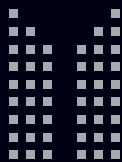




Consecutive years of double-digit growth in FFO & NOI



**MAINSTREET**  
EQUITY CORP.

2015 ANNUAL REPORT

For the years ended September 30, 2015 and 2014

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

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

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## Forward-Looking Information

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

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in the Corporation's Annual Information Form dated December 8, 2015 under the heading "Risk Factors," that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, environmental and other liabilities, credit risks of tenants, fluctuations in interest rates and availability of capital, and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements contained herein.

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

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

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

## 5 YEAR TRENDS

### Continuing Operations

(\$ millions except number of units, percentages and shares)

	% change 2014 vs. 2015	2015	2014	2013	2012	2011
Total number of units	6%	9,319	8,780	8,218	8,180	7,362
Market value of the portfolio	10%	1,386	1,259	1,127	1,051	908
Rental revenue	11%	100.4	90.4	78.2	66.8	56.9
Same assets rental revenue	5%	92.9	88.3	75.0	62.4	52.7
Net operating income						
– from continuing operations	12%	67.3	60.1	52.1	44.9	37.3
Same assets net operating income	6%	62.8	59.0	50.1	42.1	34.7
Funds from continuing operations	24%	31.8	25.6	19.1	14.9	11.2
(before current income tax, stock option cash settlement expense and loss on disposition from investment property)						
FFO from continuing operation per share	25%	3.06	2.45	1.83	1.45	1.08
(before current income tax, stock option cash settlement expense and loss on disposition)						
Operating margins	2%	67%	66%	67%	67%	66%

## MESSAGE FROM THE PRESIDENT & CEO

For the years ended September 30, 2015 and 2014

Mainstreet Equity Corp. (“Mainstreet” or the “Corporation”) has now completed five years of annual double-digit growth in funds from operations (“FFO”) and net operating income (“NOI”), a milestone achievement.

Our ability to steadily maintain this level of performance over a half-decade underscores the strength of our established and disciplined business model as a mid-market, value-added consolidator of apartments in western Canada. We are committed value creators, and are pleased by our success in executing our strategy during this fiscal year, especially in Alberta and Saskatchewan at a time of continued economic weakness in petroleum, natural gas and commodity prices.

Weaker economic growth creates challenges for all businesses, particularly in the short-term. But at Mainstreet, we believe our unique approach and strategic focus offer protection from some of the current risks and present a set of counter-cyclical opportunities. We also see room to expand our corporate foundation now, in ways that are more difficult in an expansionary economy.

### 1. Focusing on mid-market

With an average apartment rental price at about \$1,000 per month, we occupy a position less buffeted by economic unease than the top end of the market.

### 2. Geographical diversification

We continue to lower the overall risk in our portfolio. Currently, 31% of our portfolio is situated in the British Columbia cities of Abbotsford and Surrey as well as Lethbridge, Alberta, locations not heavily dependent on the energy sector. British Columbia has become one of Canada’s strongest economies, with second-quarter employment growth of 3% over 2014, according to Statistics Canada.

### 3. Seizing favourable borrowing costs

With interest rates remaining low, we continue to refinance maturing mortgages and clear title assets. We believe this mitigates risk from rising rates, reduces overall borrowing costs (the most significant cost in our business) and raises additional low-cost capital for future acquisitions.

### 4. Finding good value in our own shares

We believe that Mainstreet’s stock is currently trading at an over 50% discount to our net asset value (“NAV”) based on independent appraisals of our underlying real estate assets. This creates a great opportunity for us to re-purchase our undervalued shares, which we believe constitutes a sound investment that returns capital to shareholders in a tax-efficient manner, while being accretive to NAV.

## 5. Buying in a down market

The current economic uncertainty has, in our view, opened new acquisition opportunities, particularly in key Mainstreet markets in Alberta and Saskatchewan. We believe our available liquidity of over \$160 million positions us to make further non-dilutive acquisitions that can increase NOI and FFO.

## 6. Extracting more value from our existing portfolio

We currently hold 1,105 unstabilized units (approximately 12% of the portfolio), in addition to other units currently operating below market rent. We believe that the financial effect of closing the gap in these areas alone offers opportunity for a further increase in NOI and FFO and expect that these unstabilized units can be stabilized within the next 12 months.

### A Mainstreet step up for the middle class

As a company, we aren't just focused on growing cash flow and asset value for shareholders. We also believe we make an important contribution to better living standards in western Canada by improving housing for the tens of thousands of people who live in our apartments. Every year, Mainstreet acquires rental apartment buildings with units that have fallen below livable standards. Often, the previous landlord has allowed the interior or exterior – and often both – to deteriorate. Poor standards are obvious to renters, many of whom refuse to live in such buildings. As a result, vacancy rates can approach 50%. This exacerbates rental shortages in markets that are today characterized by historically low vacancy rates.

When Mainstreet purchases such a building, we renovate it top to bottom, using our experience and dedicated supply chain to move quickly while keeping to tight budgets. When we are done, we bring back to the market units that have often been completely refinished with modern kitchens, updated bathrooms, better lighting, brighter hallways, safer access and improved landscaping. For 17 years we have acquired buildings, and each one has received an overwhelmingly positive response. Our tenants vote with their feet, creating dramatically higher occupancy rates compared to what was seen under prior management. We believe Mainstreet makes tenants and investors winners by improving Western Canada's housing availability.

## RESULTS

In fiscal year 2015, pre-tax FFO from continuing operations was up 24% to \$31.8 million, an increase from \$25.6 million in 2014. FFO from continuing operations per basic share before and after income tax increased 25% and 18% to \$3.06 and \$2.89 respectively. NOI from continuing operations increased 12% to \$67.3 million, while growing 6% to \$62.8 million on a same asset basis. Mainstreet's revenue from continuing operations rose 11% to \$100.6 million, up from \$90.6 million in 2014; this included a 5% rise in same asset rental revenues to \$92.9 million, from \$88.3 million in 2014. The same asset operating margins improved to 68%, from 67% last year.

The same asset vacancy rate decreased year-over-year to 6.5% from 7.4% in 2014. The overall 2015 vacancy rate, which includes vacant units as apartments undergo stabilization, decreased to 7.5% as compared to 7.7% in 2014. In 2015, 1,105 units, or 12% of the portfolio, remained in the stabilization process. As of December 1, 2015, our vacancy rate – excluding unrentable units currently undergoing renovations – stood at 7%.

During the 2015 fiscal year, Mainstreet financed \$22.5 million in maturing mortgages and clear title assets to 10-year, CMHC-insured fixed-rate debt at a weighted average interest rate of 2.6%. On average, refinancing of existing mortgages was completed at 190 basis points below that of matured mortgages, creating \$438,000 in annual interest expense savings. By refinancing, we also extracted \$60.1 million in additional funds, while at the same time extending our debt maturities and mitigating interest rate risk.

Subsequent to 2015, the CMHC has approved the refinancing of \$7.4 million in matured mortgage loans with an existing average interest rate of 4.7%. These will be refinanced to \$21.5 million in 10-year CMHC-insured mortgages with an expected interest rate of 2.5%. This refinancing will raise \$13.8 million in additional funds and result in annualized interest expense savings of approximately \$160,000. The CMHC and a financial institution have also approved the financing of 8 clear title assets for \$54 million at an expected interest rate of below 3%.

Under our normal-course issuer bid, Mainstreet repurchased and cancelled 197,830 shares in fiscal year 2015 at a weighted average price of \$37.15 per share or an aggregate amount of \$7.3 million. We continue to monitor our share price to determine whether to possibly increase the purchase of what we consider to be undervalued shares.

## CHALLENGES

Alberta and Saskatchewan together account for about 70% of our total rental portfolio. The economy in these provinces has been impacted by continued weakness in petroleum, natural gas and other commodity prices, which has led to large numbers of layoffs and slowing in-migration figures. Mainstreet has experienced some negative impacts to operations and expects these to last until economic conditions improve. Pressure on rental pricing and vacancies may occur. We are mindful of the unpredictability inherent in the current situation, and are keeping a close watch on costs, operating margins and marketplace conditions. The introduction of a carbon tax in Alberta presents some further uncertainty, although 97.8% of our units are separately metered and electricity is paid by tenants, shielding Mainstreet from some cost increases.

However, Mainstreet remains cautiously optimistic and believes the commodity price volatility also creates a series of opportunities that are discussed at greater length in the Outlook section below.

Current challenges are in addition to hurdles inherent to the Mainstreet add-value business model. The renovation and repositioning of properties temporarily raises the overall vacancy rate and hampers NOI performance. Stabilized apartments are previously underperforming properties that we have purchased and renovated to Mainstreet standards. However, we believe that Mainstreet's unstabilized portfolio (12% of the rental portfolio) is one of our greatest levers for future growth in NOI and FFO.

## OUTLOOK

Five years of consistent growth have proven how well Mainstreet's value-added business model works. We believe we create new value by making opportunistic and disciplined acquisitions while maintaining careful operational management. This two-pronged approach has served us well when the economy was strong. But we feel it is especially compelling during a period of economic uncertainty, a time that affords new possibilities for expansion at reasonable costs. In our view, Mainstreet's substantial liquidity places us in a particularly favourable position to capitalize on current economic conditions.

Slower economic growth has coincided with lower natural gas prices for heating and an easing in labour market pressure, both substantial cost areas for Mainstreet. An uncertain economy also tends to be supportive of the rental market, as consumers tend to delay large purchases like new homes. At the same time, we continue to make significant operational gains. In Saskatoon, for example, the average vacancy rate dropped by about 20% between the third and fourth quarters of this fiscal year.

We have other reasons, too, for cautious optimism about our ability to continue growing, and to position ourselves to make the most of the next economic cycle.

### **Buying in our backyard, enjoying a strong coastal economy**

Alberta and Saskatchewan have both felt the impact of lower energy prices, and we have as a result become more conservative in our underwriting criteria there. We nonetheless see significant opportunity in these regions, which form the heart of our operations. With a decrease in bids on properties of interest, we see a chance to buy in our backyard and are moving accordingly, as can be seen with our third-quarter Lethbridge townhouse acquisition at a cap rate of 8.61%, which boasts metrics that were difficult to match in recent years.

## Expedited Value Creation

To our customers, we describe the Mainstreet Estates apartments as one of the best residential apartments in Surrey, British Columbia. But as a committed mid-market value creator, this newly-acquired property shows just how much skill Mainstreet exercises in adding value to property.

In the past, it often took two to three years from acquisition of an asset to complete the renovation process and bring it back to market. At Mainstreet Estates, a major property with 5 buildings and 331 units, the repositioning was completed in just six months.

The results were equally dramatic, with a revenue increase of 73% (from \$1.9 million to \$3.4 million) and a 2,900% leap in NOI, from \$69,000 to \$2.1 million.

Shorter cycle times mean faster value creation, and we see Mainstreet Estates as an excellent example of four key fundamentals in the way we conduct business:

- 1) we believe we make savvy acquisitions that we close effectively, using our ability to pay cash for underperforming, distressed assets
- 2) our management expertise and relationships allow us to direct construction crews to work quickly and with great skill to renovate 331 units in just half a year
- 3) we have the marketing and leasing firepower to fill up suites in short order
- 4) we employ staff with the experience and depth to manage many new units in short order

British Columbia, meanwhile, is enjoying some of the strongest economic performance in Canada. Buoyant conditions there have lowered vacancy rates, while operating costs have remained low.

### **Bolstering talent**

Boom times create heated demand for the most talented people, particularly in trades. The slowing economy has created new hiring opportunities and we are moving to internalize variable costs by recruiting people skilled in pest control, plumbing, electrical contracting and general carpentry. We expect gains in productivity and savings in costs that will extend long into the future.

### **Running down the runway: ample liquidity, low interest rates**

We see four primary levers for growth in the coming year:

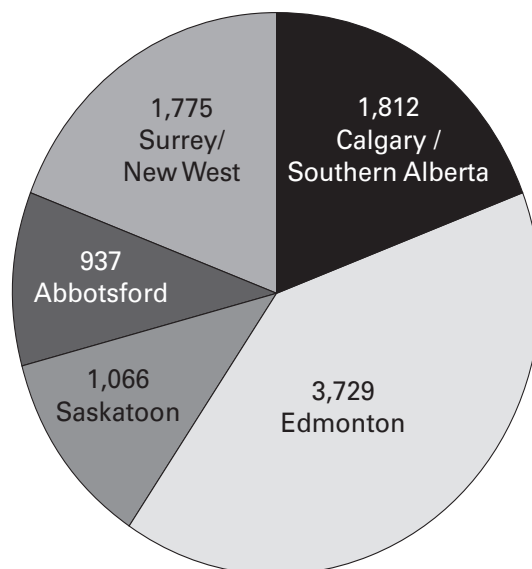
- 1) A position of strength to capitalize on opportunities: We anticipate over \$160 million in available potential liquidity by the end of fiscal year 2016. This includes funds available both from refinancing maturing mortgages and financing existing clear-title assets of approximately \$90 million. In addition, we have \$70 million in remaining availability on our line of credit. Based on a leverage level of 75%, this large liquidity position equates to roughly \$640 million in buying capacity at a time of low mortgage interest rates, and positions Mainstreet to act decisively when acquisition opportunities arise, while upholding our commitment to not dilute shareholder value.
- 2) Inexpensive borrowing: Mainstreet has successfully negotiated a historically low spread with our major lenders, which has provided a further reduction in borrowing costs. The interest rate of the latest 10 year, CMHC insured mortgage was 2.51%.
- 3) Finding ways to add value: We have successfully transformed obsolete retail areas and amenity spaces into 7 residential suites in Edmonton in 2015, and are in the process of transforming an additional 14 suites in Edmonton, Calgary and Abbotsford.
- 4) Extracting more value from the existing portfolio: Mainstreet currently hold 1,105 unstabilized units (approximately 12% of the portfolio), in addition to other units currently operating below market rent. We believe that the financial effect of closing the gap in these areas alone offers opportunity for a further increase in NOI and FFO and expect that these unstabilized units can be stabilized within the next 12 months.

[SIGNED]

"Bob Dhillon"  
President & CEO

Calgary, Alberta  
December 9, 2015

**Total Portfolio by City**

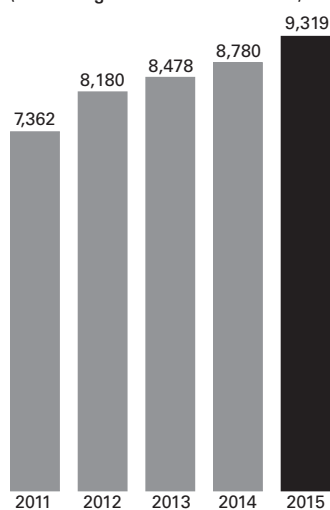


**Consecutive years  
of double-digit growth  
in FFO & NOI**

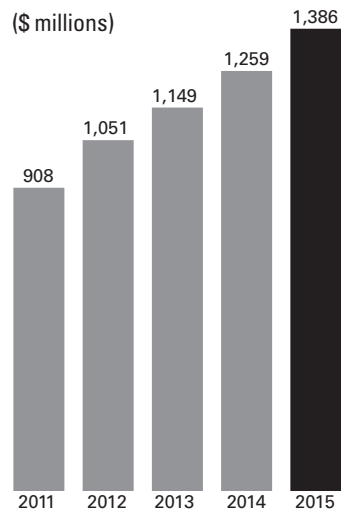


## 2015 KEY PERFORMANCE INDICATORS

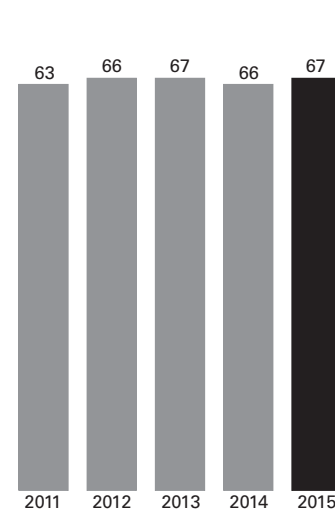
**Total number of units**  
(Including assets held for sale)



**Market value of portfolio**  
(Including assets held for sale)  
(\$ millions)



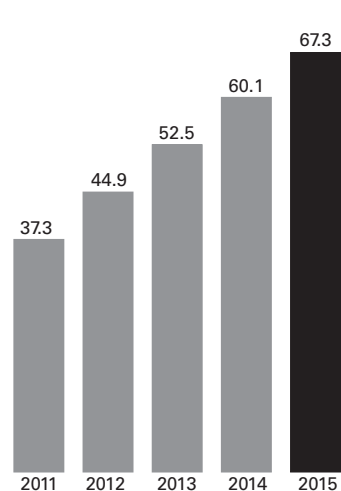
**Operating Margins**  
(%)



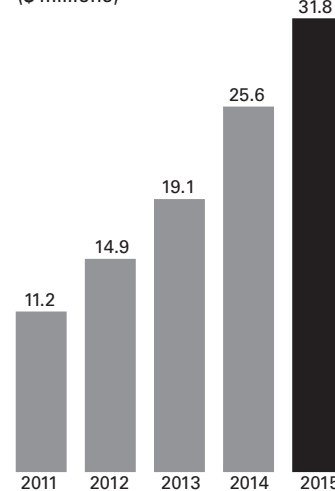
**Net Operating Income (NOI) – Same Assets**  
(\$ millions)



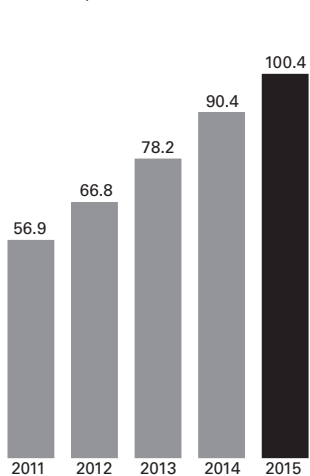
**Net Operating Income (NOI)**  
(\$ millions)



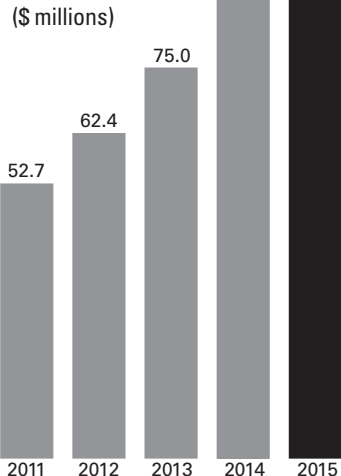
**Funds from Operations (FFO)**  
(Before current income taxes)  
(\$ millions)



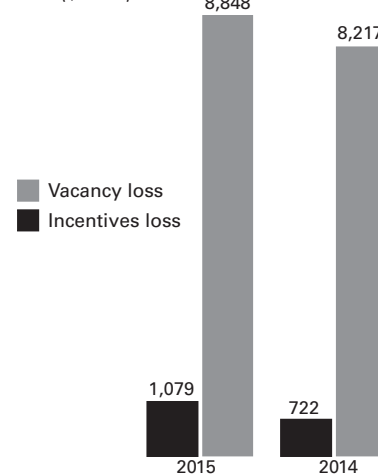
**Rental Revenue**  
(\$ millions)



**Rental Revenue – Same Assets**  
(\$ millions)



**Incentives & Vacancy Loss**  
(\$ 000s)



## 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 fiscal years ended September 30, 2015 and 2014. 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 audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014. These audited 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 December 9, 2015. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR ([www.sedar.com](http://www.sedar.com)).

Unless indicated otherwise, reference herein to 2015 and 2014 refers to the twelve month periods ended September 30, 2015 and 2014, respectively.

### BUSINESS OVERVIEW

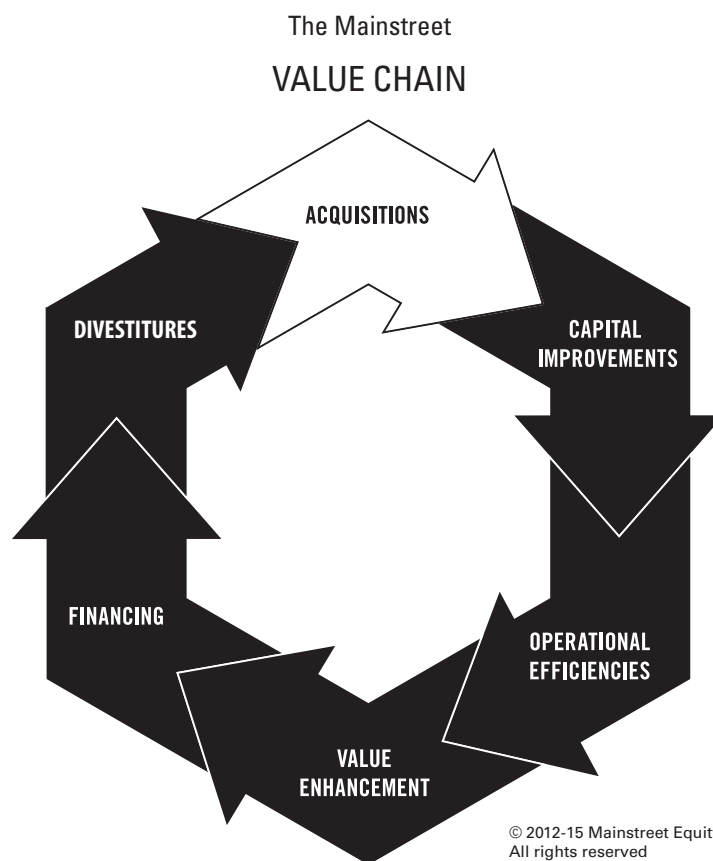
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/Lower Mainland, Calgary (including the Alberta cities of Lethbridge and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

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

### BUSINESS STRATEGY

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

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



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## INTERNATIONAL FINANCIAL REPORTING STANDARDS

### The International Financial Reporting Standards ("IFRS")

The consolidated financial statements of the Corporation prepared in conjunction with this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

### Investment properties

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

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

### Method used in determining the Fair Value of investment properties

The fair value of investment properties held by the Corporation as of September 30, 2015, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and who have the appropriate qualifications and experience in respect of the valuation of investment properties in the relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The fair values are most sensitive in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,386 million at September 30, 2015. The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at September 30, 2015 and September 30, 2014, respectively.

For the financial year ended September 30, 2015	Number of properties	Number of units	Market value (\$ million)	Average value per unit	Average capitalization rate as at Sep. 30, 2015
Surrey, BC	10	1,775	\$ 245	\$ 138	4.85%
Abbotsford, BC	14	937	\$ 116	\$ 124	5.19%
Calgary and Southern Alberta, AB	33	1,812	\$ 390	\$ 216	4.86%
Edmonton, AB	120	3,729	\$ 506	\$ 136	5.71%
Saskatoon, SK	39	1,066	\$ 129	\$ 121	6.75%
Total investment properties	216	9,319	\$ 1,386	\$ 149	5.37%

For the financial year ended September 30, 2014	Number of properties	Number of units	Market value (\$ million)	Average value per unit	Average capitalization rate as at Sep. 30, 2014
Surrey, BC	9	1,444	\$ 174	\$ 120	5.44%
Abbotsford, BC	14	937	\$ 111	\$ 118	5.37%
Calgary and Southern Alberta, AB	32	1,656	\$ 367	\$ 222	4.64%
Edmonton, AB	120	3,725	\$ 489	\$ 131	5.68%
Saskatoon, SK	37	1,018	\$ 118	\$ 116	6.58%
Total investment properties	212	8,780	\$ 1,259	\$ 143	5.40%

## ACQUISITIONS & GROWTH

(000s of dollars)

For the financial year ended September 30,

	2015	2014
	Saskatoon, Surrey and Lethbridge	Calgary, Edmonton, Abbotsford and Saskatoon
Number of rental units	535	562
Total costs	\$ 51,606	\$ 55,806
Average price per unit	\$ 96	\$ 99

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 2015, Mainstreet purchased 535 apartment units in Saskatoon SK, Surrey BC and Lethbridge AB for a total of \$51.6 million – an average purchase price of \$96,000 per unit. Since Mainstreet's previous financial year-end (September 30, 2014), the Corporation has grown its portfolio of properties by 6%. Mainstreet's portfolio now includes 9,319 residential units, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments.

As of September 30, 2015, 93% of these residential units were rented, while 2% were being renovated and the remainder were left vacant because of current market conditions.

Since 1997, the Corporation's portfolio has increased from 10 to 216 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,386 million as of September 30, 2015.

The following table sets forth the growth of the Corporation by region since the end of the previous financial year ended September 30, 2014.

	Number of units as of Oct. 1, 2014	Acquisitions during the twelve month period ended Sep. 30, 2015	Number of units as of Sep. 30, 2015	% Growth
Surrey, British Columbia	1,444	331	1,775	23%
Abbotsford, British Columbia	937	–	937	–
Calgary and Southern Alberta, Alberta (Note 1)	1,656	156	1,812	9%
Edmonton, Alberta (Note 2)	3,725	4	3,729	–
Saskatoon, Saskatchewan	1,018	48	1,066	5%
Investment properties	8,780	539	9,319	6%

Note 1 – Including the cities of Lethbridge and Cochrane.

Note 2 – Conversion of 3 commercial units into 7 residential apartments in one of the existing properties.

## 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 fiscal year 2015, the Corporation spent \$20.2 million (2014 – \$18.2 million), of which \$12.7 (2014 – \$12.0) million was for upgrading stabilized properties and improving other holdings, including for exterior upgrades such as new roofs, new windows, new siding and insulation. These expenditures also covered mechanical and other interior upgrades such as new boilers, new flooring and paint. To address the balance of non-renovated units and maintain the condition of properties in the current portfolio, Mainstreet plans to spend an estimated \$15.0 million on renovations in fiscal year 2016. These improvements are expected to be financed through existing cash balances, funds from operations and on-going refinancing of existing properties. Mainstreet expects to complete most renovations of 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, and increases in labour and material costs, all of which will 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)

September 30	2015	2014	% Change
Gross revenue	\$ 100,553	\$ 90,575	11 %
Profit and comprehensive income	\$ 64,708	\$ 66,575	(3%)
Loss from discontinued operations	\$ –	\$ (196)	–
Profit and comprehensive income from continuing operations	\$ 64,708	\$ 66,771	(3%)
Fair value gain	\$ (54,742)	\$ (56,579)	(3%)
Depreciation	\$ 392	\$ 375	5%
Income tax – current and deferred	\$ 21,447	\$ 15,045	43%
Funds from continuing operations before current income tax	\$ 31,805	\$ 25,612	24 %
Current income tax	\$ (1,763)	\$ –	–
Funds from continuing operations after current income tax	\$ 30,042	\$ 25,612	17%
Funds from discontinued operations	\$ –	\$ (80)	–
Funds from operations (Note 1)	\$ 30,042	\$ 25,532	18%
Funds from discontinued operations	\$ –	\$ 80	–
Interest income	\$ (161)	\$ (129)	25%
Current income tax	\$ 1,763	\$ –	–
General and administrative expenses	\$ 8,715	\$ 8,698	–
Mortgage interest	\$ 25,020	\$ 24,118	4%
Financing cost	\$ 1,943	\$ 1,800	8%
<b>Net operating income (Note 2)</b>	<b>\$ 67,322</b>	<b>\$ 60,099</b>	<b>12%</b>
Operating margin from continuing operations	67%	66%	
Profit per share			
Basic – continuing operations	\$ 6.23	\$ 6.38	(2%)
Basic – discontinued operations	\$ –	\$ (0.02)	–
Fully diluted – continuing operations	\$ 5.84	\$ 5.97	(2%)
Fully diluted – discontinued operations	\$ –	\$ (0.02)	–
Funds from continuing operations before current income tax per share			
Basic – continuing operations	\$ 3.06	\$ 2.45	25%
Basic – discontinued operations	\$ –	\$ (0.01)	–
Fully diluted – continuing operations	\$ 2.87	\$ 2.29	25%
Fully diluted – discontinued operations	\$ –	\$ (0.01)	–
Funds from operations per share			
Basic – continuing operations	\$ 2.89	\$ 2.45	18%
Basic – discontinued operations	\$ –	\$ (0.01)	–
Fully diluted – continuing operations	\$ 2.71	\$ 2.29	18%
Fully diluted – discontinued operations	\$ –	\$ (0.01)	–
Weighted average number of shares			
Basic	\$ 10,383,151	\$ 10,467,718	
Fully diluted	\$ 11,086,870	\$ 11,178,212	
Total Assets	\$ 1,401,332	\$ 1,273,102	
Total Long term liabilities	\$ 676,055	\$ 616,300	

1. Funds from operations ("FFO") is calculated as profit before fair value gains (losses), depreciation of property, plant and equipment and deferred income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance but is not a recognized measure under IFRS. The IFRS measurement most directly comparable to FFO is profit (for which reconciliation is provided above). FFO should not be construed as an alternative to profit or cash flow from operating activities, determined in accordance with IFRS, as an indicator of Mainstreet's performance. Readers are cautioned that FFO may differ from similar calculations used by other comparable entities.
2. Net operating income ("NOI") is rental revenue minus property operating expenses. While Mainstreet uses NOI to measure its operational performance, it is not a recognized measure under IFRS. The IFRS measure most directly comparable to NOI is profit. NOI should not be construed as an alternative to profit determined in accordance with IFRS. Readers are cautioned that NOI may differ from similar calculations used by other comparable entities. A reconciliation of profit to net operating income from continuing operations for the period is provided above.

## REVENUE

In 2015, revenue was primarily comprised of rental and ancillary rental income totalling \$100.4 million (2014 – \$90.4 million) and interest income. The 11% increase in revenue over 2015 is due to increases in the rental and ancillary rental income, which is discussed and analysed in the session entitled "Rental Operations" below.

## PROFIT FROM CONTINUING OPERATIONS

For the year ended September 30, 2015, Mainstreet reported profit from continuing operations of \$64.7 million (\$6.23 per basic share), as compared to a profit of \$66.8 million (\$6.38 per basic share), in 2014.

Profit from continuing operations is further analysed as follows:

(000s of dollars)

	2015	2014	% Change
Funds from operations	\$ 31,805	\$ 25,612	24%
Fair value gain	\$ 54,742	\$ 56,579	(3%)
Depreciation	\$ (392)	\$ (375)	5%
	\$ 86,155	\$ 81,816	
Income tax – current and deferred	\$ (21,447)	\$ (15,045)	43%
Profit and comprehensive income from continuing operations	\$ 64,708	\$ 66,771	(3%)

The fair value gain reduced to \$54.7 million from \$56.6 million in 2014 is mainly due to changes which is analysed as follows:

(000s of dollars)

Fair value gain from appraisals	2015	2014
Surrey	\$ 36,450	\$ 1,875
Abbotsford	\$ 5,750	\$ 3,662
Calgary	\$ 10,725	\$ 28,215
Edmonton	\$ 16,625	\$ 30,715
Saskatoon	\$ 5,869	\$ 10,288
	\$ 75,419	\$ 74,755
Capital expenditure	\$ (20,677)	\$ (18,176)
Fair value gain	\$ 54,742	\$ 56,579

The increase in funds from continuing operations in 2015 and 2014 is further discussed and analysed in the following section entitled: "Funds From Operations".

## FUNDS FROM OPERATIONS

Management believes that FFO rather than profit, as defined in the preceding footnote, is a more meaningful performance measurement for a real estate company's operating performance as FFO excludes these non-operating income and expenses namely fair value gains, 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 2015, Mainstreet's FFO from continuing operations before current income tax increased to \$31.8 million, an increase of 24% over \$25.6 million in 2014. FFO from continuing operations after current income tax increased to \$30.0 million (\$2.89 per basic share) as compared to \$25.6 million in 2014 (\$2.45 per basic share), an increase of 17%. The increase is the result of increased net rental revenue, due to 6% growth in the Corporation's portfolio and stabilization of unstabilized property since 2014. See "Stabilized Properties" below for a discussion of what constitutes a stabilized property.

## GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, professional fees and salaries. In fiscal year 2015, G&A expenses remained fairly consistent at \$8.7 million as compared to \$8.7 million 2014.

## MORTGAGE INTEREST

Mortgage interest expenses increased 4% to \$25.0 million in 2015 compared to \$24.1 million in 2014. The rise is mainly attributable to an increase in mortgage loans from new acquisitions and refinancing of matured debts.

## RENTAL OPERATIONS

Years ended September 30

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
	2015	2014	% change	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 100,392	\$ 90,446	11%	\$ 92,859	\$88,282	5%	\$ 7,533	\$ 1,061	610%
Operating expenses	\$ 33,070	\$ 30,347	9%	\$ 30,106	\$29,279	3%	\$ 2,964	\$ 375	683%
Net operating income	\$ 67,322	\$ 60,099	12%	\$ 62,753	\$59,003	6%	\$ 4,569	\$ 686	569%
Operating margin	67%	66%		68%	67%		61%	65%	
Average vacancy rate	7.5%	7.7%	(3%)	6.5%	7.4%	(13%)	17.0%	14.6%	17%
Weighted average number of units	9,095	8,489	7%	8,219	8,219	—	876	270	224%
Average rental rate per unit per month	\$ 920	\$ 888	4%	\$ 942	\$ 895	5%	\$ 717	\$ 328	119%
Average operating expense per unit per month	\$ 303	\$ 298	2%	\$ 305	\$ 297	3%	\$ 282	\$ 116	144%

The overall rental revenue and ancillary rental income increased by 11% to \$100.4 million in 2015 from \$90.4 million in 2014, as a result of the growth in the Corporation's portfolio, increases in rental rates and a decreased vacancy rate.

The weighted average number of units increased by 7% to 9,095 units in 2015 from 8,489 units in 2014. The average rental rate per unit per month increased by 4% to \$920 per unit in 2015 from \$888 per unit. The increase was mainly due to a higher rental rate after the stabilization of properties.

Overall, operating costs increased by 9% to \$33.1 million in 2015, compared to \$30.3 million in 2014, due mainly to the growth of the Corporation's portfolio of properties. The average operating expense per unit per month slightly increased by 2% to \$303 in 2015 from \$298 per unit in 2014, due mainly to increased wages and expenses for repair and maintenance. As a net result, net operating income increased by 12% over the period and the overall operating margin increased to 67% from 66% in 2014.

## SAME ASSETS PROPERTIES

"Same assets" properties are properties owned by the Corporation for the entire twelve month period ended September 30, 2015 and 2014. As of September 30, 2015, 193 properties (8,218 units) out of Mainstreet's 216 properties (9,319 units) constituted same assets properties.

Rental revenues from "same assets" properties increased by 5% to \$92.9 million in 2015 compared to \$88.3 million in 2014 as a result of increased rental income after stabilization of unstabilized properties.

Operating costs for “same assets” properties increased by 3% to \$30.1 million in 2015, compared to \$29.3 million in 2014, due mainly to increased wages and repairs and maintenance expenses. As a net result, the same assets net operating income increased by 6% over the period and the operating margin increased to 68% as compared to 67% in 2014.

## RENTAL OPERATIONS BY PROVINCE

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

### British Columbia

Mainstreet achieved a 16% growth in the British Columbia portfolio in 2015; the average number of rental units has grown to 2,609 units compared to 2,278 units in 2014. The average vacancy rate also improved from 8.5% in 2014 to 7.0% in 2015 due mainly to an improved occupancy rate in both the Surrey and Abbotsford market and stabilization of certain properties acquired. A better average vacancy rate decreased to 7.0% in 2015 from 8.5% in 2014 also attributed to the economic performance in British Columbia, which is among the strongest in economic performance among all provinces, according to information published by Statistics Canada.

The operating expense per unit decreased to \$272 per month in 2015 from \$278 per month in 2014, due mainly to decreased natural gas expenses. As a net result, the net operating income increased by 22% and the operating margin increased to 65% as compared to 63% in 2014.

(000s of dollars except per unit data)

	2015	2014	% Change
Rental revenue and ancillary rental income	\$ 24,063	\$ 20,332	18%
Operating expenses	\$ 8,527	\$ 7,605	12%
Net operating income	\$ 15,536	\$ 12,727	22%
Weighted average number of units	2,609	2,278	15%
Average rent per unit per month	\$ 769	\$ 744	3%
Operating cost per unit per month	\$ 272	\$ 278	(2%)
Average vacancy rate	7.0%	8.5%	
Operating margin	65%	63%	

### Alberta

Mainstreet achieved a marginal growth of 3% in the Alberta portfolio in 2015; the average number of rental units has grown to 5,423 units, compared to 5,257 units in 2014. The average vacancy rate decreased to 5.7% in 2015 from 7.5% in 2014. The improvement in vacancy rate was mainly due to the completion of stabilization at several underperforming properties in Calgary and Edmonton. Rental revenue per unit also increased by 7% to \$1,020 per month in 2015 from \$957 per month in 2014 as a result of the stabilization of properties during this period.

The operating expense per unit increased to \$325 per month in 2015 from \$313 per month in 2014. The increase in operating expense was mainly due to increased repair and maintenance expenses and property tax expenses. As a net result, the net operating income increased by 11% and the operating margin increased to 68% as compared to 67% in 2014.

(000s of dollars except per unit data)

	2015	2014	% Change
Rental revenue and ancillary rental income	\$ 66,404	\$ 60,387	10%
Operating expenses	\$ 21,168	\$ 19,757	7%
Net operating income	\$ 45,236	\$ 40,630	11%
Weighted average number of units	5,423	5,257	3%
Average rent per unit per month	\$ 1,020	\$ 957	7%
Operating cost per unit per month	\$ 325	\$ 313	4%
Average vacancy rate	5.7%	7.5%	
Operating margin	68%	67%	



## Saskatchewan

Mainstreet achieved 12% growth in the Saskatchewan portfolio in 2015; the average number of rental units has grown to 1,063 units, compared to 953 units in 2014. The average vacancy rate increased to 17.7% in 2015 from 6.9% in 2014. The substantial increase in the vacancy rate was mainly attributable to the following factors:

1. A growth of the Saskatoon market by 12% with the acquisition of unstabilized properties with high vacancy rates;
2. Slowdown of the economy due to the significant drop in oil and natural gas prices; and
3. Since the resignation of the regional operation manager in January 2015, there was a period of lack of management in this region. A manager was transferred to Saskatoon to manage the portfolio locally in June 2015. Management expects that improvements will be made in 2016. In fact, the vacancy rate improved to 17.7% in the last quarter of the year as compared to 21.6% in Q3, 2015.

As a result of the high vacancy rate, the rental revenue per unit decreased 9% to \$778 per month in 2015 from \$851 per month in 2014.

The operating expense per unit increased slightly to \$265 per month in 2015 from \$261 per month in 2014, due mainly to increased repair and maintenance expenses. As a net result, the net operating income dropped by 3% and the operating margin decreased to 66% from 69% in 2014.

(000s of dollars except per unit data)

	2015	2014	% Change
Rental revenue and ancillary rental income	\$ 9,925	\$ 9,727	2%
Operating expenses	\$ 3,376	\$ 2,985	13%
Net operating income	\$ 6,549	\$ 6,742	(3%)
Weighted average number of units	1,063	953	12%
Average rent per unit per month	\$ 778	\$ 851	(9%)
Operating cost per unit per month	\$ 265	\$ 261	1%
Average vacancy rate	17.7%	6.9%	
Operating margin	66%	69%	

## POTENTIAL GROWTH IN RENTAL REVENUE UNDER OPTIMUM OPERATIONS

Management defines "optimum operations" as a situation where 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, due mainly to current market conditions, ongoing stabilization and the renovation of newly acquired properties and turnover suites.

The following table indicates the potential increase in rental revenue should the Corporation have operated under optimum operating conditions as defined in the preceding paragraph, as of the year-end dated September 30, 2015.

City	Stabilized properties					Unstabilized properties				\$000
	Total number of units	Number of stabilized units	Current net rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	Number of unstabilized units	Current net rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	Potential increase in rental revenue under the optimum operations
Abbotsford, BC	937	731	\$ 778	1.64%	\$ 813	206	\$ 729	3.88%	\$ 854	\$ 337
Surrey, BC	1,775	1,444	\$ 829	2.98%	\$ 904	331	\$ 782	6.65%	\$ 919	\$ 1,518
Calgary, AB	1,812	1,609	\$ 1,148	4.85%	\$ 1,236	203	\$ 988	16.26%	\$ 1,041	\$ 1,982
Edmonton, AB	3,729	3,513	\$ 977	5.38%	\$ 1,033	216	\$ 801	16.20%	\$ 982	\$ 3,081
Saskatoon, SK	1,066	917	\$ 805	18.76%	\$ 988	149	\$ 735	21.48%	\$ 1,006	\$ 3,807
	9,319	8,214	\$ 999	6.01%	\$ 1,026	1,105	\$ 897	11.76%	\$ 953	\$ 10,725

## RESULTS OF DISCONTINUED OPERATIONS

The results of the Corporation's Ontario segment were presented as discontinued operations following Management's decision to dispose of this entire business segment and focus its business in Western Canada.

Despite a recent downturn in the economy in the Provinces of Alberta and Saskatchewan, Management continues to believe that Western Canada offers better business opportunities, growth potential and business environment, and best fits the Corporation's add-value business model.

Three out of the four properties in Ontario were disposed of for consideration of \$46.9 million on January 23, 2013. The remaining property was disposed of for consideration of \$22 million on January 31, 2014.

### Results of discontinued operations

Year ended September 30,	2015	2014
Rental revenue	\$ –	\$ 919
Ancillary rental income	–	22
	–	941
Property operating expenses	–	656
Net operating income	–	285
Mortgage interest	–	185
Amortization of financing cost	–	37
General and administrative expenses	–	143
Depreciation	–	1
	–	366
Loss from discontinued operations before loss on disposition, fair value losses and income tax recovery	–	(81)
Loss on disposition	–	(583)
Fair value losses	–	(223)
Loss before income tax recovery	–	(887)
Income tax recovery	–	(691)
Loss from discontinued operations	\$ –	(196)
Basic loss per share	\$ –	\$ (0.02)
Diluted loss per share	\$ –	\$ (0.02)

## SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Rental revenue	\$ 25,295	\$ 24,700	\$ 24,631	\$ 24,307	\$ 23,538	\$ 22,562	\$ 21,713	\$ 21,256
Ancillary rental income	340	390	360	369	397	389	317	274
Interest income	39	35	48	39	46	32	22	10
Total revenue from continuing operations	25,674	25,125	25,039	24,715	23,981	\$ 22,983	\$ 2,052	\$ 21,540
Fair value (loss) gain	\$ 76,329	\$ (10,993)	\$ (5,910)	\$ (4,217)	\$ 41,747	\$ 23,371	\$ (4,151)	\$ (4,388)
Profit (loss) from continuing operations	\$ 72,228	\$ (9,325)	\$ (2,792)	\$ 4,597	\$ 39,607	\$ 24,806	\$ (905)	\$ 3,263
(Loss) profit from discontinued operations	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (198)	\$ 21
Profit (loss) for the period	\$ 72,228	\$ (9,325)	\$ (2,792)	\$ 4,597	\$ 39,607	\$ 24,806	\$ (1,103)	\$ 3,284
Per share results								
Basic – continuing operations	\$ 7.19	\$ (0.90)	\$ (0.27)	\$ 0.44	\$ 3.78	\$ 2.37	\$ (0.09)	\$ 0.31
Basic – discontinued operations	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (0.02)	\$ 0.00
Diluted – continuing operations	\$ 6.74	\$ (0.90)	\$ (0.27)	\$ 0.41	\$ 3.54	\$ 2.22	\$ (0.09)	\$ 0.29
Diluted – discontinued operations	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (0.02)	\$ 0.00
Average vacancy rate	7.47%	8.00%	7.50%	6.88%	6.60%	8.00%	8.40%	7.80%
Net operating income	\$ 17,894	\$ 16,843	\$ 16,232	\$ 16,353	\$ 16,859	\$ 15,286	\$ 13,582	\$ 14,372
Same assets rent and ancillary rental income	\$ 23,066	\$ 23,125	\$ 23,268	\$ 23,401	\$ 22,832	\$ 20,365	\$ 22,010	\$ 19,757
Same assets net operating income	\$ 16,200	\$ 15,805	\$ 15,163	\$ 15,591	\$ 16,104	\$ 13,742	\$ 14,441	\$ 13,210
Stabilized FFO	\$ 8,739	\$ 7,234	\$ 5,885	\$ 7,097	\$ 7,554	\$ 6,461	\$ 4,721	\$ 5,591
Funds from continuing operations	\$ 8,741	\$ 7,549	\$ 6,129	\$ 7,623	\$ 8,068	\$ 6,631	\$ 4,934	\$ 5,961
Funds from continuing operations per share								
Basic – continuing operations	\$ 0.85	\$ 0.73	\$ 0.59	\$ 0.73	\$ 0.77	\$ 0.63	\$ 0.47	\$ 0.57
Diluted – continuing operations	\$ 0.80	\$ 0.68	\$ 0.55	\$ 0.68	\$ 0.72	\$ 0.59	\$ 0.44	\$ 0.53

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2015:

- Rental and ancillary rental income was \$25.6 million, a 2% increase from \$25.1 million in Q3 2015 and a 7% increase from \$23.9 million in Q4 2014.
- The average vacancy rate for the quarter was 7.5%, compared to 8.0% in Q3 2015 and 6.6% in Q4 2014.
- Fair value gain for the quarter was \$76.3 million, a 693% increase from a loss of \$11.0 million in Q3 2015 and a 83% increase from a gain of \$41.7 million in Q4 2014.
- Funds from continuing operations for the quarter were \$8.7 million, a 16% increase from \$7.5 million in Q3 2015 and a 8% increase from \$8.1 million in Q4 2014.
- Net operating income was \$17.9 million, a 6% increase from \$16.8 million in Q3 2015 and a 6% increase from \$16.8 million in Q4 2014.
- Same assets rental and ancillary rental income was \$23.1 million, a 3% increase from \$23.1 million in Q3 2015 and a 1% increase from \$22.8 million in Q4 2014.

- Same assets net operating income was \$16.2 million, a 3% increase from \$15.8 million in Q3 2015 and a 1% increase from \$16.1 million in Q4 2014.
- Stabilized funds from operations were \$8.7 million, a 21% increase from \$7.2 million in Q3 2015 and a 16% increase from \$7.6 million in Q4 2014.

## 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”; 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, like the province of Alberta and Saskatchewan. In British Columbia, due to applicable statutory rent controls, the allowable annual rent increase for existing tenants is determined by the Tenancy Board of the Province of British Columbia (thereby potentially decreasing tenant turnover rate and delaying of rent increases to current market levels). For that reason, past experience shows the average stabilization process in BC is approximately three years.

As of September 30, 2015, 193 properties (8,214 units) out of 216 properties (9,319 units) were stabilized properties. The following table summarizes the change of the Corporation’s stabilized and unstabilized units since the beginning of fiscal year 2015.

	October 1, 2014	Acquisition/additions during the period	Number of units stabilized	September 30, 2015
Stabilized units	7,744	4	466	8,214
Unstabilized units	1,036	535	(466)	1,105
Total number of unstabilized units	8,780	539	–	9,319

The following table summarizes the progress of the Corporation’s stabilization process since the beginning of fiscal year 2015.

	Oct. 1, 2014	No. of units stabilized during the period	No. of unstabilized unit acquired during the period	Sep. 30, 2015
No. of unstabilized units held for renovation	952	(424)	535	1,063
No. of unstabilized units held for redevelopment	84	(42)	–	42
Total no. of unstabilized units	1,036	(466)	535	1,105

### Number of months

Average time spent on stabilization	15	29	6	12
Estimated remaining time for stabilization	12	–	18	4

During the twelve month period ended September 30, 2015, the Corporation acquired 535 unstabilized units that required substantial renovation and had rents considered well below the market for stabilized units. The Corporation has stabilized 466 of such units with renovation work substantially completed, resulting in rent increases to or near current market levels.

## FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2015, FFO from continued operations of Mainstreet’s stabilized property portfolio amounted to \$28.7 million (\$2.76 per basic share and \$2.59 per fully diluted share).

(000s of dollars except per share amounts)

2015	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 92,315	\$ 8,077	\$ 100,392
Property operating expenses	\$ 29,881	\$ 3,189	\$ 33,070
Net operating income	\$ 62,434	\$ 4,888	\$ 67,322
Operating margin	68%	61%	67%
Vacancy rate	6.1%	18.3%	7.5%
Interest income	\$ 143	\$ 18	\$ 161
General & administrative expenses	\$ 7,734	\$ 981	\$ 8,715
Mortgage interest	\$ 22,739	\$ 2,281	\$ 25,020
Financing cost	\$ 1,633	\$ 309	\$ 1,943
Funds from operation before current income tax	\$ 30,471	\$ 1,334	\$ 31,805
Current income tax	\$ 1,763	\$ –	\$ 1,763
Funds from operations	\$ 28,708	\$ 1,334	\$ 30,042
Funds from operations per share			
– basic	\$ 2.76	\$ 0.13	\$ 2.89
– diluted	\$ 2.59	\$ 0.12	\$ 2.71
Weighted average number of shares			
– basic	10,383,151		
– diluted	11,086,870		

Comparing to 2014, FFO of the stabilized property portfolio increased by 15% to \$29 million, while the number of stabilized units increased by 6% to 8,214 units as of September 30, 2015 compared to 7,748 units as of September 30, 2014.

(in 000s)

	2015	2014	% change
Stabilized FFO before loss on disposal and stock option cancellation expense	\$ 28,706	\$ 25,054	15%
Number of stabilized units	8,214	7,748	6%

## 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 2015, after payment of all required expenses, the Corporation generated funds from operations of \$30 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 that these funds should be sufficient to meet the Corporation's working capital requirements on a year-to-year basis going forward.

### *Other Capital Requirements*

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In 2015, the Corporation spent approximately \$72.9 million on acquisition of investment properties and capital improvement. Management expects the following capital resources to be sufficient to meet the capital requirement 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. It also mitigates the risk of anticipated interest rate hikes and minimizes borrowing costs. Mainstreet continually refinances as much floating and maturing debt as possible into long-term mortgages that are primarily, CMHC insured and at lower interest rates.

In 2015, Mainstreet refinanced \$22.5 million in matured debt with an average interest rate of 4.6% into 10-year long-term CMHC-insured mortgage loans for \$51.6 million at an average interest rate of 2.7%. Mainstreet also financed 17 clear-title properties for \$31.0 million at an interest rate of 2.4%. Together, this refinancing activity raised approximately \$60.1 million in additional funds, and resulted in an annualized savings in interest expense of approximately \$438,000.

Mainstreet will also take advantage of current low interest rates and evaluate the financial viability of early refinancing on mortgages maturing in 2016 and 2017 with pay-out penalties.

Subsequent to 2015, approval has been obtained from the CMHC to refinance \$7.4 million in pre-matured mortgage loans with an average interest rate of 4.7% to long-term, 10-year CMHC insured mortgages for \$21.5 million. With an expected interest rate of 2.5%, these refinancings are expected to raise \$13.8 million in additional funds after payment penalties, resulting in annualized savings in interest expenses of approximately \$160,000.

Approval has also been obtained by the CMHC and a financial institution to finance eight clear title assets for \$54 million at an expected interest rate of below 3%.

As of September 30, 2015, the Corporation owned the following 26 clear-title properties and a development lot with fair value of approximately \$186 million:

#### Clear Title Asset List as of September 30, 2015

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition		Fair Value
821 – 20 Street North, Lethbridge	156	\$	13,400	\$ 19,500
2929–2959 Tims St., Abbotsford	108	\$	10,300	\$ 12,500
14918 – 108 Avenue, Surrey	102	\$	5,900	\$ 14,750
3147 – 151 Avenue, Edmonton	99	\$	10,000	\$ 12,600
2485 HillTou Street, Abbotsford	92	\$	6,696	\$ 10,750
2525/2585 Hilltout Street, Abbotsford	89	\$	9,266	\$ 11,500
1210/1211 Cameron Street, New Westminster	84	\$	7,550	\$ 12,800
33184 George Ferguson Wynd, Abbotsford	69	\$	7,120	\$ 9,000
525 / 529 / 601 / 605 AVE X S & 2309 – 17 St. W Saskatoon	63	\$	4,648	\$ 8,300
32030 George Ferguson Wynd, Abbotsford	60	\$	5,253	\$ 7,800
3065 Clearbrook Road, Abbotsford	56	\$	5,550	\$ 6,750
1122 – 8 Avenue SW, Calgary	50	\$	1,975	\$ 12,300
32120 Peardonville Road, Abbotsford	42	\$	4,400	\$ 5,950
10625 & 10635 – 115 Street Edmonton	42	\$	4,568	\$ 4,980
2814 Pratt Crescent, Abbotsford	37	\$	2,270	\$ 4,300
33298 Robertson Road, Abbotsford	34	\$	2,383	\$ 3,900
1335 & 1339 – 10 Ave. SE, Calgary	29	\$	3,000	\$ 5,950
115 Avenue V N, Saskatoon	27	\$	2,268	\$ 3,150
10125 – 114 Street, Edmonton	24	\$	1,103	\$ 1,010
10633 116 St., Edmonton	21	\$	2,352	\$ 2,600
10203 156 Street, Edmonton	18	\$	1,925	\$ 2,350
318 – 14 Avenue SW, Calgary	18	\$	2,250	\$ 4,200
11940 – 82 St., Edmonton	15	\$	1,500	\$ 1,580
1901 – 7 Street E, Saskatoon	12	\$	1,140	\$ 1,750
1906 – 22 Street W, Saskatoon	11	\$	902	\$ 1,250
11624 – 124 St., Edmonton	9	\$	1,010	\$ 1,020
336-338 – 18 Avenue SW, Calgary	7	\$	–	\$ 3,275
Multi-family development lot, 33283 Bourquin Cr E, Abbotsford		\$	306	\$ 450
Total as of September 30, 2015	1,374	\$	119,033	\$ 186,265



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

The Corporation's policy for capital risk management is to keep a debt-to-fair value of investment properties ratio of below 70%. The current ratio is approximately 47%, which Management believes will leave considerable room to raise additional funds from refinancing if the need arises.

### Banking Facility

The Corporation has a revolving banking facility for a maximum of \$85 million with a syndicate of Canadian chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and matures December 6, 2016. The facility is renewable every three years subject to the mutual agreement of the lenders and the Corporation. As at September 30, 2015, the Corporation has drawn \$36.9 million (September 30, 2014 – \$22.5 million) under the banking facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and a debt service ratio of not less than 1.2. As of September 30, 2015, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 47% and 1.55, respectively, which were calculated as follows:

### Overall funded debt to gross book value ratio as of September 30, 2015

(\$000s)

#### Total funded debt

Mortgages payable	\$	614,390
Bank indebtedness	\$	36,909
	\$	651,299

#### Gross book value of assets

Investment properties	\$	1,386,035
Property, plant and equipment	\$	4,721
	\$	1,390,756

Overall funded debt to gross book value ratio 47%

### Debt service coverage ratio

#### Earning before interest, tax, depreciation, amortization and extraordinary items for 2015

Net profit (loss) per financial statements	\$	64,708
Add (deduct):		
Mortgage interest	\$	25,020
Income tax	\$	21,447
Depreciation	\$	392
Amortization of finance cost	\$	1,943
Fair value gains	\$	(54,742)
	\$	58,768
Principal and interest payments	\$	37,855
Debt service coverage ratio		1.55

### CONTRACTUAL OBLIGATIONS

As of September 30, 2015, 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 mortgage loans.

## PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of September 30, 2015 are as follows:

12 months ending September 30	Amount
2016	\$ 57,907
2017	52,281
2018	36,715
2019	34,258
2020	37,704
Subsequent	408,761
	627,626
Deferred financing costs	(13,236)
	<u>\$ 614,390</u>

## LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 593,464	95%	3.69%
– non-CMHC-insured	\$ 34,162	5%	4.87%
Total fixed rate debt	\$ 627,626	100%	3.75%
Deferred financing cost	\$ (13,236)		
	<u>\$ 614,390</u>		

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 September 30, 2015, total mortgages payable were \$614 million compared to \$580 million on September 30, 2014, an increase of 6% due to financing during fiscal year 2015.

As of September 30, 2015, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 47% of the fair value of investment properties. About 95% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with interest rates lower than those available through conventional financing.

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

## MORTGAGE MATURITY SCHEDULE

(000s of dollars )

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2016	\$ 46,372	7%	4.67%
2017	\$ 44,033	7%	5.16%
2018	\$ 28,592	5%	5.15%
2019	\$ 26,905	4%	5.39%
2020	\$ 31,736	5%	4.38%
Subsequent	\$ 449,988	72%	3.29%
	<u>\$ 627,626</u>	100%	3.75%

The average maturing term of mortgage loans is 6.8 years as of September 30, 2015.

All mortgage loans maturing in 2016 are expected to be refinanced to long-term CMHC-insured mortgages by the end of fiscal year 2016.

## INTERNAL CONTROLS

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 2015, 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 September 30, 2015. This evaluation confirmed that the Corporation's DC&P and ICFR were effective as at September 30, 2015.

No changes were made to the Corporation's DC & P during the year ended September 30, 2015.

As at September 30, 2015, 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 year ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## Financial Instruments & Risk Management

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

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

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

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

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

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

		September 30, 2015		September 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,052	\$ 3,052	\$ 2,993	\$ 2,993
Cash and cash equivalents	Level 1	1,526	1,526	1,041	1,041
Trade and other receivables	Level 2	844	844	1,160	1,160
Mortgage receivable	Level 2	2,500	2,468	2,500	2,500
Financial liabilities:					
Bank indebtedness	Level 1	36,909	36,909	22,457	22,457
Mortgages payable	Level 2	614,390	654,686	579,537	612,314
Trade and other payables	Level 2	6,131	6,131	6,264	6,264
Current income tax payable	Level 2	1,763	1,763	–	–
Refundable security deposits	Level 1	\$ 4,217	\$ 4,217	\$ 3,965	\$ 3,965

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

		September 30, 2015		September 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$1,386,035	\$1,386,035	\$1,259,010	\$1,259,010

### 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" on page 25.

### 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:

	Year ended September 30, 2015		Year ended September 30, 2014	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the period	10,469,081	\$ 28,656	10,465,281	\$ 28,541
Share purchase loan reduction	–	–	–	80
Shares purchased for cancellation	(197,830)	(541)	–	–
Exercise of stock options	–	–	3,800	21
Transfer from contributed surplus	–	–	–	14
Issued and outstanding, end of the period	10,271,251	\$ 28,114	10,469,081	\$ 28,656

All common shares share an equal right to dividends.

## STOCK OPTION

A summary of the Corporation's stock option plan as of September 30, 2015, and September 30, 2014 and changes during the periods are presented below:

Stock option	September 30, 2015		September 30, 2014	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of the year	828,200	\$ 5.51	832,000	\$ 5.51
Exercised	—	—	3,800	\$ 5.51
Outstanding and exercisable, end of the year	828,200	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life-years	3.44		4.44	
The range of exercise prices	\$ 5.51		\$ 5.51	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 21, 2014, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of the issued and outstanding common shares. The exercise price of the option shall equal the market-trading price of the Corporation's common share on the date of grant. The stock options are 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. The stock option plan will remain in place until the termination of the annual general meeting of the Corporation in 2016 unless renewed and approved by the shareholders of the Corporation prior to that date.

## Share Buybacks

From April 20, 2014 to April 19, 2015 Mainstreet was authorized by the Toronto Stock Exchange ("TSX") to purchase up to 641,834 of its common shares, representing approximately 10% of its public float pursuant to a normal course issuer bid. The Corporation received approval from the TSX to commence another normal course issuer bid on April 21, 2015 for up to 630,914 common shares, representing approximately 10% of its public float, which bid will expire on April 20, 2016 (or earlier if the number of common shares approved for purchase has been reached). Pursuant to TSX policies, daily purchases made by the Corporation will not exceed 2,248 common shares. In 2015, Mainstreet repurchased and cancelled 197,830 common shares at a weighted average price \$37.15 per common share for an aggregate purchase price of \$7.4 million. Subsequent to the year-end date, the Corporation has repurchased and cancelled an additional 139,836 common shares at a weighted average price of \$31.69 per common share for an aggregate purchase price of \$4.4 million.

Mainstreet is capitalizing on current volatility in the capital markets to purchase and cancel its own shares under the approved Normal Course Issuer Bid. Given the discount between its current share price and net asset value ("NAV"), management believes that the re-purchase of its shares is returning capital to shareholders in a tax-efficient manner that is accretive to NAV. Purchases pursuant to this Normal Course Issuer Bid are by way of open market purchases through the facilities of the TSX, and other Canadian market places, and payment for the shares will be in accordance with the TSX's by-laws and rules. Any shares purchased by the Corporation have been and will be subsequently cancelled.

## 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 will remain in effect until the termination of the annual of general meeting of the Corporation in the year 2016, unless renewed and approved by the shareholders of the Corporation prior to that date.

While securities legislation in Canada requires a take over bid to be open for at least 35 days, the Board of Directors of the Corporation was concerned that this was too short a period of time for companies that are subject to unsolicited take over bids to be able to respond to ensure that shareholders are offered full and fair value for their shares. The

Rights Plan is designed to give the Corporation's shareholders sufficient time to properly assess a take over bid without undue pressure and to give the Board of Directors time to consider alternatives designed to allow the Corporation's shareholders to receive full and fair for their common shares.

The Rights Plan is not intended to prevent a take over bid or deter offers for the common shares of the Corporation. It is designed to encourage any bidder to provide shareholders with equal treatment and full and fair value for their common shares.

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

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

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

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

A complete copy of the Rights Plan, 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) 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
- iv) 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 property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year ended September 30, 2015 amounted to \$371,500 (2014 – \$309,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.
- b) The Corporation paid legal and professional fees and reimbursements for the year ended September 30, 2015 amounting to \$174,000 (2014 – \$405,000), respectively to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2015, the amounts payable to the law firm were \$Nil (September 30, 2014 – \$20,000).



## Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for 2015.

## Risk Assessment & Management

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

### Vacancy Risk

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

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

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

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

### Economic Uncertainty

Any worldwide economic slowdown, stock market uncertainty and international credit crisis could adversely impact the business and the future profitability of the Corporation. In addition, worldwide falling oil and nature gas commodity prices have resulted in an economic slowdown in Western Canada. 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. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

### Interest Rate Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling approximately \$64.0 million 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. However, the Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by "CMHC" under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

### **Utilities Risk**

Mainstreet's business is also exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. Management continues to monitor these costs very closely. In order to mitigate this risk, Mainstreet has entered into a rate-protected natural gas contract with a maturity date of January 7, 2017 that caps future natural gas costs at \$4.75 per Gigajoule in Alberta, but permits the Corporation to purchase natural gas at lower market rates.

### **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 to Mainstreet 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 September 30, 2015, rents due from current tenants amounted to \$240,000 (September 30, 2014 – \$209,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.2 million (September 30, 2014 – \$3.8 million) and provisions for bad debts of \$100,000 (September 30, 2014 – \$100,000).

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

### **Liquidity Risk**

Liquidity risk is the risk 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 financially adequate banking facilities and by matching the maturity profiles of assets and liabilities.

### **Financing Risk**

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

### **Workforce Availability**

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

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

## Uninsured Losses

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

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

## Substitutions for Residential Rental Units

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

## Litigation Risks

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

## 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 legislation, a landlord is only entitled to increase rents once every twelve months.

Under British Columbia's rent control legislation, a landlord is entitled to increase the rent for existing tenants once every twelve months by no more than the "guideline amount" established by regulations. The current guideline amount is 2% over annual inflation. When a unit is vacant, however, the landlord is entitled to lease the unit to a new tenant at any rental amount, after which annual increases are limited to the applicable guideline amount. The landlord may also be entitled to a greater increase in rent for a unit under certain circumstances, including, for example, where extra expenses have been incurred as a result of a renovation of that unit.

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

### **Operational Risks**

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

### **Public Market Risk**

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

### **Potential Conflicts of Interest**

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

### **Appraisals of Properties**

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

## **CHALLENGES**

Alberta and Saskatchewan together account for about 70% of our total rental portfolio. The economy in these provinces has been impacted by continued weakness in petroleum, natural gas and other commodity prices, which has led to large numbers of layoffs and slowing in-migration figures. Mainstreet has experienced some negative impacts to operations and expects these to last until economic conditions improve. Pressure on rental pricing and vacancies may occur. We are mindful of the unpredictability inherent in the current situation, and are keeping a close watch on costs, operating margins and marketplace conditions. The introduction of a carbon tax in Alberta presents some further uncertainty, although 97.8% of our units are separately metered and electricity is paid by tenants, shielding Mainstreet from some cost increases.

However, Mainstreet remains cautiously optimistic and believes the commodity price volatility also creates a series of opportunities that are discussed at greater length in the Outlook section below.

Current challenges are in addition to hurdles inherent to the Mainstreet add-value business model. The renovation and repositioning of properties temporarily raises the overall vacancy rate and hampers NOI performance. Stabilized apartments are previously underperforming properties that we have purchased and renovated to Mainstreet standards. However, we believe that Mainstreet's unstabilized portfolio (12% of the rental portfolio) is one of our greatest levers for future growth in NOI and FFO.



## OUTLOOK

Five years of consistent growth have proven how well Mainstreet's value-added business model works. We create new value by making opportunistic and disciplined acquisitions while maintaining careful operational management. This two-pronged approach served us well when the economy was strong. But we feel it is especially compelling during a period of economic uncertainty, a time that affords new possibilities for expansion at reasonable costs. Mainstreet's substantial liquidity places us in a particularly favourable position to capitalize on current conditions.

Slower economic growth has coincided with lower natural gas prices for heating and an easing in labour market pressure, both substantial cost areas for Mainstreet. An uncertain economy also tends to be supportive of the rental market, as consumers tend to delay large purchases like new homes. At the same time, we continue to make significant operational gains. In Saskatoon, for example, the average vacancy rate dropped by about 20% between the third and fourth quarters of this fiscal year.

We have other reasons, too, for cautious optimism about our ability to continue growing, and to position ourselves to make the most of the next boom:

### **Buying in our backyard, enjoying a strong coastal economy**

Alberta and Saskatchewan have both felt the impact of lower energy prices, and we have as a result become more conservative in our underwriting criteria there. We nonetheless see significant opportunity in these regions, which form the heart of our operations. With a decrease in bids on properties of interest, we see a chance to buy in our backyard and are moving accordingly, as can be seen with our third-quarter Lethbridge townhouse acquisition at a cap rate of 8.61%, which boasts metrics that were difficult to match in recent years.

British Columbia, meanwhile, is enjoying some of the strongest economic performance in Canada. Buoyant conditions there have lowered vacancy rates, while operating costs have remained low.

### **Bolstering talent**

Boom times create heated demand for the most talented people, particularly in trades. The slowing economy has created new hiring opportunities and we are moving to internalize variable costs by recruiting people skilled in pest control, plumbing, electrical contracting and general carpentry. We expect gains in productivity and savings in costs that will extend long into the future.

### **Running down the runway: ample liquidity, low interest rates**

We see three primary levers for growth in the coming year:

- 1) A position of strength to capitalize on opportunities: We anticipate over \$160 million in available potential liquidity by the end of fiscal year 2016. This includes funds available both from refinancing maturing mortgages and financing existing clear-title assets of approximately \$90 million. In addition, we have \$70 million in remaining availability on our line of credit. Based on a leverage level of 75%, this large liquidity position equates to roughly \$640 million in buying capacity at a time of low mortgage interest rates, and positions Mainstreet to act decisively when acquisition opportunities arise, while upholding our commitment to not dilute shareholder value.
- 2) Inexpensive borrowing: Mainstreet has successfully negotiated a historically low spread with our major lenders, which has provided a further reduction in borrowing costs. The interest rate of the latest 10 year, CMHC insured mortgage was 2.51%.
- 3) Finding ways to add value: We have successfully transformed obsolete retail areas and amenity spaces into 7 residential suites in Edmonton in 2015, and are in the process of transforming an additional 14 suites in Edmonton, Calgary and Abbotsford.
- 4) Extracting more value from the existing portfolio: Mainstreet currently hold 1,105 unstabilized units (approximately 12% of the portfolio), in addition to other units currently operating below market rent. We believe that the financial effect of closing the gap in these areas alone offers opportunity for a further increase in NOI and FFO and expect that these unstabilized units can be stabilized within the next 12 months.

## ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at [www.mainst.biz](http://www.mainst.biz) and on SEDAR at [www.sedar.com](http://www.sedar.com). The annual information form of the Corporation for the year ended September 30, 2015 has been filed on SEDAR.



## MANAGEMENT'S REPORT

To the Shareholders of Mainstreet Equity Corp.

The management of Mainstreet Equity Corp. is responsible for the preparation and content of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards.

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are properly authorized, financial reporting responsibilities are met and assets of the corporation are safeguarded against theft.

The financial statements have been audited by Deloitte LLP, the independent auditors, in accordance with International Financial Reporting Standards. The Audit Committee recommended their approval of the statements to the Board of Directors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

[SIGNED]

"Bob Dhillon"  
Director

December 3, 2015

[SIGNED]

"Joe Amantea"  
Director

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mainstreet Equity Corp.

We have audited the accompanying consolidated financial statements of Mainstreet Equity Corp., which comprise the consolidated statements of financial position as at September 30, 2015 and 2014, and the consolidated statements of net profit and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mainstreet Equity Corp. as at September 30, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

[SIGNED]

"Deloitte LLP"  
Chartered Accountants  
Calgary, Alberta  
December 7, 2015

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

September 30	2015	2014
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties [Note 5]	\$ 1,386,035	\$ 1,259,010
Property, plant and equipment [Note 6]	4,721	4,769
Intangible Assets [Note 7]	272	–
Mortgage receivable [Note 11]	2,500	2,500
	1,393,528	1,266,279
<b>Current assets</b>		
Prepaid assets [Note 8]	1,921	1,174
Trade and other receivables [Note 9]	844	1,160
Restricted cash	3,052	2,993
Inventory [Note 10]	461	455
Cash and cash equivalents	1,526	1,041
	7,804	6,823
<b>Total Assets</b>	<b>\$ 1,401,332</b>	<b>\$ 1,273,102</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Mortgages payable [Note 12]	\$ 558,539	\$ 518,468
Deferred tax liabilities [Note 13]	117,516	97,832
	676,055	616,300
<b>Current liabilities</b>		
Mortgages payable [Note 12]	55,851	61,069
Trade and other payables [Note 14]	6,131	6,264
Current income tax payable [Note 13]	1,763	–
Refundable security deposits [Note 15]	4,217	3,965
Bank indebtedness [Note 16]	36,909	22,457
	104,871	93,755
<b>Total Liabilities</b>	<b>780,926</b>	<b>710,055</b>
<b>Equity</b>		
Share capital [Note 17]	28,114	28,656
Contributed surplus	2,404	2,404
Retained earnings	589,888	531,987
<b>Total Equity</b>	<b>620,406</b>	<b>563,047</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,401,332</b>	<b>\$ 1,273,102</b>

See accompanying notes to these consolidated financial statements.

[SIGNED]

“Bob Dhillon”  
Director

December 3, 2015

[SIGNED]

“Joe Amantea”  
Director

## CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

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

Year ended September 30	2015	2014
Rental revenue	\$ 98,933	\$ 89,069
Ancillary rental income	1,459	1,377
	100,392	90,446
Property operating expenses	33,070	30,347
Net operating income	67,322	60,099
Interest income	161	129
	67,483	60,228
Mortgage interest	25,020	24,118
Amortization of financing cost	1,943	1,800
General and administrative expenses	8,715	8,698
Depreciation	392	375
	36,070	34,991
Profit from continuing operations before other items and income tax expense	31,413	25,237
Fair value gain [Note 5]	54,742	56,579
Profit from continuing operations before income tax expense	86,155	81,816
Current income tax [Note 13]	1,763	–
Deferred Income tax [Note 13]	19,684	15,045
Profit from continuing operations	64,708	66,771
Loss from discontinued operations	–	(196)
Net profit and total comprehensive income	\$ 64,708	\$ 66,575
Net profit (loss) per share		
– basic from continuing operations [Note 18]	\$ 6.23	\$ 6.38
– basic from discontinued operations [Note 4]	\$ –	(0.02)
– diluted from continuing operations [Note 18]	\$ 5.84	\$ 5.98
– diluted from discontinued operations [Note 4]	\$ –	(0.02)

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$000s of Canadian dollars)

		Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders Equity
Balance, October 1, 2013	\$	28,541	\$ 2,418	\$ 465,412	\$ 496,371
Share purchase loan		80	–	–	80
Transfer from contributed surplus		14	(14)	–	–
Exercise of stock options		21	–	–	21
		–	–	66,575	66,575
Balance, September 30, 2014	\$	28,656	\$ 2,404	\$ 531,987	\$ 563,047
Balance, October 1, 2014	\$	28,656	\$ 2,404	\$ 531,987	\$ 563,047
Shares purchased for cancellation		(542)	–	(6,807)	(7,349)
Profit for the year		–	–	64,708	64,708
Balance, September 30, 2015	\$	28,114	\$ 2,404	\$ 589,888	\$ 620,406

See accompanying notes to these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s of Canadian dollars)

Year ended September 30	2015	2014
<b>Cash obtained from (used in) operating activities</b>		
Profit from continuing operations	\$ 64,708	\$ 66,771
Adjustments for:		
Amortization of financing cost	1,943	1,800
Depreciation	392	375
Fair value gains	(54,742)	(56,579)
Deferred income tax	19,684	15,045
Mortgage interest	25,020	24,118
Interest paid on mortgages payable	(24,999)	(24,161)
	32,006	27,369
Change in working capital		
Prepaid assets	(747)	(197)
Trade and other receivables	316	306
Inventory	(6)	(149)
Restricted cash	(59)	(196)
Trade and other payables	1,780	(1,777)
Refundable security deposits	252	497
Cash from operating activities	33,542	25,853
<b>Financing activities</b>		
Bank indebtedness	14,452	19,583
Financing of investment properties	84,859	157,841
Repayment of mortgages payable	(68,499)	(141,192)
Repurchase of shares	(7,349)	–
Proceeds from share purchase loan	–	80
Exercise of stock option [Note 19]	–	21
Cash from financing activities	23,463	36,333
<b>Investing activities</b>		
Purchase of and additions to investment properties 5	(55,903)	(68,221)
Purchase of and additions to property, plant and equipment	(617)	(352)
Cash used in investing activities	(56,520)	(68,573)
Increase (decrease) in cashflow from continuing operations	485	(6,387)
Increase in cashflow from discontinued operations [Note 4]	–	5,603
Net increase (decrease) in cash and cash equivalents	485	(784)
Cash and cash equivalents, beginning of year	1,041	1,825
Cash and cash equivalents, end of year	\$ 1,526	\$ 1,041
<b>Cash and cash equivalents are comprised:</b>		
Cash	\$ 30	\$ 539
Short-term deposits	1,496	502
	\$ 1,526	\$ 1,041

See accompanying notes to these consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2015 and 2014

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

### 1. GENERAL

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the Canadian Institute of Chartered Professional Accountants ("CPA Canada").

#### b) Basis of presentation

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

#### c) Basis of consolidation

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

#### d) Revenue recognition

Rental revenue from an investment property is recognized when a tenant begins occupancy of a rental unit and rent is due. Any rental incentive offered is amortized over the term of the tenancy lease. All residential leases are for one-year terms or less and the Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Realized gain or loss from the sale of investment properties is recognized in the period of disposal.

Ancillary rental income comprises income from laundry machines, income from telephone and cable providers and other miscellaneous income and is recognized as earned.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and applicable effective interest rates.

#### e) Investment properties

Investment properties include multi-family residential properties held to earn rental income and are initially measured at cost. Cost includes purchase price, and any direct attributable expenditure related to the acquisition (excluding transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading the quality and extending the economic life of the investment properties are capitalized as additional cost of investment properties.

Subsequent to initial recognition, investment properties are recorded at fair value, determined based on valuations performed by independent third party qualified appraisers or available market evidence, in accordance with International Accounting Standard ("IAS") 40-Investment Property ("IAS 40"). Fair value is determined based on a combination of internal and external processes. Gains and losses arising from differences between current period fair value and the sum of previous measured fair value and capitalized costs as described above are recorded in profit and loss in the period in which they arise.

The fair values of investment properties are reassessed annually by independent third party qualified appraisers for the Corporation's annual financial reporting. In addition, the Corporation has established an internal valuation model, which is based on the estimated changes in market conditions of the underlying assumptions used since the last annual appraisal, to determine



the fair value of investment properties for its interim reporting periods. Estimated changes in market conditions of the underlying assumptions for interim periods are assessed by the independent third party qualified appraisers who performed the annual fair value assessments.

Investment properties are reclassified to 'Non-Current Assets held for sale' when the criteria set out in IFRS 5- Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value is adjusted to reflect the fair value as outlined in the purchase and sale agreement. This adjustment is recorded as a fair value gain (loss). Any remaining gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

#### **Excess land**

Excess land represents land owned by the Corporation located contiguous to land included as investment property. The Corporation has the ability to develop additional multi-family residential buildings on this land or sell it separately from the investment property at a later date. Excess land is held for capital appreciation, and therefore is treated as Investment Property and recorded in accordance with IAS 40 as outlined above

#### **f) Business combination**

In accordance with IFRS 3-Business Combinations ("IFRS 3"), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefit. Building and other asset acquisitions, which meet the above definition, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. Building and other asset acquisitions, which do not meet the above definition, are recorded as an asset addition based on the purchase price.

The acquisition method requires that an acquirer be identified, a specific acquisition date be determined, all identifiable assets and liabilities assumed, as well as any non-controlling interest in the acquiree, be recognized and measured, and any goodwill or gains from a bargain purchase price are recognized and measured at fair value. All acquisition costs associated with a transaction identified as a business combination are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amount of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interests in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain price gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by - transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in other IFRS.

When the consideration transferred by the Corporation in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred on a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are those that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date and is shorter than one year if all information is received) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 39-Financial Instruments: Recognition and Measurement, or IAS 37-Provision, Contingent Liabilities and Contingent Assets ("IAS37"), as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Corporation's previously held equity interest is the equity interest in the acquiree remeasured to fair value at the acquisition date (i.e. the date when the Corporation obtained control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit and loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. Those provision amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### **g) Non-current assets held for sale**

Non-current assets held for sale include assets or groups of assets and liabilities ("disposal groups") that are available for sale in their present condition and the sale is highly probable and expected to be completed within one year from the date of classification. The Corporation also purchases properties with the intention of selling the property within a pre-determined period of time. The property is classified as an asset held for sale if the disposal is expected to take place within one year of the acquisition. The gains or losses arising on a sale of assets or group of assets that does not meet the definition of discontinued operations will be recognized as part of continuing operations.

#### **h) Discontinued operations**

The operating results of an asset or group of assets will be classified as a discontinued operation when it is a component of an entity that has either been disposed of or it is classified as non-current assets held for sale and represents a separate major line of business. Profit and gains or losses related to the disposal of discontinued operations are measured based on fair value less cost to sell or on the disposal of the asset (or disposal groups) and are presented in the financial statements on an after tax basis in accordance with IFRS 5. In addition, retrospective application is required; therefore comparative figures will be changed to reflect discontinued operations. As an individual building does not constitute a major line of business, individual building sales are not treated as discontinued operations.

#### **i) Property, plant and equipment**

Tangible assets that are held for use in the production or supply of goods and services, for rent to others, or for administrative purposes and are expected to be used during more than one period, except when other accounting standards requires or permits a different accounting treatment, are recorded using the cost model in accordance with IAS 16 – Property, Plant and Equipment ("IAS16") which requires, after initial recognition that the tangible assets be carried at their costs less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in a manner that reflects the pattern in which the future economic benefits of the assets are expected to be realized and consumed by the Corporation. IAS 16 also requires that the cost and useful economic life of each significant component of a depreciable real estate property be determined based on the circumstances of each property.

Property, plant and equipment are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Administrative building	over the estimated useful lives, not exceeding 40 years	– straight line
Building improvements	20%-40%	– declining balance
Equipment	4% to 30%	– declining balance
Furniture	20%	– declining balance
Vehicle	40%	– declining balance
Computer	30%	– declining balance

The method of depreciation and estimated useful lives of property, plant and equipment are periodically evaluated by management and any changes are accounted for as a change in accounting estimates in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

#### **j) Impairment of assets**

All assets, except for those identified as not within the scope of IAS 36 -Impairment of Assets ("IAS 36") are assessed for indications of impairment at the end of each financial reporting period. Should an indication of impairment exist, the recoverable amount of the asset is estimated. The recoverable amount is defined in IAS 36 as the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted. Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the statement of comprehensive income and the remaining useful life of the assets will be re-assessed. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in profit or loss. However, in accordance with IAS 36, the reversal of an impairment loss will not increase the carrying value of the assets to a value greater than its original carrying value (net of amortization).

## k) Income taxes

Income taxes include current and deferred income taxes.

Current tax is the expected tax payable or receivable in the taxable profit or loss for the current reporting period and any changes in estimates in respect of previous periods. Taxable profit differs from profit as reported in the statement of net profit and total comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The tax rates used in calculating current income tax have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and the amounts used for income tax purposes, carry forward unused tax credits and unused tax losses to the extent that it is probable that deduction, tax credits and tax losses can be utilized and at the tax rates that are estimated to be applied to temporary differences when they reverse. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

## l) Provision

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a discounted rate that reflects current market assessment of the time value of money and the risks and uncertainties specific to the obligation. Provisions are re-measured at each reporting date using a current and relevant discount rate. The increase in the provision due to the passage of time is recognized as a financing cost.

## m) Financial instruments

Financial instruments are initially recognized at fair values. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss, which are recognized immediately in profit and loss, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### Financial assets

Financial assets are classified into the following specified categories, which are defined and measured as follows:

Classification	Definition	Measurement
Financial assets at fair value through profit or loss ("FVTPL")	Either held for trading or designated as at FVTPL as discussed below:  – Classified as held for trading if it has been acquired principally for the purpose of selling it in the near future term, or on initial recognition it is part of portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.  – Classified as FVTPL upon initial recognition if : such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise: or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis: or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.  Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Held-to-maturity	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest rate method less impairment (see footnote 1 and 2).
Available for sale	Non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivable, (b) held-to-maturity investments or (c) financial assets at FVTPL.	Measured at fair value through other comprehensive income.
Loans and receivable	Non-derivative financial assets with fixed determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest rate method less any impairment. (See footnote 1 and 2).

- (1) The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.
- (2) Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

**The Corporation's financial assets are as follows:**

Financial assets	Classification	Measurement
Mortgage receivables	Loans and receivable	Amortized cost
Trade and other receivables	Loans and receivable	Amortized cost
Restricted cash	Loans and receivable	Amortized cost
Cash and cash equivalents	Loans and receivable	Amortized cost

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the assets to another entity or when the carrying value is reduced by impairment loss.

**Financial liabilities**

Financial liabilities are classified into the following specified categories which are defined and measured as follows:

FVTPL	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> <li>– Classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near future term, or on initial recognition, it is part of portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.</li> <li>– Classified as FVTPL upon initial recognition if : such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liabilities form part of a group which is managed and its performance is evaluated on a fair value basis: or it forms part of a contract containing one or more embedded derivatives.</li> </ul>	<p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising in measurement recognized in profit or loss.</p>
Other financial liabilities	All other liabilities	Measured at amortized cost using the effective interest rate method-(see foot note 1).

- (1) The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimates future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

**The Corporation's financial liabilities are as follows:**

Financial liabilities	Classification	Measurement
Mortgages payable	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Refundable security deposits	Other financial liabilities	Amortized cost

The Corporation derecognizes a financial liability when the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

**n) Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances and short-term interest bearing deposits with an original maturity date of 90 days or less.

#### **o) Stock option plan**

The Corporation has a stock option plan, which is described in Note 19.

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.

For stock options of which the holders have the intent to exercise the options by selecting cash settlement, those stock options will be classified as liabilities instead of equity in the financial statement and measured at fair value.

#### **p) Profit (Loss) per share**

Basic profit (loss) per share are calculated based on the weighted average number of shares outstanding. Diluted earnings per share reflect the possible dilutive effect of the exercise of the options outstanding as at the balance sheet date. The dilutive effect of outstanding share purchase options is computed using the "treasury stock" method whereby the proceeds that would be received from the exercise of options are assumed to be used to repurchase outstanding shares of the Corporation.

#### **q) Critical judgment in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see Note 2(r) below) that have been made in applying the Corporation's accounting policies that have the most significant effect on the reported amounts in the financial statements:

- i) Determining the extent and frequency of obtaining independent, third party appraisals and establishing an internal valuation model to measure fair value of investment properties;
- ii) Determining a classification between investment properties and property, plant and equipment for the administrative building;
- iii) Accumulating the quarterly depreciations for the PPEs based on their NBV, in the rates same as CRA classes;
- iv) Assessing potential impairments based on management's judgment of whether there are sufficient internal and external factors that indicate that our administrative assets are impaired;
- v) Determining the nature of expenses to be capitalized as capital improvement; and
- vi) Determining the tax rate applicable to the Corporation's current and deferred income taxes and identifying the temporary differences in respect of which deferred income taxes are recognized.

#### **r) Key accounting estimates and assumptions**

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

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 5 for sensitivity analysis;
- ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities;
- iii) 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
- iv) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

### **3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES**

#### **a) New Accounting Policies**

Certain new IFRSs which are related to annual periods beginning January 1, 2014 or later is discussed below:

IFRIC 21 – Levies – Effective for annual periods beginning on or after January 1, 2014

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") and those where the timing and amount of the levy is certain. It defines the obligating event for the recognition of a liability as the activity that triggers the

payment of the levy in accordance with the relevant legislation. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Corporation assessed IFRIC 21 and determined that the adoption did not result in any significant change on the consolidated financial statements.

#### **b) Future Accounting Policies**

Certain new IFRSs which are related to accounting periods beginning on January 1, 2016 or later are not expected to have a significant effect on the consolidated financial statements. The following accounting policies have not yet been adopted by Mainstreet.

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

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

#### **IFRS 15-Revenue from Contracts with Customers**

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

### **4. DISCONTINUED OPERATIONS**

In 2012, four properties in the Ontario segment were presented as a disposal group held for sale following Management's decision to dispose of the entire segment and focus its business in Western Canada. Three of the properties were disposed of in January 2013 and the remaining property was disposed of in January 2014.

#### **Results of discontinued operations**

<b>Year ended September 30</b>	<b>2015</b>		<b>2014</b>
Rental revenue	\$	–	\$ 919
Ancillary rental income		–	22
		–	941
Property operating expenses		–	656
Net operating income		–	285
Mortgage interest		–	185
Amortization of financing cost		–	37
General and administrative expenses		–	143
Depreciation		–	1
		–	366
Loss from discontinued operations before loss on disposition, fair value losses and income tax recovery		–	(81)
Loss on disposition		–	(583)
Fair value losses		–	(223)
Loss before income tax recovery		–	(887)
Income tax recovery		–	(691)
Loss from discontinued operations	\$	–	\$ (196)
Basic loss per share	\$	–	\$ (0.02)
Diluted loss per share	\$	–	\$ (0.02)

**Cash flows from discontinued operations**

Year ended September 30	2015	2014
Net cash used in operating activities	\$ –	\$ (252)
Net cash used in financing activities	–	(37)
Net cash from investing activities	–	5,892
Net cash from discontinued operations	\$ –	\$ 5,603

**5 INVESTMENT PROPERTIES**

September 30	2015	2014
Balance, beginning of year	\$ 1,259,010	\$ 1,127,695
Additions related to acquisitions	59,061	62,884
Building improvements	13,222	11,852
Fair value gains	54,742	56,579
Balance, end of year	\$ 1,386,035	\$ 1,259,010

The fair value of investment properties held by the Corporation as of September 30, 2015 was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate. The appraisers also assessed the market conditions of the underlying assumptions used for the fair value assessments and estimated the fair value of the investment properties as at September 30, 2015.

The fair value of Mainstreet's investment properties as of September 30, 2015, was determined by the following qualified appraisers:

Location	Name of Appraisers	Qualification	Firm
Vancouver/Lower Mainland (Abbotsford & Surrey)	James Glen	AACI, P.App.	Colliers International
Calgary & Edmonton	Calgary – Rachel Rothery Edmonton – Alison McGavin, Andrew MacLeod, Ryan Miller	AACI, P.App.	Colliers International
Saskatoon	Rachel Rothery	AACI, P. App.	Colliers International

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

September 30	2015	2014
Surrey, BC	4.85%	5.44%
Abbotsford, BC	5.19%	5.37%
Calgary, Alberta	4.86%	4.64%
Edmonton, Alberta	5.71%	5.68%
Saskatoon, Saskatchewan	6.75%	6.58%
	5.37%	5.40%

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



#### As at September 30, 2015

		-3%	-1%	As estimated	+1%	+3%
Net operating income		\$ 72,235	\$ 73,724	\$ 74,469	\$ 75,214	\$ 76,703
Capitalization rate						
-0.25%	5.12%	\$ 24,803	\$ 53,893	\$ 68,438	\$ 82,982	\$ 112,072
Cap rate used	5.37%	\$ (40,878)	\$ (13,143)	\$ 1,386,035	\$ 14,592	\$ 42,328
+0.25%	5.62%	\$ (100,716)	\$ (74,215)	\$ (60,964)	\$ (47,713)	\$ (21,212)

#### As at September 30, 2014

		-3%	-1%	As estimated	+1%	+3%
Net operating income		\$ 65,947	\$ 67,307	\$ 67,987	\$ 68,666	\$ 70,026
Capitalization rate						
-0.25%	5.15%	\$ 21,513	\$ 47,916	\$ 61,117	\$ 74,318	\$ 100,721
Cap rate used	5.40%	\$ (37,770)	\$ (12,590)	\$ 1,259,010	\$ 12,590	\$ 37,770
+0.25%	5.65%	\$ (91,807)	\$ (67,741)	\$ (55,708)	\$ (43,675)	\$ (19,609)

Investment properties with a fair value of \$1,186 million (September 30, 2014 – \$1,113 million) are pledged as security against the Corporation's mortgages payable.

For the year ended September 30, 2015, investment properties earned rental income (excluding ancillary rental income) of \$98.9 million (2014 – \$89.1 million) from continuing operations.

For the year ended September 30, 2015, operating expenses relating to investment properties were \$33.1 million (2014 – \$ 30.3 million) from continuing operations.

## 6. PROPERTY, PLANT AND EQUIPMENT

The carrying amounts of property, plant and equipment were as follows:

	September 30, 2015			September 30, 2014		
	Cost	Accum. Deprec.	Net book value	Cost	Accum. Deprec.	Net book value
Admin.						
Land and building	\$ 4,510	\$ 535	\$ 3,975	\$ 4,439	\$ 408	\$ 4,031
Equipment	129	50	79	104	32	72
Furniture	325	108	217	184	80	104
Vehicles	165	116	49	169	85	84
Computer	1,622	1,221	401	1,507	1,029	478
	\$ 6,751	\$ 2,030	\$ 4,721	\$ 6,403	\$ 1,634	\$ 4,769

The change of the carrying amount of the property, plant and equipment for the year ended September 30, 2015 was as follows:

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Admin.					
Land and building	\$ 4,031	\$ 71	\$ –	\$ (126)	\$ 3,976
Equipment	72	25	–	(18)	79
Furniture	104	141	–	(29)	216
Vehicles	84	7	(11)	(31)	49
Computer	478	111	–	(188)	401
	\$ 4,769	\$ 355	\$ (11)	\$ (392)	\$ 4,721

The change of the carrying amount of the property, plant and equipment for the year ended September 30, 2014 was as follows:

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Admin.					
Land and building	\$ 4,076	\$ 86	\$ –	\$ (131)	\$ 4,031
Equipment	40	42	–	(10)	72
Furniture	128	1	–	(25)	104
Vehicles	123	28	(14)	(53)	84
Computer	430	209	(5)	(156)	478
Assets classified as held for sale	(5)	–	5	–	–
	\$ 4,792	\$ 366	\$ (14)	\$ (375)	\$ 4,769

## 7. INTANGIBLE ASSETS

The carrying amount of intangible asset was as follows:

	September 30, 2015			September 30, 2014		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Software Development	\$ 272	\$ –	\$ 272	\$ –	\$ –	\$ –
	\$ 272	\$ –	\$ 272	\$ –	\$ –	\$ –

## 8. PREPAID ASSETS

Prepaid assets comprise prepaid expenses and utility deposits:

September 30	2015	2014
Prepaid expenses	\$ 1,906	\$ 1,157
Utility deposits	15	17
	\$ 1,921	\$ 1,174

## 9. TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts due from tenants and other receivables mainly comprise mortgage hold back and refundable mortgage commitment fees:

September 30	2015	2014
Trade receivables	\$ 450	\$ 248
Other receivables	394	912
	\$ 844	\$ 1,160

## 10. INVENTORY

Inventories are measured at the lower of cost and net realizable value.

September 30	2015	2014
Inventory	\$ 461	\$ 455
	\$ 461	\$ 455

## 11. MORTGAGE RECEIVABLE

Mortgage receivable represents a vendor-take-back loan of \$2.5 million (September 30, 2013 – \$2.5 million) on one of the disposed properties in Ontario. The loan is secured by the said property, bears interest at a rate of 3% per annum, interest payments only until maturity and maturing on December 1, 2016.

## 12. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.75% (September 30, 2014 – 3.95%) per annum and are payable in monthly principal and interest installments totaling \$3.0 million (September 30, 2014 – \$2.9 million), maturing from 2015 to 2025 and are secured by specific charges against specific investment properties, having a fair value of \$1,186 million (September 30, 2014 – \$1,113 million).

September 30	2015	2014
Non-current	\$ 558,539	\$ 518,468
Current	55,851	61,069
	<b>\$ 614,390</b>	<b>\$ 579,537</b>

Estimated principal payments required to retire the mortgage obligations as of September 30, 2015 are as follows:

12 months ending September 30	Amount
2016	\$ 57,907
2017	52,281
2018	36,715
2019	34,258
2020	37,704
Subsequent	408,761
	627,626
Deferred financing costs	(13,236)
	<b>\$ 614,390</b>

## 13. INCOME TAX EXPENSE

Income tax expense comprises:

Year ended September 30	2015	2014
Current Income Tax	\$ 1,763	\$ –
Deferred Income Tax	19,684	15,045
	<b>\$ 21,447</b>	<b>\$ 15,045</b>

No current or future income taxes were recognized in equity for the years ended September 30, 2015 and 2014. The income tax expense differs from the results that would be obtained by applying the combined federal and provincial income tax rate to income before income taxes. Non taxable income includes the non taxable portion of capital gains. This difference results from the following:

Year ended September 30	2015	2014
Profit from continuing operations before income tax	\$ 86,155	\$ 81,816
Non taxable income/(expenses)	28,243	28,207
	57,912	53,609
Statutory tax rate	25.90%	25.35%
Computed expected tax	14,999	13,590
Discontinued operations	–	691
Underappreciated capital cost adjustment	1,742	1,666
Financing cost adjustment	–	(333)
Increase (decrease) in deferred tax liabilities for change in future tax rate	5,067	(168)
Others	(361)	(401)
	<b>\$ 21,447</b>	<b>\$ 15,045</b>

As of September 30, 2015 and September 30, 2014, the Corporation does not have any unrecognized deductible temporary differences.

The deferred tax liabilities components and their changes were as follows:

	Sep. 30, 2014	Recognized in profit	Sep. 30, 2015
Deferred tax liabilities			
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 96,982	\$ 18,989	\$ 115,971
Differences in tax and book carrying amounts of deferred financing cost	850	695	1,545
Deferred tax liabilities for discontinued operations	(632)	–	–
Deferred tax liabilities adjusted from discontinued operation to continuing operations	632	–	–
Deferred tax liabilities for continuing operations	\$ 97,832	\$ 19,684	\$ 117,516

	Sep. 30, 2013	Recognized in profit	Sep. 30, 2014
Deferred tax liabilities			
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 82,341	\$ 14,641	\$ 96,982
Differences in tax and book carrying amounts of deferred financing cost	1,137	(287)	850
Deferred tax liabilities for discontinued operations	(1,323)	691	(632)
Deferred tax liabilities adjusted from discontinued operation to continuing operations	–	–	632
Deferred tax liabilities for continuing operations	\$ 82,155	\$ 15,045	\$ 97,832

#### 14. TRADE AND OTHER PAYABLES

Trade and other payable comprise trade payables, accrued liabilities and deferred revenue:

September 30	2015	2014
Trade payables and accrued liabilities	\$ 5,102	\$ 5,276
Deferred revenue	1,029	988
	\$ 6,131	\$ 6,264

#### 15. REFUNDABLE SECURITY DEPOSITS

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.

#### 16. BANK INDEBTEDNESS

Effective January 2014, the Corporation has been 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. As at September 30, 2015, the Corporation has drawn \$36.9 million (September 30, 2014 – \$22.5 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of September 30, 2015, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 47% and 1.55, respectively.

**Overall funded debt to gross book value ratio as of September 30, 2015**

(\$000s)

Total funded debt	
Mortgages payable	\$ 614,390
Bank indebtedness	36,909
	<hr/>
	\$ 651,299
Gross book value of assets	
Investment properties	\$ 1,386,035
Property, plant and equipment	4,721
	<hr/>
	\$ 1,390,756
Overall funded debt to gross book value ratio	47%

**Debt service coverage ratio**

Earnings before interest, tax, depreciation, amortization and extraordinary items for 2015

Net profit per financial statements	\$ 64,708
Add (deduct):	
Mortgage interest	25,020
Current and future income tax	21,447
Depreciation	392
Amortization of finance cost	1,943
Fair value gains	(54,742)
	<hr/>
	\$ 58,768
Principal and interest payments	\$ 37,855
Debt service coverage ratio	1.55

**17. 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:**

	Year ended September 30, 2015		Year ended September 30, 2014	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the period	10,469,081	\$ 28,656	10,465,281	\$ 28,541
Share purchase loan reduction	–	–	–	80
Shares purchased for cancellation	(197,830)	(541)	–	–
Exercise of stock options	–	–	3,800	21
Transfer from contributed surplus	–	–	–	14
Issued and outstanding, end of the period	10,271,251	\$ 28,114	10,469,081	\$ 28,656

All common shares have an equal right to dividends.

The Corporation has obtained approval from the Toronto Stock Exchange ("TSX") to continue to repurchase common shares of the Corporation under a Normal Course Issuer Bid commencing April 20, 2014. During the year ended September 30, 2015, the Corporation repurchased and cancelled 197,830 common shares (2014 – nil) at an average price \$37.15.

## 18. PROFIT PER SHARE

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

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

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

(In 000s, except share and per share amounts)

Year ended September 30	2015	2014
Numerator		
Net Profit	\$ 64,708	\$ 66,575
Denominator		
For basic profit per share		
Weighted average shares	10,383,151	10,467,718
Dilutive effect of stock options	703,719	710,494
For diluted profit per share	11,086,870	11,178,212
Profit per share		
– basic	\$ 6.23	\$ 6.36
– diluted	\$ 5.84	\$ 5.96

## 19. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of September 30, 2015 and September 30, 2014 and changes during the years are presented below:

Stock option	September 30, 2015		September 30, 2014	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of the year	828,200	\$ 5.51	832,000	\$ 5.51
Exercised	–	–	3,800	\$ 5.51
Outstanding and exercisable, end of the year	828,200	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life-years	3.44		4.44	
The range of exercise prices	\$ 5.51		\$ 5.51	

During the fiscal year 2015, no stock option has been exercised.

## 20. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

### Fair value of financial assets and liabilities

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

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

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

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

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

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

		September 30, 2015		September 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,052	\$ 3,052	\$ 2,993	\$ 2,993
Cash and cash equivalents	Level 1	1,526	1,526	1,041	1,041
Trade and other receivables	Level 2	844	844	1,160	1,160
Mortgage receivable	Level 2	2,500	2,468	2,500	2,500
Financial liabilities:					
Bank indebtedness	Level 1	36,909	36,909	22,457	22,457
Mortgages payable	Level 2	614,390	654,686	579,537	612,314
Trade and other payables	Level 2	6,131	6,131	6,264	6,264
Current income tax payable	Level 2	1,763	1,763	–	–
Refundable security deposits	Level 1	4,217	4,217	3,965	3,965

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

		September 30, 2015		September 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$1,386,035	\$1,386,035	\$1,259,010	\$1,259,010

## 21. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

### *Market risk*

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

### *Interest rate risk*

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totaling \$46 million are subject to renewal before the financial year ending September 30, 2016. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$369,000 in interest expense for the year ended September 30, 2015.

### *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 September 30, 2015, rents due from current tenants amounted to \$240,000 (September 30, 2014 – \$209,000).



The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.2 million (September 30, 2014 – \$4.0 million) and provisions for bad debts of \$100,000 (September 30, 2014 – \$100,000).

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 tier 1 Canadian chartered financial institutions.

### **Liquidity Risk**

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

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

(000s)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 57,907	52,281	36,715	34,258	446,465	\$ 627,626
Mortgage interest payable	23,537	20,922	18,379	16,646	57,704	137,188
Bank indebtedness	36,909	–	–	–	–	36,909
Trade and other payables	6,131	–	–	–	–	6,131
Current income tax payable	1,763	–	–	–	–	1,763
Refundable security deposits	4,217	–	–	–	–	4,217

## **22. GUARANTEES, CONTINGENCIES, COMMITMENTS**

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

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

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

As of September 30, 2015 and September 30, 2014, no amounts have been recorded and none are required to be disclosed in the consolidated financial statements with respect to guarantees, contingencies and commitments.

## **23. RELATED PARTY TRANSACTIONS**

- The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year ended September 30, 2015 amounted to \$371,500 (2014 – \$309,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.
- The Corporation paid legal and professional fees and reimbursements for the year ended September 30, 2015 amounting to \$174,000 (2014 – \$405,000), respectively to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2015, the amounts payable to the law firm were \$Nil (September 30, 2014 – \$20,000).

## 24. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, 2015, were:

Navjeets (Bob) Dhillon, President and Chief Executive Officer  
 Johnny C.S. Lam, Chief Operating Officer and Chief Financial Officer  
 Sheena Keslick, Vice President Operations

The remuneration of the Corporation's key management personnel was as follows:

Year ended September 30	2015	2014
Short-term benefits	\$ 2,694	\$ 2,455
	\$ 2,694	\$ 2,455

The remuneration of the Corporation's key management personnel excludes the commissions received by the President and Chief Executive Officer during the year ended September 30, 2015 amounted to \$371,500 (2014 – \$309,000).

In addition, there are 772,000 option-based awards outstanding at the end of the financial year ended September 30, 2015 to the key management personnel of the Corporation.

## 25. SEGMENTED INFORMATION

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

### RENTAL OPERATIONS

(000s of dollars)

Year ended September 30,	2015	2014
<b>BRITISH COLUMBIA</b>		
Rental revenue	\$ 23,723	\$ 20,027
Ancillary rental income	340	305
Fair value gains	35,633	1,524
Property operating expenses	8,527	7,605
<b>ALBERTA</b>		
Rental revenue	\$ 65,368	\$ 59,409
Ancillary rental income	1,036	978
Fair value gains	15,055	46,436
Property operating expenses	21,168	19,757
<b>SASKATCHEWAN</b>		
Rental revenue	\$ 9,842	\$ 9,633
Ancillary rental income	83	94
Fair value gains	4,054	8,619
Property operating expenses	3,376	2,985
<b>TOTAL</b>		
Rental revenue	\$ 98,933	\$ 89,069
Ancillary rental income	1,459	1,377
Fair value gains	54,742	56,579
Property operating expenses	33,070	30,347
Unallocated revenue*	161	129
Unallocated expenses**	(57,516)	(50,036)
Discontinued operations	–	(196)
Profit for the year	\$ 64,708	\$ 66,575

\* Unallocated revenue represents interest income.

\*\* Unallocated expenses include general and administrative expenses, mortgage interest, financing cost, depreciation, stock option cash settlement expense and income taxes.

## IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

September 30,	2015	2014
<b>BRITISH COLUMBIA</b>		
Investment properties	\$ 361,050	\$ 285,200
Property, plant and equipment	\$ 21	\$ 18
Mortgages payable	\$ 118,878	\$ 143,194
Refundable security deposits	\$ 1,213	\$ 1,019
<b>ALBERTA</b>		
Investment properties	\$ 896,185	\$ 855,435
Property, plant and equipment	\$ 4,693	\$ 4,744
Mortgages payable	\$ 424,678	\$ 368,954
Refundable security deposits	\$ 2,579	\$ 2,484
<b>SASKATCHEWAN</b>		
Investment properties	\$ 128,800	\$ 118,375
Property, plant and equipment	\$ 7	\$ 7
Mortgages payable	\$ 70,834	\$ 67,389
Refundable security deposits	\$ 425	\$ 462
<b>TOTAL</b>		
Investment properties	\$ 1,386,035	\$ 1,259,010
Property, plant and equipment	\$ 4,721	\$ 4,769
Mortgages payable	\$ 614,390	\$ 579,537
Refundable security deposits	\$ 4,217	\$ 3,965

## IDENTIFIABLE CAPITAL EXPENDITURES

(000s of dollars)

Year ended September 30,	2015	2014
BRITISH COLUMBIA	\$ 40,228	\$ 24,701
ALBERTA	\$ 26,308	\$ 40,454
SASKATCHEWAN	\$ 6,373	\$ 9,581
<b>TOTAL – Identifiable capital expenditures</b>	<b>\$ 72,909</b>	<b>\$ 74,736</b>

## 26. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and on occasion, bank loans or lines of credit when drawn on. The Corporation's total capital resources as at September 30, 2015 amounted to \$1,272 million (September 30, 2014 – \$1,165 million).

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

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

The total managed capital for the Corporation is summarized below:

(000s of dollars)

September 30	2015	2014
Mortgages payable	\$ 614,390	\$ 579,537
Bank indebtedness	36,909	22,457
Total equity	620,406	563,047
Total capital	\$ 1,271,705	\$ 1,165,041

The Corporation's policy for capital risk management is to maintain a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at September 30, 2015 is approximately 47% (September 30, 2014 – 48%) which leaves a sufficient additional capacity for the Corporation to raise additional funds from refinancing before it reaches its internal target ratio of 70%.

The debt to fair value ratios were as follows:

(000s of dollars)

September 30	2015	2014
Mortgages payable	\$ 614,390	\$ 579,537
Bank indebtedness	36,909	22,457
Total debts	\$ 651,299	\$ 601,994
Investment properties	\$ 1,386,035	\$ 1,259,010
Debt to fair value ratio	47%	48%

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

## 27. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2015, the Corporation repurchased and cancelled 139,836 common shares at an average price of \$31.69 per share.

Subsequent to the year ended September 30, 2015, the Corporation acquired one single house in Calgary, Alberta for a consideration of \$1.3 million to be closed on January 8, 2016.

## 28. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on December 9, 2015.

## CORPORATE INFORMATION

### OFFICERS

*President & CEO*

Bob Dhillon  
Calgary, AB

*Chief Financial Officer &  
Chief Operating Officer*

Johnny Lam  
Calgary, AB

*Secretary*

Joe Amantea  
Calgary, AB

### BOARD OF DIRECTORS

Joe Amantea  
Calgary, AB

Ron B. Anderson  
Vancouver, BC

Bob Dhillon  
Calgary, AB

Karanveer Dhillon  
San Francisco, CA

Rich Grimaldi  
Westport, CT

John Irwin  
London, ON

### DIRECTORS' COMMITTEES

#### **Executive Committee**

Bob Dhillon  
Calgary, AB

Joe Amantea  
Calgary, AB

#### **Audit Committee**

*Chair*

John Irwin  
London, ON

Rich Grimaldi  
Westport, CT

Ron B. Anderson  
Vancouver, BC

#### **Human Resource Committee**

*Chair*

Joe Amantea  
Calgary, AB

Ron B. Anderson  
Vancouver, BC

### REGISTRAR & TRANSFER AGENT

#### **REGISTRAR & TRANSFER AGENT**

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

### AUDITORS

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

### SOLICITORS

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

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

### BANKERS

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335 – 4 Ave SW  
Calgary, AB

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Calgary, AB

### INVESTOR RELATIONS

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

#### **Financial Inquiries**

Johnny Lam  
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Fax: 403 266-8867  
jlam@mainst.biz

### HEAD OFFICE

Mainstreet Equity Corp.  
305 – 10 Avenue SE  
Calgary, AB T2G 0W2

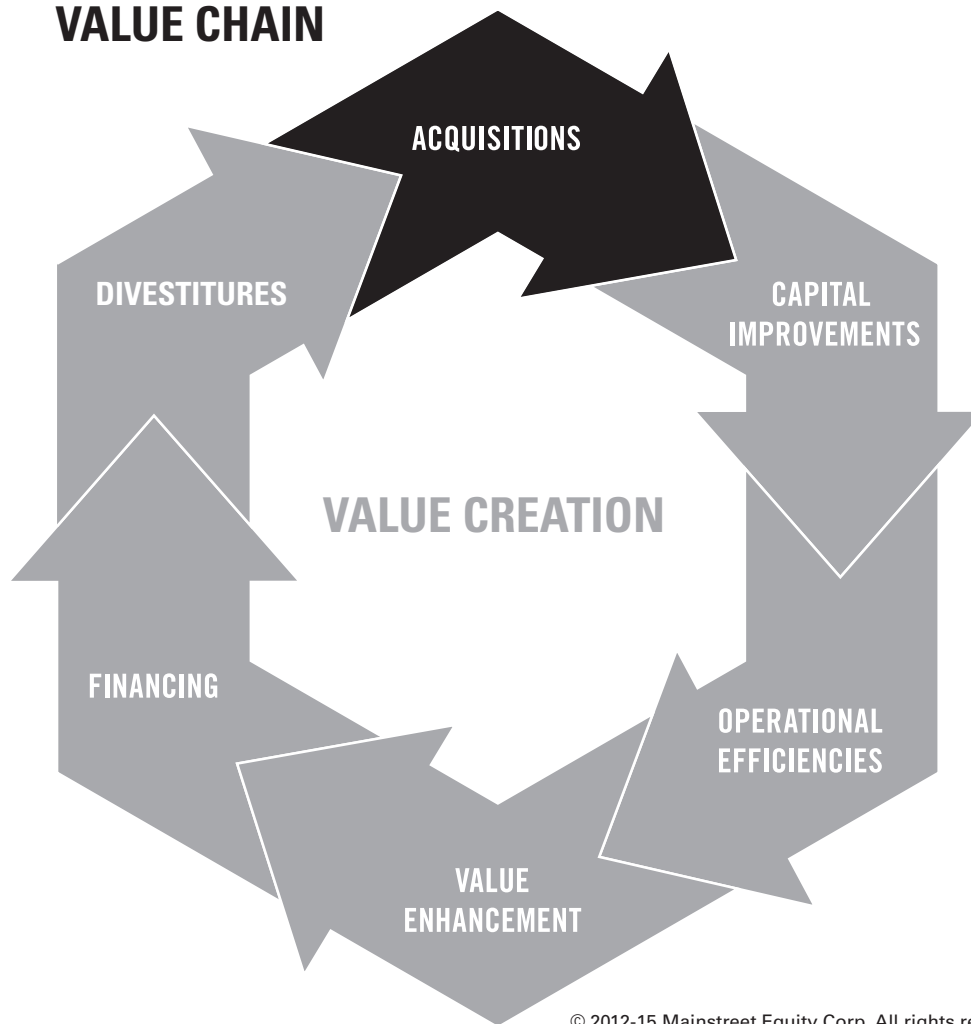
Tel: 403 215-6060  
Fax: 403 266-8867

E-mail:  
mainstreet@mainst.biz  
Web site: www.mainst.biz  
Twitter: @MEQ\_IR

### STOCK EXCHANGE

Toronto Stock Exchange  
Trading symbol: MEQ

The Mainstreet  
**VALUE CHAIN**



How do we create value? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the “Mainstreet Value Chain”. It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. **Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of \$17 million to 9,319 units (YTD) with appraised values of approximately \$1.4 billion with minimal equity dilution.**