$ 14,477	\$ 14,683	\$ 15,082	\$ 15,722	\$ 16,200	\$ 15,805
Stabilized FFO	\$ 4,604	\$ 3,915	\$ 5,236	\$ 5,774	\$ 5,973	\$ 6,807	\$ 8,739	\$ 7,234
Funds from continuing operations	\$ 7,208	\$ 4,294	\$ 5,614	\$ 6,207	\$ 6,746	\$ 7,651	\$ 8,741	\$ 7,549
Funds from operations per share								
– Basic	\$ 0.81	\$ 0.48	\$ 0.63	\$ 0.68	\$ 0.67	\$ 0.75	\$ 0.85	\$ 0.73
– Diluted	\$ 0.75	\$ 0.45	\$ 0.59	\$ 0.63	\$ 0.62	\$ 0.71	\$ 0.80	\$ 0.68

Highlights of the Corporation's financial results for the second quarter ended March 31, 2017:

- In Q2 2017, rental income was \$25.6 million compared to \$25.5 million in Q1 2017 and \$24.8 million in Q2 2016.
- The average vacancy rate for the quarter was 10.7% compared to 9.7% in Q1 2017 and 8.3% in Q2 2016.
- Fair value loss for the quarter was \$8.5 million compared to a loss of \$7.7 million in Q1 2017 and a loss of \$36.4 million in Q2 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 British Columbia is approximately three years.

As of March 31, 2017, 216 properties (9,303 units) out of 231 properties (10,182 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		Number of units stabilized	March 31, 2017
		Acquisition	Disposition		
Stabilized units (Note 1)	8,714	1	–	588	9,303
Unstabilized units	1,164	303	–	(588)	879
Total units	9,878	304	–	–	10,182

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	Mar. 31, 2017
Numbers of unstabilized units held for renovation	1,164	(588)	303	879
Total no. of unstabilized units	1,164	(588)	303	879

#### Number of months

Average time spent on stabilization	13	28	2	7
Estimated remaining time for stabilization	17	–	22	18

During the six month period ended March 31, 2017, the Corporation acquired 303 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 588 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

## FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

In Q2 2017, FFO from operations of Mainstreet's stabilized property portfolio amounted to \$4.6 million (\$0.52 per basic share and \$0.48 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended March 31, 2017			Six months ended March 31, 2017		
	Stabilized properties	Unstabilized properties	Total	Stabilized properties	Unstabilized properties	Total
Rental and ancillary rental income	\$ 24,549	\$ 1,499	\$ 26,048	\$ 49,218	\$ 2,673	\$ 51,891
Property operating expenses	10,455	779	11,234	20,054	1,333	21,387
Net operating income	\$ 14,094	\$ 720	\$ 14,814	\$ 29,164	\$ 1,340	\$ 30,504
Operating margin	57%	48%	57%	59%	50%	59%
Vacancy rate	8.7%	34.6%	10.7%	8.5%	30.8%	10.2%
Interest income	\$ 161	\$ 13	\$ 174	\$ 267	\$ 22	\$ 289
Insurance settlement	–	2,400	2,400	–	2,400	2,400
General & administrative expenses	2,487	215	2,702	4,700	401	5,101
Mortgage interest	6,528	274	6,802	14,577	530	15,107
Financing cost	636	40	676	1,367	116	1,483
Funds from operations	\$ 4,604	\$ 2,604	\$ 7,208	\$ 8,787	\$ 2,715	\$ 11,502
Funds from operations per share						
– basic	\$ 0.52	\$ 0.29	\$ 0.81	\$ 0.99	\$ 0.31	\$ 1.29
– diluted	\$ 0.48	\$ 0.27	\$ 0.75	\$ 0.92	\$ 0.28	\$ 1.20
Weighted average number of shares						
– basic	8,882,957			8,883,147		
– diluted	9,575,465			9,570,988		

In Q2 2017, FFO of the stabilized property portfolio decreased by 23% to \$4.6 million as compared to \$6.0 million in Q2 2016, while the number of stabilized units increased by 12% to 9,303 units as of March 31, 2017 compared to 8,334 units in 2016.

(000s)

	Three months ended Mar. 31,			Six months ended Mar. 31,		
	2017	2016	% change	2017	2016	% change
Stabilized FFO	\$ 4,604	\$ 5,973	(23%)	\$ 8,787	\$ 12,780	(31%)
Number of stabilized units	9,303	8,334	12%	9,220	8,289	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 Q2 2017, after payments of all required expenses, the Corporation generated funds from operations of \$7.2 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 Q2 2017, the Corporation spent approximately \$5.2 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.

Mainstreet also takes advantage of current low interest rates by completing its financial viability of early refinancing on the remaining mortgages maturing in 2017 and 2018 taking into consideration pay-out penalties.

In Q2 2017, Mainstreet refinanced \$9.7 million in pre-maturity debt with an average interest rate of 4.95% into mostly 10-year long-term CMHC-insured mortgage loans for \$19.6 million at an average interest rate of 2.78%. Mainstreet also refinanced 8 clear title assets with 10-year long-term CMHC-insured mortgage loans for \$28.6 million at an average rate of interest of 2.88%.

These financings resulted in an annualized interest savings of \$210,000 and raised \$38 million in additional funds after pay-out penalties.

As of March 31, 2017, the Corporation owned title to the following 21 clear title properties and two development lots having an aggregate fair value of approximately \$113 million:

### Clear Title Asset List as of March 31, 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	\$ 15,822
3147 – 151 Avenue, Edmonton, AB	99	\$ 10,000	\$ 10,561
525,529,601,605 AVE X S / 2309 – 17 St. W, Saskatoon, SK	68	\$ 4,945	\$ 8,126
1122 – 8 Avenue SW, Calgary, AB	50	\$ 1,975	\$ 12,220
10625 & 10635 – 115 Street, Edmonton, AB	43	\$ 4,693	\$ 5,001
33361 Old Yale Road, Abbotsford, BC	38	\$ 3,940	\$ 5,100
2010 – 22 Street W, Saskatoon, SK	31	\$ 2,025	\$ 2,025
1817 – 22 Street W, Saskatoon, SK	30	\$ 2,100	\$ 2,100
1335 & 1339 – 10 Ave. SE, Calgary, AB	29	\$ 3,000	\$ 6,234
14224 McQueen Road, Edmonton, AB	27	\$ 950	\$ 4,138
11343 – 124 Street, Edmonton, AB	25	\$ 624	\$ 2,871
2024 – 22 Street West, Saskatoon, SK	24	\$ 2,190	\$ 2,494
10625 – 113 Street NW, Edmonton, AB	22	\$ 1,980	\$ 1,980
10741 – 108 Street NW, Edmonton, AB	22	\$ 1,980	\$ 1,980
13608 – 109A Avenue, Edmonton, AB	17	\$ 574	\$ 2,064
322 – 6 Avenue North, Saskatoon, SK	16	\$ 1,644	\$ 2,394
1805 – 17 Street SW, Calgary, AB	15	\$ 2,075	\$ 2,075
10435 – 156 Street NW, Edmonton, AB	12	\$ 1,200	\$ 1,200
336 to 338 – 18 Avenue SW, Calgary, AB	7	\$ –	\$ 3,292
322 – 18th Avenue SW, Calgary, AB	1	\$ 1,275	\$ 1,646
Development lot, 10125 – 114 Street, Edmonton, AB	–	\$ 1,103	\$ 1,070
Development lot, 33283 Bourquin Cr. E, Abbotsford, BC	–	\$ 306	\$ 450
Total as of March 31, 2017	940	\$ 80,851	\$ 112,643

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 security.

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 57%, 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 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 1.25%. 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 March 31, 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 March 31, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 56% and 1.34 respectively, which were calculated as follows:

#### Overall funded debt to gross book value ratio as of March 31, 2017

(000s of dollars)

Total funded debt		
Mortgages payable	\$	837,998
Bank indebtedness		–
	\$	837,998
Gross book value of assets		
Investment properties	\$	1,482,475
Property, plant and equipment		4,884
	\$	1,487,359
Overall funded debt to gross book value ratio		56%

#### Debt service coverage ratio

Earnings before interest, tax, depreciation, amortization and fair value gain

For 12 months ended March 31, 2017

Net profit	\$	46,836
Add (deduct):		
Mortgage interest		28,251
Income tax		9,143
Depreciation		381
Amortization of finance cost		2,716
Fair value gain		(32,887)
	\$	54,440
Principal and interest payments	\$	40,543
Debt service coverage ratio		1.34

### CONTRACTUAL OBLIGATIONS

As of March 31, 2017, the Corporation had the following contractual obligations, which are anticipated to be met using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

## PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of March 31, 2017 are as follows:

12 months ending March 31,	Amount
2018	\$ 15,148
2019	37,056
2020	31,162
2021	75,390
2022	84,499
Subsequent	615,254
	858,509
Deferred financing costs	(20,511)
	\$ 837,998

## LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average (%) interest rate
Fixed rate debt			
– CMHC-insured	\$ 828,608	97%	3.05%
– non-CMHC-insured	\$ 29,901	3%	3.61%
Total fixed rate debt	\$ 858,509	100%	3.07%
Deferred financing costs	\$ (20,511)		
	\$ 837,998		

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 March 31, 2017, total mortgages payable was \$838 million compared to \$714 million on September 30, 2016 – an increase of 18% due to financing activity during the six months ended March 31, 2017.

At March 31, 2017, management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 57% 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	\$ 3,132	0%	4.97%
2018	\$ –	–	–
2019	\$ 29,254	3%	5.06%
2020	\$ 47,755	6%	3.66%
2021	\$ 74,354	9%	3.98%
Subsequent	\$ 704,014	82%	2.84%
	\$ 858,509	100%	3.07%

The average maturing term of mortgage loans is 8.0 years as of March 31, 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 Q2 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 March 31, 2017. This evaluation confirmed that the Corporation's DC & P and ICFR were effective as at March 31, 2017.

No changes were made to the Corporation's DC & P during the quarter ended March 31, 2017.

As at March 31, 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 second quarter ended March 31, 2017, which have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## Financial Instruments & Risk Management

### *Fair value of financial assets and liabilities*

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

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

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

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

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

(000s of dollars)

		March 31, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>					
Restricted cash	Level 1	\$ 2,723	\$ 2,723	\$ 2,858	\$ 2,858
Cash and cash equivalents	Level 1	58,219	58,219	1,095	1,095
Trade and other receivables	Level 2	1,076	1,076	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
<b>Financial liabilities:</b>					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	837,998	861,713	714,481	769,086
Trade and other payables	Level 2	6,385	6,385	6,898	6,898
Refundable security deposits	Level 1	4,067	4,067	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)

		March 31, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-financial assets:</b>					
Investment properties	Level 3	\$1,482,475	\$1,482,475	\$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:

	Six months ended March 31, 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	(2,400)	(6)	(1,387,918)	(3,799)
Exercise of stock options	6,200	57	–	–
Issued and outstanding,				
– end of the period	8,887,133	\$ 24,366	8,883,333	\$ 24,315

All common shares share an equal right to dividends.

On May 30, 2016, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 487,890 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2016.

The current NCIB expires on May 30, 2017. The Corporation's previous NCIB expired on April 20, 2016. During the six months ended March 31, 2017 and 2016, the Corporation purchased and cancelled 2,400 common share and 138,336 common shares, respectively at an average price of \$34.82 and \$31.72 per common share. 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.

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

## STOCK OPTION

A summary of the Corporation's stock option plan as of March 31, 2017, and September 30, 2016 and changes during the periods are presented below:

Stock option	March 31, 2017		September 30, 2016	
	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	1.94		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 price of the option 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 six month ended March 31, 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.

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.

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 six months ended March 31, 2017 were \$70,500 (2016 – \$53,000) and \$122,100 (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 six months ended March 31, 2017 amounting to \$84,500 (2016 – \$100,000) and \$197,500 (2016 – \$129,000) 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 March 31, 2017, the amounts payable to the law firm were \$40,000 (September 30, 2016 – \$600).

## **Off Balance Sheet Arrangements**

No off balance sheet arrangement was made by the Corporation for Q2 2017.

## **Subsequent Events**

Subsequent to the quarter ended March 31, 2017, the Corporation acquired 33 residential units in Calgary, Edmonton and Saskatoon for a total consideration of \$3.7 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 March 31, 2017, rents due from current tenants amounted to \$300,000 (September 30, 2016 – \$336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.1 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 it 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 Mainstreet, its employees and tenants' confidential information, and third parties with whom Mainstreet interacts and may result in negative consequences, including remediation costs, loss of revenue, data corruption, additional regulatory scrutiny, litigation and reputational damages. As a result, Mainstreet has implemented processes, procedures and controls to help mitigate these cyber-security risks, but these measures do not guarantee that cyber-attack can be totally avoided due to ever increasing sophistication of all forms of cyber-attacks.

## **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**

The potential for market volatility remains Mainstreet's biggest challenge, despite improvements in the macro-economic climate in Canada. While Mainstreet is not immune to these broader economic forces, economic risk is inherent in its business model.

The particularly harsh winter in Western Canada coupled with the introduction of new taxes caused operating costs to rise in Q2. Unusually low temperatures, especially in the British Columbia market, led to higher-than-expected heating costs. Heavy snowfall also induced higher snow removal costs and other one-time maintenance expenses. In Alberta specifically, the introduction of a provincial carbon tax increased heating costs by an estimated 15%.

Mainstreet's overall vacancy rate in Q2 remained high at 10.7%. The Corporation's uncommonly high level of strategic acquisitions over the quarter was largely responsible for the rise. While management views the current vacancy rate as high, its total acquisitions over the past 18 months of more than \$85 million (886 unstabilized units) has consistently raised vacancy rates over the period. Furthermore, management believes this is a finite trend as they continue to undergo the stabilization process through ongoing renovations. As of the quarter end date, 879 units, or 9% of the portfolio, remained in the stabilization, reposition and/or construction process.

Negative economic forces over the past two years have likewise caused significant short positions in Mainstreet's stock. As of April 13, 2017, the short position in Mainstreet totaled 727,219 common shares. However, that short position is smaller than on 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

Management believes that nearly all of the key indicators suggest that the macro economic outlook in Western Canada is stabilizing. Oil prices in April 2017 were roughly 20% higher than the year prior, and energy companies appear to have begun gradually raising their annual capital spending plans. Oil and gas drilling activity also appears to be growing. In January 2017, utilization rates of drilling rigs in Canada were the highest in two years at 43%, according to Petroleum Services Association of Canada (PSAC) data. On a weekly basis, PSAC data show rig counts in Prairie Provinces remain very robust compared to the year prior.

Broader economic indicators also suggest markets could be on the upswing, particularly in Alberta and Saskatchewan. Alberta added 20,000 new full-time jobs in March 2017, retail sales reached \$6.4 billion in January 2017, marking a 4.8% rise compared with the year earlier. Retail sales in Saskatchewan, meanwhile, increased 6% year-over-year to \$1.7 billion (Statistics Canada).

Alberta's population continues to grow, adding more than 11,000 new residents in Q4 of 2016 according to Statistics Canada. Population growth in Alberta year-over-year was 1.51% in 2016, well above the national average of 0.26%. Saskatchewan's year-over-year population growth rate was exactly equal to Alberta at 1.51%. While in-migration into both provinces remains lower than years prior, net migration numbers appear to be stable.

During prior years of high economic growth, there was a rapid build out of condominiums—particularly in Edmonton and Calgary—which caused oversupply in the market. As a result, some of these investor-owned condos were converted into rental spaces that then spilled over into the broader rental market. However, Mainstreet believes that steady in-migration levels and improving employment conditions will gradually absorb this oversupply in coming years.

Moreover, despite heightened 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 its price point average rental rate between \$900 and \$1,000 perfectly aligns with that mid-market demand.

The labour market remains much cooler than when economic activity was at its peak. This provided Mainstreet the opportunity to bulk up on senior and middle management personnel over the past year as we anticipate rapid future growth. While the increased salary expense has negatively impacted our operating and G&A expenses in the short-term, Management believes that building a strong management team is crucial to realizing Mainstreet's long-term growth plans.

## RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: Over Q2 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 see room to shrink our NOI gap in the second half of 2017, as activity in rental markets is historically higher in Q3 and Q4.
- 2) Buying back shares at discount: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our own shares on an opportunistic basis under our normal course issuer bid.
- 3) Leveraging our ample liquidity: Finally, we maintain a substantial year to date liquidity position that will allow us to capitalize on opportunities for acquisitions. Management anticipates that our estimated year to date liquidity of \$143 million will translate into roughly \$570 million in acquisition opportunities based on a leverage level of 75%. Following any future acquisitions, we believe our continued organic, non-dilutive growth could significantly boost our NOI per share and FFO per share in the long term.

## ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at [www.mainst.biz](http://www.mainst.biz) and on Sedar at [www.sedar.com](http://www.sedar.com).

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	March 31, 2017	September 30, 2016
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties [Note 4]	\$ 1,482,475	\$ 1,460,080
Property, plant and equipment	4,884	4,822
Intangible assets	460	423
	<u>1,487,819</u>	<u>1,465,325</u>
<b>Current assets</b>		
Prepaid assets	3,206	1,774
Prepaid current income tax	1,261	1,261
Trade and other receivables	1,076	1,614
Restricted cash	2,723	2,858
Inventory	259	338
Mortgage receivable	–	2,500
Cash and cash equivalents	58,219	1,095
	<u>66,744</u>	<u>11,440</u>
<b>Total Assets</b>	<b>\$ 1,554,563</b>	<b>\$ 1,476,765</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Mortgages payable [Note 5]	\$ 825,813	\$ 666,824
Deferred tax liabilities	124,103	123,162
	<u>949,916</u>	<u>789,986</u>
<b>Current liabilities</b>		
Mortgages payable [Note 5]	12,185	47,657
Trade and other payables	6,385	6,898
Refundable security deposits	4,067	4,100
Bank indebtedness [Note 6]	–	40,148
	<u>22,637</u>	<u>98,803</u>
<b>Total Liabilities</b>	<b>972,553</b>	<b>888,789</b>
<b>Equity</b>		
Share capital [Note 7]	24,366	24,315
Contributed surplus	2,382	2,404
Retained earnings	555,262	561,257
<b>Total Equity</b>	<b>582,010</b>	<b>587,976</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,554,563</b>	<b>\$ 1,476,765</b>

See accompanying notes to these condensed consolidated financial statements.

(Signed)

“Bob Dhillon”  
Director  
May 4, 2017

(Signed)

“Joe Amantea”  
Director

## CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS

Unaudited

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

	Three months ended March 31, 2017	Three months ended March 31, 2016	Six months ended March 31, 2017	Six months ended March 31, 2016
Rental revenue	\$ 25,579	\$ 24,828	\$ 51,078	\$ 49,883
Ancillary rental income	469	450	813	787
	26,048	25,278	51,891	50,670
Property operating expenses	11,234	9,303	21,387	18,060
Net operating income	14,814	15,975	30,504	32,610
Interest income	174	100	289	134
	14,988	16,075	30,793	32,744
Mortgage interest	6,802	6,573	15,107	12,858
Amortization of deferred financing cost	676	584	1,483	1,146
General and administrative expenses	2,702	2,052	5,101	4,222
Depreciation	97	88	186	170
	10,277	9,297	21,877	18,396
Profit before other items and income tax	4,711	6,778	8,916	14,348
Fair value loss [Note 4]	(8,545)	(36,432)	(16,293)	(52,486)
Insurance settlement	2,400	–	2,400	–
Loss before income tax	(1,434)	(29,654)	(4,977)	(38,138)
Current income tax	–	120	–	120
Deferred income tax expense (recovery)	785	(2,676)	941	(2,676)
Net loss and total comprehensive loss	\$ (2,219)	\$ (27,098)	\$ (5,918)	\$ (35,582)
Loss per share				
– basic [Note 8]	\$ (0.25)	\$ (2.67)	\$ (0.67)	\$ (3.50)
– diluted [Note 8]	\$ (0.25)	\$ (2.67)	\$ (0.67)	\$ (3.50)

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
<b>Balance, October 1, 2015</b>	\$	28,114	\$ 2,404	\$ 589,888	\$ 620,406
Shares purchased for cancellation		(379)	–	(4,010)	(4,389)
Loss for the period		–	–	(35,582)	(35,582)
<b>Balance, March 31, 2016</b>	\$	27,735	\$ 2,404	\$ 550,296	\$ 580,435
Shares purchased for cancellation		(3,420)	–	(41,792)	(45,212)
Profit for the period		–	–	52,753	52,753
<b>Balance, September 30, 2016</b>	\$	24,315	\$ 2,404	\$ 561,257	\$ 587,976
<b>Balance, October 1, 2016</b>	\$	24,315	\$ 2,404	\$ 561,257	\$ 587,976
Shares purchased for cancellation		51	–	(77)	(26)
Excess of stock option		–	(22)	–	(22)
Loss for the period		–	–	(5,918)	(5,918)
<b>Balance, March 31, 2017</b>	\$	24,366	\$ 2,382	\$ 555,262	\$ 582,010

See accompanying notes to these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(\$000s of Canadian dollars)

	Six months ended March 31, 2017	Six months ended March 31, 2016
<b>Cash obtained from (used in) operating activities</b>		
Net loss	\$ (5,918)	\$ (35,582)
Adjustments for:		
Amortization of deferred financing cost	1,483	1,146
Depreciation	186	170
Fair value loss	16,293	52,486
Deferred income tax expense	941	(2,676)
Mortgage interest	15,107	12,858
Interest paid on mortgages payable	(15,107)	(12,853)
	12,985	15,549
Change in working capital		
Prepaid assets	(1,432)	(739)
Prepaid current income tax	–	(960)
Trade and other receivables	538	(296)
Inventory	79	9
Restricted cash	135	320
Trade and other payables	(145)	(3,021)
Refundable security deposits	(33)	(165)
Cash from operating activities	12,127	10,697
<b>Financing activities</b>		
Bank indebtedness	(40,148)	(36,909)
Financing of investment properties	193,468	118,464
Repayment of mortgages payable	(72,160)	(33,797)
Repurchase of shares	(26)	(4,389)
Excess of stock option	(22)	–
Cash from financing activities	81,112	43,369
<b>Investing activities</b>		
Purchase of and additions to investment properties	(38,330)	(14,727)
Purchase of and additions to property, plant and equipment	(248)	(209)
Purchase of and additions to intangible assets	(37)	(87)
Mortgage receivable	2,500	–
Cash used in investing activities	(36,115)	(15,023)
<b>Net increase in cash and cash equivalents</b>	57,124	39,043
<b>Cash and cash equivalents, beginning of period</b>	1,095	1,526
<b>Cash and cash equivalents, end of period</b>	\$ 58,219	\$ 40,569
<b>Cash and cash equivalents are comprised of:</b>		
Cash	\$ 2,380	\$ 889
Short-term deposits	55,839	39,680

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 six months ended March 31, 2017 and 2016

### 1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation 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, 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

	Six months ended March 31, 2017	Year ended Sept. 30, 2016
Balance, beginning of period	\$ 1,460,080	\$ 1,386,035
Additions	28,428	56,612
Building improvements	10,260	20,468
Fair value loss	(16,293)	(3,035)
Balance, end of period	\$ 1,482,475	\$ 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 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 March 31, 2017 except for six properties acquired during the six months ended March 31, 2017 for which the cost of acquisition was used as the best estimate of the fair market value as of March 31, 2017.

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

	March 31, 2017	Sept. 30, 2016
Surrey, BC	4.56%	4.56%
Abbotsford, BC	5.13%	5.13%
Calgary, AB	4.86%	4.86%
Edmonton, AB	5.92%	5.92%
Saskatoon, SK	6.90%	6.77%
Investment properties	5.43%	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 March 31, 2017**

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 78,112	\$ 79,722	\$ 80,527	\$ 81,333	\$ 82,943
Capitalization rate						
-0.25%	5.18%	\$ 24,901	\$ 55,981	\$ 71,521	\$ 87,061	\$ 118,141
Cap rate used	5.43%	\$ (44,474)	\$ (14,825)	\$ 1,482,475	\$ 14,825	\$ 44,474
+0.25%	5.68%	\$ (107,745)	\$ (79,400)	\$ (65,227)	\$ (51,055)	\$ (22,710)

**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 \$1,371 million (September 30, 2016 – \$1,282 million).

	March 31, 2017	Sept. 30, 2016
Non-current	\$ 825,813	\$ 666,824
Current	12,185	47,657
	\$ 837,998	\$ 714,481

Estimated principal payments required to retire the mortgage obligations as of March 31, 2017 are as follows:

12 months ending March 31,	Amount
2018	\$ 15,148
2019	37,056
2020	31,162
2021	75,390
2022	84,499
Subsequent	615,254
	858,509
Deferred financing costs	(20,511)
	\$ 837,998

**6. BANK INDEBTEDNESS**

Effective January 2014, the Corporation was granted a new banking facility to a maximum of \$85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 6, 2019. As at March 31, 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 March 31, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 56% and 1.34, respectively.

## Overall funded debt to gross book value ratio as of March 31, 2017

(000s of dollars)

Total funded debt	
Mortgages payable	\$ 837,998
Bank indebtedness	–
	\$ 837,998
Gross book value of assets	
Investment properties	\$ 1,482,475
Property, plant and equipment	4,884
	\$ 1,487,359
Overall funded debt to gross book value ratio	56%

## Debt service coverage ratio

Earnings before interest, tax, depreciation, amortization and fair value gain

For 12 months ended March 31, 2017

Net profit	\$ 46,836
Add (deduct):	
Mortgage interest	28,251
Income tax	9,143
Depreciation	381
Amortization of finance cost	2,716
Fair value gain	(32,887)
	\$ 54,440
Principal and interest payments	\$ 40,543
Debt service coverage ratio	1.34

## 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:

	Six months ended March 31, 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	(2,400)	(6)	(1,387,918)	(3,799)
Exercise of stock options	6,200	57	–	–
Issued and outstanding,				
– end of the period	8,887,133	\$ 24,366	8,883,333	\$ 24,315

All common shares have an equal right to dividends.

On May 30, 2016, the Corporation obtained approval from the Toronto Stock Exchange (“TSX”) to repurchase up to 487,890 common shares of the Corporation under a Normal Course Issuer Bid (“NCIB”) commencing June 1, 2016. The current NCIB expires on May 30, 2017. The Corporation’s previous NCIB expired on April 20, 2016. During the six months ended March 31, 2017

and 2016, the Corporation purchased and cancelled 2,400 common share and 138,336 common shares, respectively, at an average price of \$34.82 and \$31.72 per common share. 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) PROFIT 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 March 31,		Six months ended March 31,	
	2017	2016	2017	2016
<b>Numerator</b>				
Net loss	\$ (2,219)	\$ (27,098)	\$ (5,918)	\$ (35,582)
<b>Denominator</b>				
For basic loss per share and diluted loss per share				
– Weighted average shares	8,882,957	10,132,915	8,883,147	10,152,436
<b>Loss per share</b>				
– basic	\$ (0.25)	\$ (2.67)	\$ (0.67)	\$ (3.50)
– diluted	\$ (0.25)	\$ (2.67)	\$ (0.67)	\$ (3.50)

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 six months ended March 31, 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 March 31, 2017 and September 30, 2016 and changes during the periods are presented below:

Stock option	March 31, 2017		September 30, 2016	
	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	1.94		2.44	
Prices	\$ 5.51		\$ 5.51	

During the six months ended March 31, 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)

		March 31, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>					
Restricted cash	Level 1	\$ 2,723	\$ 2,723	\$ 2,858	\$ 2,858
Cash and cash equivalents	Level 1	58,219	58,219	1,095	1,095
Trade and other receivables	Level 2	1,076	1,076	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
<b>Financial liabilities:</b>					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	837,998	861,713	714,481	769,086
Trade and other payables	Level 2	6,385	6,385	6,898	6,898
Refundable security deposits	Level 1	4,067	4,067	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)

		March 31, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-financial assets:</b>					
Investment properties	Level 3	\$1,482,475	\$1,482,475	\$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 \$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 six months ended March 31, 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 March 31, 2017, rents due from current tenants amounted to \$300,000 (September 30, 2016 – \$336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.1 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	\$ 15,148	37,056	31,162	75,390	699,753	\$ 858,509
Mortgage interest payable	\$ 26,336	25,801	24,075	23,229	80,499	\$ 179,940
Trade and other payables	\$ 6,385	–	–	–	–	\$ 6,385
Refundable security deposits	\$ 4,067	–	–	–	–	\$ 4,067

## 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 March 31, 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 six months ended March 31, 2017 were \$70,500 (2016 – \$53,000) and \$122,100 (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 six months ended March 31, 2017 amounting to \$84,500 (2016 – \$100,000) and \$197,500 (2016 – \$129,000) 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 March 31, 2017, the amounts payable to the law firm were \$40,000 (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 March 31,		Six months ended March 31,	
	2017	2016	2017	2016
<b>BRITISH COLUMBIA</b>				
Rental revenue	\$ 7,252	\$ 6,779	\$ 14,458	\$ 13,371
Ancillary rental income	172	93	287	180
Fair value gain or (loss)	(919)	12,213	(1,984)	11,118
Property operating expenses	2,827	2,493	5,457	4,788
<b>ALBERTA</b>				
Rental revenue	\$ 15,050	\$ 15,635	\$ 30,122	\$ 31,702
Ancillary rental income	257	347	464	578
Fair value (loss)	(3,817)	(48,348)	(9,425)	(62,857)
Property operating expenses	6,868	5,787	13,105	11,289
<b>SASKATCHEWAN</b>				
Rental revenue	\$ 3,277	\$ 2,414	\$ 6,498	\$ 4,810
Ancillary rental income	40	10	62	29
Fair value (loss)	(3,809)	(297)	(4,884)	(747)
Property operating expenses	1,539	1,023	2,825	1,983
<b>TOTAL</b>				
Rental revenue	\$ 25,579	\$ 24,828	\$ 51,078	\$ 49,883
Ancillary rental income	469	450	813	787
Fair value (loss)	(8,545)	(36,432)	(16,293)	(52,486)
Property operating expenses	11,234	9,303	21,387	18,060
Unallocated revenue*	2,574	100	2,689	134
Unallocated expenses**	11,062	6,741	22,818	15,840
(Loss) for the period	\$ (2,219)	\$ (27,098)	\$ (5,918)	\$ (35,582)

\* 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

	March 31, 2017	Sept. 30, 2016
<b>BRITISH COLUMBIA</b>		
Investment properties	\$ 400,400	\$ 400,400
Property, plant and equipment	16	19
Mortgages payable	242,154	156,543
Refundable security deposits	1,297	1,290
<b>ALBERTA</b>		
Investment properties	\$ 916,395	\$ 892,480
Property, plant and equipment	4,857	4,794
Mortgages payable	501,047	467,555
Refundable security deposits	2,192	2,218
<b>SASKATCHEWAN</b>		
Investment properties	\$ 165,680	\$ 167,200
Property, plant and equipment	11	9
Mortgages payable	94,797	90,383
Refundable security deposits	578	592
<b>TOTAL</b>		
Investment properties	\$ 1,482,475	\$ 1,460,080
Property, plant and equipment	4,884	4,822
Mortgages payable	837,998	714,481
Refundable security deposits	4,067	4,100

## IDENTIFIABLE CAPITAL EXPENDITURES

	Six months ended March 31, 2017	Year ended Sept. 30, 2016
BRITISH COLUMBIA	\$ 1,984	\$ 9,917
ALBERTA	33,622	28,044
SASKATCHEWAN	3,368	39,736
<b>TOTAL</b>	<b>\$ 38,974</b>	<b>\$ 77,697</b>

## 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 March 31, 2017 amounted to \$1,420 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:

	March 31, 2017	Sept. 30, 2016
Mortgages payable	\$ 837,998	\$ 714,481
Bank indebtedness	–	40,148
Total equity	582,010	587,976
Total capital	\$ 1,420,008	\$ 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 March 31, 2017 is approximately 57% (September 30, 2016 – 52%) which leaves a sufficient capacity to raise additional funds from refinancing before the Corporation reaches its internal target ratio of 70%.

The debt to fair value ratios was as follows:

	March 31, 2017	Sept. 30, 2016
Mortgages payable	\$ 837,998	\$ 714,481
Bank indebtedness	–	40,148
Total debts	\$ 837,998	\$ 754,629
Investment properties	\$ 1,482,475	\$ 1,460,080
Debt to fair value ratio	57%	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 March 31, 2017, the Corporation acquired 33 residential units in Calgary, Edmonton and Saskatoon for a total consideration of \$3.7 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 May 4, 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  
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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

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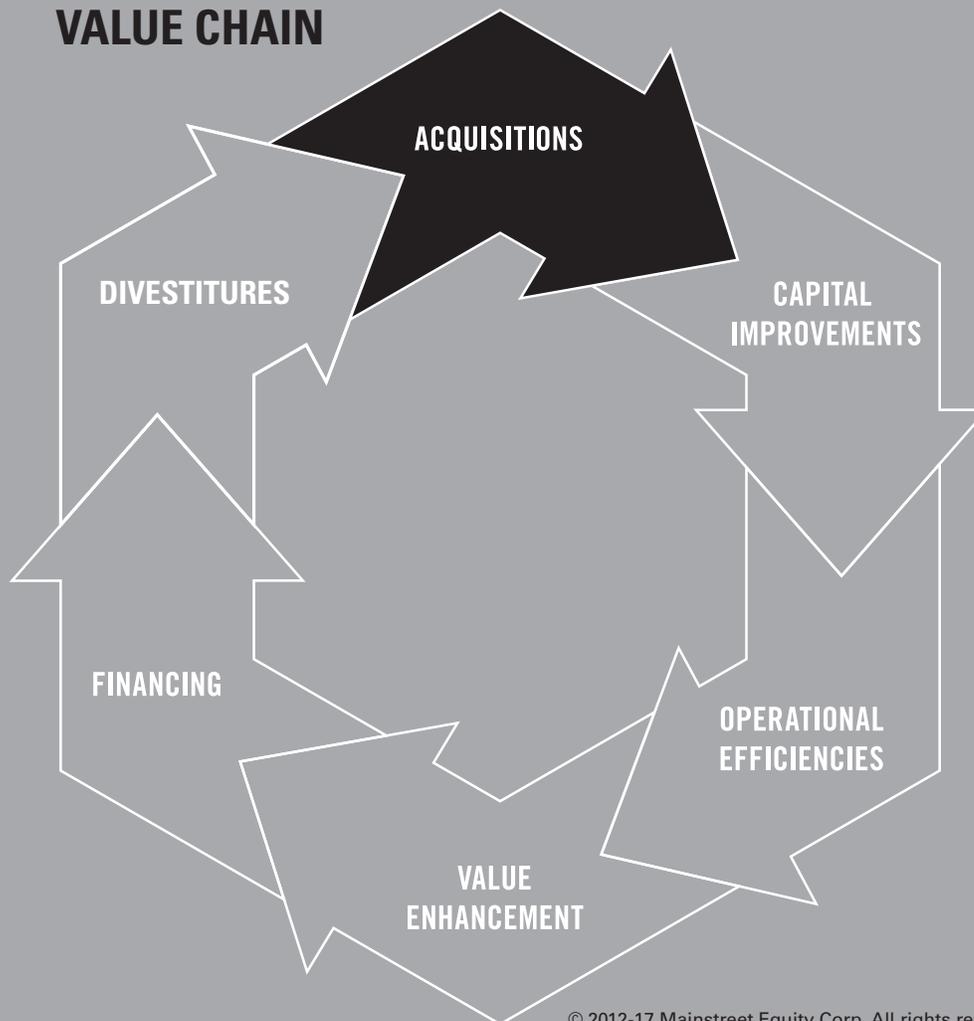
Twitter: @BobDhillon\_MEQ

### 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 10,182 units (YTD) with appraised values of approximately \$1.5 billion with minimal equity dilution.**