

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, 2018 and 2017. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation’s unaudited interim condensed consolidated financial statements for the three and six months ended March 31, 2018 and 2017, the MD&A and audited consolidated financial statements and accompanying notes for the years ended September 30, 2017 and 2016. 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 3, 2018. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation’s annual information form is available under the Corporation’s profile at SEDAR (www.sedar.com).

Unless indicate otherwise, reference herein to 2018 and 2017 refers to the three and six month periods ended March 31, 2018 and 2017, respectively.

BUSINESS OVERVIEW

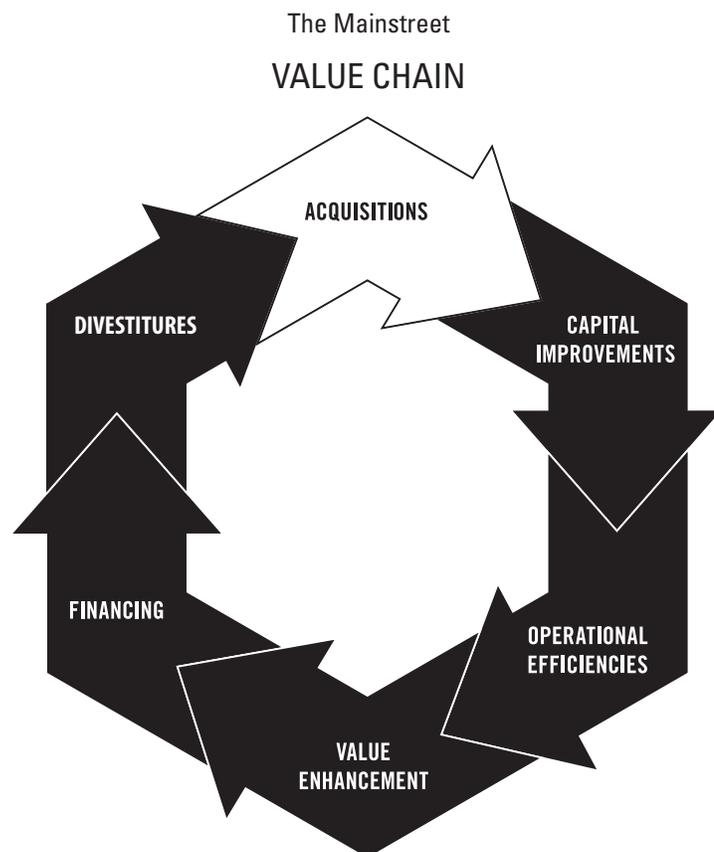
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/ Lower Mainland, Calgary (including the City of Lethbridge and the Town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

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

BUSINESS STRATEGY

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

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



INTERNATIONAL FINANCIAL REPORTING STANDARDS

The condensed financial statements of the Corporation prepared in conjunction with this MD&A have been prepared in accordance with International Accounting Standard "IAS" 34 – Interim Financial Reporting.

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, 2017, 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.

Except for the investment properties acquired during the six months ended March 31, 2018 for which the cost of acquisition was used as the best estimate of the fair market value as of March 31, 2018, the Corporation grouped its investment properties in each city by their types and geographic locations. Samples were selected in each group for independent appraisal. The appraised values of the samples selected were compared with their appraised values as of September 30, 2017. The percentage changes in values of those samples selected were applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of March 31, 2018.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,729 million as of March 31, 2018 (\$1,632 million as of September 30, 2017). 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, 2018 and September 30, 2017, respectively.

As at March 31, 2018	Number of properties	Number of units	Market value (\$million)	Average value per unit (\$000)	Avg. capitalization rate as at Mar. 31, 2018
Surrey, British Columbia	10	1,775	\$ 344	\$ 194	4.05%
Abbotsford, British Columbia	15	975	147	151	4.70%
Calgary, Alberta (Note 1)	38	1,925	408	212	4.83%
Edmonton, Alberta (Note 2)	128	4,260	563	132	5.66%
Regina, Saskatchewan	48	641	73	114	5.95%
Saskatoon, Saskatchewan	49	1,637	194	119	6.73%
Total investment properties	288	11,213	\$ 1,729	\$ 154	5.20%

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

Note (2) – includes the City of Fort Saskatchewan

As at September 30, 2017	Number of properties	Number of units	Market value (\$million)	Average value per unit (\$000)	Avg. capitalization rate as at Sept. 30, 2017
Surrey, British Columbia	10	1,775	\$ 336	\$ 189	4.05%
Abbotsford, British Columbia	15	975	147	151	4.70%
Calgary, Alberta (Note 1)	38	1,925	406	211	4.81%
Edmonton, Alberta (Note 2)	125	4,172	549	132	5.74%
Saskatoon, Saskatchewan	49	1,633	194	119	6.64%
Total investment properties	237	10,480	\$ 1,632	\$ 156	5.17%

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	
	2018	2017	2018	2017
		Calgary, Edmonton and Saskatoon	Edmonton, Saskatoon and Regina	Edmonton and Saskatoon
Number of rental units (Note 1)	–	245	733	304
Total costs	–	\$ 23,147	\$ 80,372	\$ 28,428
Average price per apartment unit	–	\$ 94	\$ 110	\$ 94

Employing a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties in Western Canada that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In Q2 2018 Mainstreet did not acquire any new property. Subsequent to Q2 2018 Mainstreet acquired 169 residential units in the provinces of Alberta and Saskatchewan for a total consideration of \$17.8 million. Since Mainstreet's previous financial year-end (September 30, 2017), the Corporation has grown its portfolio of properties by 7%.

As of March 31, 2018, Mainstreet's portfolio included 11,213 residential units and one commercial unit, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments. A total of 89% of these residential units were rented, while 6% were being renovated and the remainder 5% left vacant because of current unfavourable rental market conditions, primarily in the provinces of Alberta and Saskatchewan.

Since 1997, the Corporation's portfolio has increased from 10 to 288 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,729 million as of March 31, 2018.

The following table demonstrates the growth of the Corporation by region since the end of the previous financial year ended September 30, 2017.

	Number of units as at October 1, 2017	Acquisitions/ disposition six months ended March 31, 2018	Number of units as at March 31, 2018	% Growth
Surrey, British Columbia	1,775	–	1,775	–
Abbotsford, British Columbia	975	–	975	–
Calgary and Southern Alberta, Alberta (Note 1)	1,925	–	1,925	–
Edmonton, Alberta (Note 2)	4,172	88	4,260	2%
Saskatoon, Saskatchewan	1,633	4	1,637	–
Regina, Saskatchewan	–	641	641	100%
Investment properties	10,480	733	11,213	7%

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

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

CAPITAL IMPROVEMENTS

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

In Q2 2018, the Corporation spent \$4.8 million (Q2 2017 – \$5.2 million) on capital improvements, of which \$3.7 million (Q2 2017 – \$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 \$9.4 million on renovations in the remaining six months of fiscal year 2018. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of

the renovations of its existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

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

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

	Three months ended March 31			Six months ended March 31		
	2018	2017	% change	2018	2017	% change
Gross revenue	\$ 28,463	\$ 26,222	9%	\$ 55,661	\$ 52,180	7%
Profit (loss) and comprehensive income (loss) – GAAP measurement	10,827	(2,219)	588%	14,265	(5,918)	341%
Fair value gain (loss)	7,100	(8,545)	183%	5,925	(16,293)	136%
Depreciation	109	97	12%	210	186	13%
Income tax – deferred	2,700	785	244%	4,335	941	361%
Funds from operations – Non GAAP Measurement (Note 1)	6,536	7,208	(9%)	12,885	11,502	12%
Interest income	(134)	(174)	(23%)	(273)	(289)	(6%)
General and administrative expenses	2,652	2,702	(2%)	5,423	5,101	6%
Mortgage interest	7,164	6,802	5%	13,976	15,107	(7%)
Financing cost	703	676	4%	1,332	1,483	(10%)
Insurance settlement	–	(2,400)	–	–	(2,400)	–
Net operating income – Non GAAP Measurement (Note 2)	\$ 16,921	\$ 14,814	14%	\$ 33,343	\$ 30,504	9%
Operating margin from operations	60%	57%		60%	59%	
Profit (loss) per share						
Basic	\$ 1.23	\$ (0.25)	592%	\$ 1.62	\$ (0.67)	342%
Fully diluted	\$ 1.13	\$ (0.25)	552%	\$ 1.49	\$ (0.67)	322%
Funds from operations per share						
Basic	\$ 0.74	\$ 0.81	(9%)	\$ 1.46	\$ 1.29	13%
Fully diluted	\$ 0.68	\$ 0.75	(9%)	\$ 1.35	\$ 1.20	13%
Weighted average number of shares						
Basic	8,832,305	8,882,957		8,832,639	8,883,147	
Fully diluted	9,544,656	9,575,465		9,543,552	9,570,988	
	March 31, 2018					
Total Assets	\$ 1,767,650					
Total Long term liabilities	\$1,026,410					

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. Management believes FFO is useful for readers to determine the cashflow generated from operations before repayment of mortgage principal and capital expenditures. This information is critical for assessment of the Corporation’s ability in raising additional capital and improving the condition of its investment properties in the future.

2. 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. In the Canadian real estate industry, NOI is widely used by appraisers as one of the key factors in determining the fair market value of investment properties. This information is therefore critical for readers to estimate the fair market value of the Corporation's investment properties which is one of the most important investment criteria in for investment decisions in the real estate industry.

REVENUE

In Q2 2018, revenue primarily comprised of rental and ancillary rental income totalling \$28.3 million (Q2 2017 – \$26.0 million), and interest income. Overall, the revenue increased by 9% as compared to Q2 2017, which is discussed and analysed in the session entitled "Rental Operations" below.

PROFIT

For the three and six month period ended March 31, 2018, Mainstreet reported a net profit of \$10.8 million (\$1.23 per basic share) and \$14.3 million (\$1.62 per basic share) respectively, as compared to a loss of \$2.2 million (\$0.25 per basic share) and \$5.9 million (\$0.67 per basic share) respectively, in 2017.

Net profit is further analysed as follows:

(000s of dollars)

	Three months ended March 31			Six months ended March 31		
	2018	2017	% change	2018	2017	% change
Funds from operations	\$ 6,536	\$ 7,208	(9%)	\$ 12,885	\$ 11,502	12%
Fair value gain (loss)	7100	(8,545)	183%	5,925	(16,293)	136%
Depreciation	(109)	(97)	12%	(210)	(186)	13%
Profit (loss) before income tax	13,527	(1,434)	1,043%	18,600	(4,977)	474%
Deferred income tax	2,700	785	244%	4,335	941	361%
Net profit (loss)	\$ 10,827	\$ (2,219)	588%	\$ 14,265	\$ (5,918)	341%

The decrease in funds from continuing operations in Q2 2018 and 2017 is further discussed and analysed in the following section entitled: "Funds From Operations".

In Q2 2018, a fair value gain of \$7.1 million was incurred as compared to a fair value loss of \$8.5 million in Q2 2017. This was mainly due to changes as identified below:

(000s of dollars)

Fair value gain (loss) from appraisals

	Three months ended March 31		Six months ended March 31	
	2018	2017	2018	2017
Surrey	\$ 7,200	\$ –	\$ 8,170	\$ –
Abbotsford	–	–	–	–
Calgary	1,420	(179)	2,330	(976)
Edmonton	5,328	–	6,437	(1,436)
Saskatoon	(2,090)	(3,203)	(420)	(3,667)
Regina	–	–	–	–
	11,858	(3,382)	16,517	(6,079)
Capital expenditure	(4,758)	(5,163)	(10,592)	(10,216)
Fair value (loss) gain	\$ 7,100	\$ (8,545)	\$ 5,925	\$ (16,293)

FUNDS FROM OPERATIONS (FFO)

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 2018, Mainstreet's FFO from operations decreased by 9% to \$6.5 million as compared to \$7.2 million in Q2 2017. In Q2 2017, Mainstreet incurred one-time pay-out penalties of \$0.2 million for financing its pre-maturity mortgages and received \$2.4 million in insurance settlement for a property destroyed by fire in Edmonton, Alberta. Excluding these one-time items, FFO increased by 31% to \$6.5 million in Q2 2018 as compared to \$5.0 million in Q2 2017.

(000s of dollars)

	Three months ended March 31			Six months ended March 31,		
	2018	2017	% change	2018	2017	% change
Funds from operations	\$ 6,536	\$ 7,208	(9%)	\$ 12,884	\$ 11,502	12%
Insurance Settlement	–	(2,400)	–	–	(2,400)	–
Pay-out penalties	–	197	–	–	2,130	–
Funds from operations before pay-out penalties and insurance settlement	\$ 6,536	\$ 5,005	31%	\$ 12,884	\$ 11,232	15%

The increase in FFO in 2018 was mainly attributable to the increased rental revenue which will be discussed and analysed in the following section entitled "Rental Operations."

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries expenses. In Q2 2018, G&A expenses decreased by 2% to \$2.6 million as compared to \$2.7 million in Q2 2017, mainly resulting from a decrease in professional fees.

MORTGAGE INTEREST

Mortgage interest expenses increased by 5% to \$7.2 million in Q2 2018 compared to \$6.8 million in Q2 2017.

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

In anticipation of a rising interest rate environment, the Corporation continues to take advantage of current low interest rate. In Q2 2018, the Corporation received funding of \$3.5 million 10-year, CMHC-insured mortgages at an average interest rate of 2.96%. Subsequent to the quarter ended March 31, 2018, the Corporation also financed seven clear-title properties for \$20 million at an interest rate of 2.99%. The additional funds raised will be used to support the Corporation's growth in its core markets.

RENTAL OPERATIONS

(000s of dollars except per unit data)

Three months ended March 31	Total Portfolio			Same Asset			Acquisitions		
	2018	2017	% change	2018	2017	% change	2018	2017	% change
Rental revenue and ancillary rental income	\$ 28,329	\$ 26,048	9%	\$ 25,669	\$ 25,742	–	\$ 2,660	\$ 306	769%
Operating expenses	11,408	11,234	2%	10,116	11,030	(8%)	1,292	204	533%
Net operating income	\$ 16,921	\$ 14,814	14%	\$ 15,553	\$ 14,712	6%	\$ 1,368	\$ 102	1,241%
Operating margin	60%	57%		61%	57%		51%	33%	
Average vacancy rate	11.3%	10.7%	6%	9.7%	9.9%	(3%)	23.5%	34.6%	(32%)
Weighted average number of units	11,213	10,073	11%	9,901	9,901	–	1,312	172	663%
Average rental rate per unit per month	\$ 842	\$ 862	(2%)	\$ 864	\$ 867	–	\$ 676	\$ 593	14%
Average operating expense per unit per month	\$ 339	\$ 372	(9%)	\$ 341	\$ 371	(8%)	\$ 328	\$ 395	(17%)

(000s of dollars except per unit data)

Six months ended March 31	Total Portfolio			Same Asset			Acquisitions		
	2018	2017	% change	2018	2017	% change	2018	2017	% change
Rental revenue and ancillary rental income	\$ 55,388	\$ 51,891	7%	\$ 51,326	\$ 51,567	–	\$ 4,062	\$ 324	1,154%
Operating expenses	22,045	21,387	3%	20,119	21,175	(5%)	1,926	212	808%
Net operating income	\$ 33,343	\$ 30,504	9%	\$ 31,207	\$ 30,392	3%	\$ 2,136	\$ 112	1,808%
Operating margin	60%	59%		61%	59%		53%	35%	
Average vacancy rate	11.3%	10.2%	11%	9.8%	9.8%	–	26.2%	35.4%	(26%)
Weighted average number of units	10,734	9,985	8%	9,901	9,901	–	833	84	892%
Average rental rate per unit per month	\$ 860	\$ 866	(1%)	\$ 864	\$ 868	–	\$ 813	\$ 643	26%
Average operating expense per unit per month	\$ 342	\$ 357	(4%)	\$ 339	\$ 356	(5%)	\$ 385	\$ 421	(8%)

Despite the increase in the vacancy rate to 11.3% in Q2 2018 from 10.7% in 2017 and a drop in the average monthly rental rate to \$842 per unit in Q2 2018 from \$862 per unit in Q2 2017, the overall rental revenue and ancillary rental income increased by 9% to \$28.3 million in Q2 2018 as compared to \$26.0 million in Q2 2017. This was due to the continued growth of the Corporation's portfolio as the average number of units owned by the corporation increased by 11% over the year.

For the same asset properties, which refer to properties owned by the Corporation for the entire three and six month period ended March 31, 2018 and 2017, the rental revenue remained the same at \$25.7 million in both Q2 2018 and Q2 2017. The average rental rate per unit per month decreased by less than 1% to \$864 in Q2 2018, down from \$867 per unit in Q2 2017. The vacancy rate decreased to 9.7% in Q2 2018 from 9.9% in Q2 2017.

Mainstreet's overall operating expenses have also increased by 2% to \$11.4 million in Q2 2018 from \$11.2 million in Q2 2017, due mainly to the increased number of newly acquired apartment units over the year.

The same asset operating expenses have decreased by 8%, due mainly to reduced utility expense and repair and maintenance expenses in Q2 2018.

As a result, the overall net operating income increased by 14% to \$16.9 million in Q2 2018 from \$14.8 million in Q2 2017 and the net operating margin also increased to 60% in Q2 2018 from 57% in Q2 2017.

For the same asset properties, both the net operating income increased by 6% to \$15.6 million in Q2 2018 from \$14.7 million in Q2 2017 and net operating margin increased to 61% in Q2 2018 from 57% in Q2 2017.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet achieved a 5% increase in rental revenue in its British Columbia portfolio in Q2 2018. The average vacancy rate decreased to 0.4% in Q2 2018 from 1.5% in Q2 2017. An above-average occupancy rate can also be attributed to the overall economic performance in British Columbia, which is among the strongest in the country, according to information published by Statistics Canada. As a result, rental revenue per unit increased by 5% to \$942 per month in Q2 2018 from \$900 per month in Q2 2017.

The operating expense per unit decreased by 12% to \$300 per month in Q2 2018 compared to \$343 per month in Q2 2017, due mainly to decreased utility expenses and repair and maintenance expenses. As a result, the net operating income increased by 15% and the net operating margin increased to 68% in Q2 2018 as compared to 62% in Q2 2017.

	Three months ended March 31			Six months ended March 31		
	2018	2017	% change	2018	2017	% change
Rental revenue and ancillary rental income	\$ 7,775	\$ 7,424	5%	\$ 15,442	\$ 14,745	5%
Operating expenses	2,476	2,827	(12%)	4,956	5,457	(9%)
Net operating income	\$ 5,299	\$ 4,597	15%	\$ 10,486	\$ 9,288	13%
Weighted average number of units	2,750	2,750	–	2,750	2,750	0%
Average rent per unit per month	\$ 942	\$ 900	5%	\$ 936	\$ 894	5%
Operating cost per unit per month	\$ 300	\$ 343	(12%)	\$ 300	\$ 331	(9%)
Average vacancy rate	0.4%	1.5%		0.7%	1.2%	
Operating margin	68%	62%		68%	63%	

Alberta

Mainstreet achieved growth of 5% in its Alberta portfolio in Q2 2018; the weighted average number of rental units grew to 6,185 units, compared to 5,868 units in Q2 2017. The average vacancy rate slightly increased to 14.4% in Q2 2018 from 14.0% in Q2 2017. The increase of vacancy rate was due mainly to continuing weaker economic conditions in the province. Rental revenue per unit decreased by 3% to \$841 per month in Q2 2018 from \$870 per month in Q2 2017, as a result of the increased vacancy rate and rental incentives during the period.

The operating expense per unit decreased by 6% to \$365 per month in Q2 2018 from \$390 per month in Q2 2017. The decrease in operating expense was due mainly to reduced repairs and maintenance expenses in the quarter. As a result, the net operating income increased by 5% and the net operating margin improved to 57% as compared to 55% in Q2 2017.

	Three months ended March 31			Six months ended March 31		
	2018	2017	% change	2018	2017	% change
Rental revenue and ancillary rental income	\$ 15,610	\$ 15,307	2%	\$ 31,129	\$ 30,586	2%
Operating expenses	6,775	6,868	(1%)	13,320	13,105	2%
Net operating income	\$ 8,835	\$ 8,439	5%	\$ 17,809	\$ 17,481	2%
Weighted average number of units	6,185	5,868	5%	6,159	5,791	6%
Average rent per unit per month	\$ 841	\$ 870	(3%)	\$ 842	\$ 880	(4%)
Operating cost per unit per month	\$ 365	\$ 390	(6%)	\$ 360	\$ 377	(4%)
Average vacancy rate	14.4%	14.0%		14.6%	13.2%	
Operating margin	57%	55%		57%	57%	

Saskatchewan

Mainstreet achieved significant growth of 57% in its Saskatchewan portfolio in Q2 2018 due mainly to the acquisition of 641 units in Regina; the average number of rental units grew to 2,278 units in Q2 2018, compared to 1,455 units in Q2 2017. The average vacancy rate increased to 15.9% in Q2 2018 from 15.0% in Q2 2017.

Rental revenue per unit decreased by 5% to \$723 per month in Q2 2018 from \$760 per month in Q2 2017, as a result of the acquisition of 641 unstabilized units in Regina in Q1 2018, and the increased vacancy rate and rental incentives during the period.

The operating expense per unit decreased by 10% to \$316 per month in Q2 2018, down from \$353 per month in Q2 2017 due mainly to decreased repair and maintenance during the period. As a result, the net operating income significantly increased by 57% and the net operating margin improved to 56% in Q2 2018 from 54% in Q2 2017.

	Three months ended March 31			Six months ended March 31		
	2018	2017	% change	2018	2017	% change
Rental revenue and ancillary rental income	\$ 4,944	\$ 3,317	49%	\$ 8,817	\$ 6,560	34%
Operating expenses	2,157	1,539	40%	3,769	2,825	33%
Net operating income	\$ 2,787	\$ 1,778	57%	\$ 5,048	\$ 3,735	35%
Weighted average number of units	2,278	1,455	57%	2,016	1,444	40%
Average rent per unit per month	\$ 723	\$ 760	(5%)	\$ 729	\$ 757	(4%)
Operating cost per unit per month	\$ 316	\$ 353	(10%)	\$ 312	\$ 326	(4%)
Average vacancy rate	15.9%	15.0%		15.2%	15.6%	
Operating margin	56%	54%		57%	57%	

POTENTIAL GROWTH IN RENTAL REVENUE UNDER OPTIMUM OPERATIONS

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

The Corporation is not currently operating under optimum operations, mainly due to continuing weak market conditions in the provinces of Alberta and Saskatchewan, 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, 2018.

City	Stabilized properties				Unstabilized properties				Potential increase in rental revenue under the optimum operations (000s of dollars)	
	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
Abbotsford, BC	975	937	\$ 846	0.75%	\$ 905	38	\$ 777	–	\$ 932	\$ 724
Surrey, BC	1,775	1,775	962	0.17%	1,146	–	–	–	–	3,913
Calgary, AB	1,925	1,813	1,037	7.39%	1,215	112	913	4.46%	1,031	4,368
Edmonton, AB	4,260	3,954	936	15.33%	1,033	306	931	47.39%	1,002	10,670
Saskatoon, SK	1,637	1,440	856	14.58%	1,009	197	929	25.38%	1,093	4,747
Regina, SK	641	–	–	–	–	641	905	13.88%	1,018	1,443
	11,213	9,919	\$ 939	9.68%	\$ 1,071	1,294	\$ 912	22.33%	\$ 1,024	\$ 25,865

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Mar. 31 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016
Rental revenue	\$ 27,940	\$ 26,764	\$ 25,977	\$ 25,952	\$ 25,579	\$ 25,499	\$ 24,761	\$ 24,225
Ancillary rental income	389	295	412	428	469	344	341	291
Interest income	134	139	141	152	174	114	32	40
Total revenue from operations	\$ 28,463	\$ 27,198	\$ 26,530	\$ 26,532	\$ 26,222	\$ 25,957	\$ 25,134	\$ 24,556
Fair value gain (loss)	\$ 7,100	\$ (1,174)	\$115,094	\$ (17,282)	\$ (8,545)	\$ (7,748)	\$ 54,723	\$ (5,273)
Profit (loss) from operations	\$ 10,827	\$ 3,439	\$105,881	\$ (10,216)	\$ (2,219)	\$ (3,698)	\$ 53,012	\$ (259)
Net profit (loss) per share								
– Basic	\$ 1.23	\$ 0.39	\$ 11.97	\$ (1.15)	\$ (0.25)	\$ (0.42)	\$ 5.97	\$ (0.03)
– Diluted	\$ 1.13	\$ 0.36	\$ 11.09	\$ (1.15)	\$ (0.25)	\$ (0.42)	\$ 5.54	\$ (0.03)
Average vacancy rate	11.3%	11.1%	10.9%	10.6%	10.7%	9.7%	10.3%	9.2%
Net operating income	\$ 16,921	\$ 16,422	\$ 17,242	\$ 16,620	\$ 14,814	\$ 15,690	\$ 15,868	\$ 15,546
Same assets rent and ancillary rental income	\$ 25,669	\$ 25,655	\$ 24,541	\$ 24,736	\$ 24,596	\$ 24,725	\$ 24,292	\$ 24,409
Same assets net operating income	\$ 15,553	\$ 15,667	\$ 16,338	\$ 15,872	\$ 14,141	\$ 15,083	\$ 15,440	\$ 15,491
Stabilized FFO	\$ 6,095	\$ 5,874	\$ 7,434	\$ 6,427	\$ 4,604	\$ 3,916	\$ 5,236	\$ 5,775
Funds from operations	\$ 6,536	\$ 6,349	\$ 7,607	\$ 6,743	\$ 7,208	\$ 4,294	\$ 5,614	\$ 6,207
Funds from operations per share								
– Basic	\$ 0.74	\$ 0.72	\$ 0.86	\$ 0.76	\$ 0.81	\$ 0.48	\$ 0.63	\$ 0.68
– Diluted	\$ 0.68	\$ 0.67	\$ 0.80	\$ 0.70	\$ 0.75	\$ 0.45	\$ 0.59	\$ 0.63

Highlights of the Corporation's financial results for the second quarter ended March 31, 2018:

- In Q2 2018, rental income was \$27.9 million compared to \$26.8 million in Q1 2018 and \$25.6 million in Q2 2017.
- In Q2 2018, the average vacancy rate for the quarter was 11.3% compared to 11.1% in Q1 2018 and 10.7% in Q2 2017.
- Fair value gain for the quarter was \$7.1 million compared with a loss of \$1.2 million in Q1 2018 and a loss of \$8.5 million in Q2 2017.

STABILIZED PROPERTIES

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

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

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

As of March 31, 2018, 227 properties (9,919 units) out of 288 properties (11,213 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2018.

	October 1, 2017	Up to current period Acquisition	Disposition	Number of units stabilized	March 31, 2018
Stabilized Units	9,305	–	–	614	9,919
Unstabilized Units	1,175	733	–	(614)	1,294
Total Units	10,480	733	–	–	11,213

The following table summarizes the progress of the Corporation's stabilization progress since the beginning of fiscal year 2018.

	Oct. 1, 2017	No. of units stabilized during the period	No. of unstabilized units acquired/ disposed during the period	Mar. 31, 2018
Numbers of unstabilized units held for renovation	1,175	(614)	733	1,294
Number of months				
Average time spent on stabilization	14	17	4	6
Estimated remaining time for stabilization	11	–	20	18

During the six month period ended March 31, 2018, the Corporation acquired 733 unstabilized units in Edmonton, Alberta and Saskatoon and Regina, Saskatchewan that required substantial renovation and with rents considered well below the market for stabilized units. The Corporation has stabilized 614 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For Q2 2018, FFO from operations of Mainstreet's stabilized property portfolio amounted to \$6.1 million (\$0.69 per basic share and \$0.64 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended March 31, 2018			Six months ended March 31, 2018		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 25,714	\$ 2,615	\$ 28,329	\$ 51,322	\$ 4,066	\$ 55,388
Property operating expenses	10,145	1,263	11,408	20,135	1,910	22,045
Net operating income	\$ 15,569	\$ 1,352	\$ 16,921	\$ 31,187	\$ 2,156	\$ 33,343
Operating margin	61%	52%	60%	61%	53%	60%
Vacancy rate	9.7%	18.1%	11.3%	9.9%	18.1%	11.3%
Interest income	\$ 119	\$ 15	\$ 134	\$ 248	\$ 25	\$ 273
General & administrative expenses	2,369	283	2,652	4,992	431	5,423
Mortgage interest	6,562	602	7,164	13,084	892	13,976
Financing cost	661	42	703	1,249	83	1,332
Funds from operations	\$ 6,095	\$ 441	\$ 6,536	\$ 12,110	\$ 775	\$ 12,885
Funds from operations per share						
– basic	\$ 0.69	\$ 0.05	\$ 0.74	\$ 1.37	\$ 0.09	\$ 1.46
– diluted	\$ 0.64	\$ 0.05	\$ 0.68	\$ 1.27	\$ 0.08	\$ 1.35
Weighted average number of shares						
– basic	8,832,305			8,832,639		
– diluted	9,544,656			9,543,552		

In Q2 2018, FFO of the stabilized property portfolio increased 32% to \$6.1 million as compared to \$4.6 million in Q2 2017, while the number of stabilized units increased by 7% to 9,919 units as of March 31, 2018 compared to 9,303 units as of March 31, 2017. The substantial increase in the stabilized FFO was due to the increased number of stabilized units.

	Three months ended March 31			Six months ended March 31		
	2018	2017	% change	2018	2017	% change
Stabilized FFO	\$ 6,095	\$ 4,604	32%	\$ 12,110	\$ 8,787	38%
Number of stabilized units	9,919	9,303	7%	9,913	9,220	8%

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 2018, after payments of all required expenses, the Corporation generated funds from operations of \$6.5 million. Management expects funds generated from operations will continue to grow when more units are renovated and re-introduced to the market at higher rental rates and management believes that these funds should be sufficient to meet the Corporation's working capital requirements on a year-to-year basis going forward. As of Q2 2018, the working capital deficiency is also managed through the available liquidity under the banking facility as well as the ongoing financing of mortgage payable, which is discussed and analysed in the section entitled 'Financing' below.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In Q2 2018, the Corporation spent approximately \$4.8 million on acquisitions and capital improvements. Management expects the following capital resources to be sufficient to meet the capital requirements on a year-to-year basis.

Financing

Debt financing after property stabilization and maturity of initial loans is a cornerstone of Mainstreet's business strategy. Management believes this unlocks the value added through stabilization and liberates capital for future growth. Management also believes this mitigates the risk of anticipated interest rate hikes and minimizes the costs of borrowing. Mainstreet continually refinances as much floating and maturing debt as possible into long-term, primarily CMHC insured mortgages at lower interest rates.

In Q2 2018, the Corporation received funding of \$3.5 million 10-year, CMHC-insured mortgages at an interest rate of 2.96%.

Subsequent to the quarter ended March 31, 2018, the Corporation has also financed seven clear-title properties for \$20 million at an interest rate of 2.99%.

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

As of March 31, 2018, the Corporation owned title to the following 27 clear title properties and two development lots having an aggregate fair value of approximately \$133 million:

Clear Title Asset List as of March 31, 2018

(000s of dollars except unit information)

Property address	Number of units		Cost of Acquisition		Fair Value
103 Village Acres NW, Edmonton, AB	186	\$	17,800	\$	19,880
3147 – 151 Avenue, Edmonton, AB	99		10,000		10,770
525, 529, 601, 605 Avenue X S / 2309 – 17 Street W, Saskatoon, SK	74		5,045		8,599
1122 – 8 Avenue SW, Calgary, AB	50		1,975		12,100
2121 – 17 Street SW, Calgary, AB	45		5,650		7,320
10625 & 10635 – 115 Street, Edmonton, AB	44		4,693		5,305
33361 Old Yale Road, Abbotsford, BC	38		3,940		6,350
10615 – 111 Street NW, Edmonton, AB	33		3,366		3,630
2010 – 22 Street W, Saskatoon, SK	31		2,025		2,650
1817 – 22 Street W, Saskatoon, SK	30		2,100		3,000
1335 & 1339 – 1 Avenue SE, Calgary, AB	29		3,000		5,950
807 Royal Avenue SW, Calgary, AB	28		4,336		4,840
14224 McQueen Road, Edmonton, AB	27		950		4,330
3105 – 7 Street East, Saskatoon, SK	24		2,476		2,800
11343 – 124 Street, Edmonton, AB	25		624		2,920
127 – 13 Avenue SW, Calgary, AB	24		3,960		4,930
2024 – 22 Street West, Saskatoon, SK	24		2,190		2,650
10721 – 108 Street NW, Edmonton, AB	26		2,630		2,850
10610 – 115 Street, Edmonton, AB	23		1,150		2,630
11930 – 104 Street, Edmonton, AB	18		790		2,300
11828 – 105 Street, Edmonton, AB	17		697		2,090
13608 – 109A Avenue, Edmonton, AB	17		574		2,120
322 – 6 Avenue North, Saskatoon, SK	16		1,644		2,250
1805 – 17 Street SW, Calgary, AB	15		2,075		2,240
10435 – 156 Street NW, Edmonton, AB	12		1,200		1,280
336 to 338 – 18 Avenue SW, Calgary, AB	7		–		3,370
322 – 18 Avenue SW, Calgary, AB	1		1,275		2,600
Development lot, 10125 – 114 Street, Edmonton, AB	–		1,103		1,110
Development lot, 33283 Bourquin Cr E, Abbotsford, BC	–		306		525
Total as of March 31, 2018	963	\$	87,574	\$	133,389

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

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

Banking Facility

Effective January 2014, the Corporation was granted a 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 March 6, 2019. As at March 31, 2018, the Corporation has drawn \$Nil (September 30, 2017 – \$Nil) 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, 2018, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 53% and 1.3, respectively.

Overall funded debt to gross book value ratio

As at March 31, 2018

(\$000s)

Total funded debt

Mortgages payable \$ 921,342

Bank indebtedness —

\$ 921,342

Gross book value of assets

Investment properties \$ 1,729,924

Property, plant and equipment 5,314

\$ 1,735,238

Overall funded debt to gross book value ratio 53%

Debt service coverage ratio

Earnings before interest, tax, depreciation and amortization

For 12 months ended March 31, 2018

Net income \$ 111,118

Add (deduct):

Mortgage interest 27,271

Income tax 20,786

Depreciation 439

Amortization of finance cost 2,677

Fair value gain (105,108)

\$ 57,183

Principal and interest payments \$ 44,086

Debt service coverage ratio 1.30

CONTRACTUAL OBLIGATIONS

As of March 31, 2018, the Corporation had the following contractual obligations, which are anticipated to be met using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of March 31, 2018 are as follows:

12 months ending March 31, 2018	Amount
2019	\$ 42,767
2020	68,859
2021	91,996
2022	89,960
2023	48,803
Subsequent	597,703
	940,088
Deferred financing costs	(18,746)
	\$ 921,342

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average (%) interest rate
Fixed rate debt			
– CMHC-insured	\$ 860,472	92%	3.02%
– non-CMHC-insured	79,616	8%	2.92%
Total fixed rate debt	940,088	100%	3.01%
Deferred financing costs	(18,746)		
	\$ 921,342		

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, 2018, total mortgages payable was \$921 million compared to \$840 million on September 30, 2017 – an increase of 10% due to financing and acquisition activity during the six months ended March 31, 2018.

As of March 31, 2018, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 53% of fair value of investment properties. About 92% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with what management believes are interest rates lower than those available through conventional financing.

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

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2018	\$ –	–	–
2019	\$ 60,042	3%	3.55%
2020	\$ 46,474	5%	3.67%
2021	\$ 84,554	9%	3.94%
2022	\$ 82,356	12%	2.98%
Subsequent	\$ 666,662	71%	2.80%
	\$ 940,088	100%	3.01%

The average maturing term of mortgage loans is 6.9 years as of March 31, 2018, compared to 7.0 years as of September 30, 2017. There are no mortgage loans maturing in fiscal year 2018.

INTERNAL CONTROL

Disclosure controls and procedures (“DC&P”) are designed to provide reasonable assurances that all material information is gathered and reported to senior management of the Corporation, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) on a timely basis and that all information required to be disclosed in Mainstreet’s annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

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

In Q2 2018, 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, 2018. This evaluation confirmed that the Corporation’s DC&P and ICFR were effective as at March 31, 2018.

No changes were made to the Corporation’s DC&P during the quarter ended March 31, 2018.

As at March 31, 2018, Mainstreet confirmed the design of ICFR to provide reasonable assurances regarding the reliability of the financial reporting and the preparation of financial statements and information for external purposes in accordance with IFRS and that the ICFR operated effectively throughout the reported period. The Corporation may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that these systems evolve with the Corporation’s business. There were no changes in the Corporation’s ICFR during the quarter ended March 31, 2018, 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, 2018		September 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Restricted cash	\$ 2,852	\$ 2,852	\$ 2,730	\$ 2,730
Cash and cash equivalents	24,147	24,147	24,767	24,767
Trade and other receivables	1,344	1,344	1,004	1,004
Financial liabilities:				
Mortgages payable	921,342	926,077	839,981	844,147
Trade and other payables	6,086	6,086	6,912	6,912
Refundable security deposits	4,230	4,230	4,108	4,108

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

See also the Notes to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2017 and 2016 for additional information regarding financial assets and the risks associated therewith.

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

		March 31, 2018		September 30, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$1,729,924	\$1,729,924	\$1,632,235	\$1,632,235

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, 2018		Year ended September 30, 2017	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	8,835,964	\$ 24,225	8,883,333	\$ 24,315
Shares purchased for cancellation	(3,659)	(10)	(53,569)	(147)
Exercise of stock option	–	–	6,200	57
Issued and outstanding,				
– end of the period	8,832,305	\$ 24,215	8,835,964	\$ 24,225

All common shares share an equal right to dividends.

In the fiscal year 2017, a director of the Corporation exercised 6,200 stock options to purchase 6,200 common shares at the exercise price of \$5.51 per common share.

On May 30, 2017, the Corporation obtained approval from the Toronto Stock Exchange (“TSX”) to repurchase up to 479,437 common shares of the Corporation under a Normal Course Issuer Bid (“NCIB”) commencing June 1, 2017. The current NCIB expires on May 31, 2018. The Corporation’s previous NCIB expired on May 30, 2017.

During the six months ended March 31, 2018 and 2017, the Corporation purchased and cancelled 3,659 common shares and 2,400 common shares respectively, at an average price of \$37.02 and \$34.82 per common share. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

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

STOCK OPTION

A summary of the Corporation’s stock option plan as of March 31, 2018, and September 30, 2017 and changes during the periods are presented below:

Stock option	March 31, 2018		September 30, 2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning of the period	822,000	\$ 5.51	828,200	\$ 5.51
Exercised	–	–	(6,200)	\$ 5.51
Outstanding and exercisable,				
– end of the period	822,000	\$ 5.51	822,000	\$ 5.51
Weighted average contractual life-years	0.94		1.44	
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 24, 2017. The exercise prices of the options were to equal the market-trading price of the Corporation’s common share on the date of grant. The stock options were fully vested at the time of issue.

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

During the quarter ended March 31, 2018, no stock options were granted, exercised or cancelled. No stock options may be granted under the Corporation's stock option plan after March 24, 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 renewed by the shareholders of the Corporation on March 18, 2016. The Rights Plan was amended to extend the time for a take-over bid to be taken up from 60 days to 120 days.

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, i.e.: at a 50% discount.

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

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

Key accounting estimates and assumptions

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

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate 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. Except in limited circumstances, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the three and six months ended March 31, 2018 were \$41,745 (2017 – \$51,600) and \$806,745 (2017 – \$51,600) respectively 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 three and six months ended March 31, 2018 amounting to \$39,344 (2017 – \$240,000) and \$95,344 (2017 – \$240,000) to a law firm of which a director and officer of the Corporation is a partner. As at March 31, 2018, the amounts payable to the law firm were \$3,727 (September 30, 2017 – \$Nil).

Off Balance Sheet Arrangements

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

Subsequent Events

Subsequent to the quarter ended March 31, 2018, the corporation also financed seven clear-title properties for \$20 million at an interest rate of 2.99%.

Subsequent to the quarter ended March 31, 2018, the corporation acquired 169 residential units in the provinces of Alberta and Saskatchewan for a total consideration of \$17.8 million.

Risk Assessment and Management

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

Vacancy Risk

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

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

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

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

Economic Uncertainty

Any worldwide or regional economic slowdown, stock market uncertainty and international political credit crisis or uncertainty could adversely impact the business and the future profitability of the Corporation. 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.

The slowing of Western Canada's economic growth rate has filtered through to weaker employment prospects in the Prairie Provinces, a tempering of housing and rental demand and a decline in net migration with a corresponding impact on the Corporation's rental and occupancy levels. Still unknown is the impact of various recently enacted or pending government initiatives, including the effect on employment resulting from the minimum wage increase in Alberta 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 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. No mortgages are subject to renewal in the next 12 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. The Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

Utilities and Tax Risk

Mainstreet's business is exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices as well as exposure to significant increases in property taxes. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. In recent years, water and sewer costs have increased significantly, as other forms of direct and indirect "taxes" imposed by various municipalities. In addition, the 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 on the sale of or profits from real estate property, environmental legislation or municipal approvals for usage, development or subdivision); and
- Changes in costs or operating expenses anticipated for real estate assets.

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

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

Renovation Risks

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

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of March 31, 2018, rents due from current tenants amounted to \$319,291 (September 30, 2017 – \$355,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.2 million (September 30, 2017 – \$4.1 million) and provisions for bad debts of \$140,000 (September 30, 2017 – \$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 adequate banking facilities, by managing mortgage debt secured by its investment properties, and by matching the maturity profiles of assets and liabilities.

Financing Risk

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

Reliance on Key Employees

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

Income Tax Risk

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

Market Risks

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

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

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

Acquisitions Risks

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

Environmental, Health and Safety 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.

Climate Change

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

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

Workforce Availability

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

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

Uninsured Losses

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

From time to time the Corporation may be subject to lawsuits as a result of the nature of its business. The Corporation intends to maintain business and property insurance policies in amounts and with such coverage and deductibles as are deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards.

However, there can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the Corporation that is not covered by, or in excess of, the Corporation's insurance could materially affect the Corporation's operating results and financial condition, which would have an adverse effect on the Corporation. Claims against the Corporation, regardless of their merit or eventual outcome, will require the Corporation's management to devote time to matters unrelated to the operation of the business. 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 Professional Appraisal Practice. Appraisals are based on various assumptions of future expectations of property performance and while the appraiser's internal forecast of net income for the properties appraised are considered to be reasonable at that time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

CHALLENGES

Despite financial stabilization in Alberta and Saskatchewan markets, the uncertain macroeconomic climate remains Mainstreet's primary challenge. While petroleum prices have improved substantially in recent months, commodity markets remain inherently unpredictable. Lower commodity prices over the past three years have raised unemployment levels across the Prairie Provinces and caused in-migration levels to slow.

Despite that uncertainty, broader market conditions are improving, and have led to a shift in Canadian monetary policy. Interest rates have risen 75 basis points over the past 12 months, and future rate hikes could increase the cost of Mainstreet debt.

Additionally, due to Mainstreet's high volume of acquisitions of units during the downturn, the total number of unstabilized assets (61 properties, or 1,294 units) is at an all-time high. This higher unstabilization rate resulted in higher overall vacancies, which rose to 11.3% over the quarter, up from 10.7% in Q2 2017. However, management believes this is a finite trend as the Corporation continues to stabilize units through renovations

As a result, the Corporation has begun increasing the rate at which it converts unstabilized units back into finished products, thereby reintroducing them to the market in time for the anticipated higher rental season of Q3 and Q4. This faster conversion rate in turn raises operating costs. Expenses have increased for maintenance, human resources, marketing and advertising as Mainstreet continues to renovate units and secure new tenants. Mainstreet has also seen increased operating costs due to higher property taxes, as well as the introduction of an incremental carbon tax in Alberta, which targets property owners. Heating costs have risen due to marginally higher natural gas prices compared to two years ago.

Negative macro economic forces have likewise caused short positions in respect of the trading of Mainstreet common stock. Management believes this is partly responsible for the Corporation's share price trading well below its true NAV. As of April 16, 2018, the short position on Mainstreet totaled 433,600 common shares, which has decreased by 38% since the beginning of the fiscal year 2017.

OUTLOOK

Over the last three years of economic recession in the provinces of Alberta and Saskatchewan, Mainstreet has acquired more than \$250 million worth of assets at opportunistic prices, emphasizing the Corporation's countercyclical growth model. Now, as economic activity picks up, management sees that window for acquisitions beginning to close. While Mainstreet remains conservative in its approach, the Corporation expects to take advantage of this opportunity and accelerate pursuit of value-add acquisitions through 2018.

Similarly, the opportunity to refinance debts at record-low levels is coming to an end as interest rates rise. In anticipation of Bank of Canada hikes, Mainstreet has already locked in more than 92% of its debt at ultra-low rates, freeing up funds for stabilization of new units, future growth and protecting against future rate increases. Mainstreet will continue to aggressively pursue this refinancing strategy before interest rates return to the pre-recession levels.

Meanwhile, several economic indicators suggest the Prairie Provinces are on the upswing. Alberta unemployment rates fell to 6.3% in March 2018, the lowest in nearly three years and 2% below March 2017 levels. Unemployment in Saskatchewan fell to 5.6% over the same period, down more than 1% from the year prior. Alberta led Canada in economic growth in 2017, with total GDP increasing 4.9%, compared with the national average of 3.3% (Statistics Canada). The Conference Board of Canada expects GDP growth in both Prairie Provinces to remain stable in 2018, growing 2.1% in Alberta and 1.6% in Saskatchewan.

Oil markets are also showing signs of stability. In April 2018, benchmark prices for crude oil were nearing US\$70 per barrel, the highest since markets collapsed in 2014. Business investment remains below what it was during years of high economic growth. But drilling activity remains stable: the Canadian Association of Oilwell Drilling Contractors estimates total rig utilization rates in Western Canada will be 32% in Q3 and 37% in Q4, well above the 2017 average.

These indicators come as the rental market in Alberta has begun to return to balance. Rental markets have been oversupplied in recent years following a rapid build out of condominiums during years of high economic growth, which effectively spilled over into the broader rental space. However, management believes that this trend has now reached a tipping point, as new tenants continue to absorb that oversupply.

This balancing of the rental market comes amid stable in-migration numbers in Alberta and Saskatchewan markets. In-migration into Alberta in Q4 2017 was 5,599, compared with 2,916 a year earlier, according to Statistics Canada. The province's overall population has continued to grow over the past three years, from 4.15 million to 4.32 million, and grew 1.4% year-over-year in January 2018, higher than the national average growth rate of 1.3%. Saskatchewan in-migration over the same period fell to 492, down from 1,564 a year earlier. Furthermore, management believes the federal government's strategy to boost immigration numbers into Canada will have a broadly positive effect on net migration levels in Western Provinces.

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

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

Lastly, Mainstreet sees a major opportunity to extract more value from its existing assets in 2018. The Corporation plans to take a highly focused approach on stabilizing units, which in turn lowers its overall vacancy rate and boosts NOI and FFO. Management believes significant value can be unlocked from this stabilization process over the next 12-18 months. This process will already be underway as the Corporation enters Q3 and Q4 of this year, reinforcing its financials in the near-term.

RUNWAY ON EXISTING PORTFOLIO

- 1) Pursuing organic, non-dilutive growth model: Using strong potential liquidity position of approximately \$150 million, management sees significant opportunity to continue acquiring new assets at opportunistic prices. Management also believes Mainstreet's business strategy will allow it to continue to boost NOI and FFO while improving quality of living standards for middle class Canadians.
- 2) Closing the NOI gap: In Q2 2018, 11.5% of the Mainstreet portfolio was going through the stabilization process, which contributed to higher vacancy rates. This inherent challenge in the business model is further increased by the high volume of acquisitions in recent quarters, which causes higher rates of unstabilized properties that decreases NOI, FFO and margins. However, Mainstreet plans to focus its efforts on stabilizing units through 2018.
- 3) Buying back common shares at a discount to NAV: Management believes MEQ shares continue to trade well below its NAV. The Corporation will therefore continue to buy back its own common shares on an opportunistic basis under normal course issuer bid.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at www.mainst.biz and on Sedar at www.sedar.com. The Corporation's Annual Information Form dated December 13, 2017 for the year ended September 30, 2017 has been filed on SEDAR.