



2016 Annual Report

For the years ended September 30, 2016 and 2015

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).

Message from the President & CEO.....	1
2016 Key Performance Indicators	4
Management's Discussion and Analysis.....	5
Management's Report	33
Independent Auditor's Report.....	34
Consolidated Statements of Financial Position	35
Consolidated Statements of Net Profit and Total Comprehensive Income	36
Consolidated Statements of Changes in Equity.....	37
Consolidated Statements of Cashflows.....	38
Notes to the Consolidated Financial Statements.....	39
Corporate Information.....	56

Forward-Looking Information

Certain statements contained herein constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of Management. In particular, statements concerning estimates related to future acquisitions, dispositions and capital expenditures, reduction of vacancy rates, increase of rental rates and rental revenue, future income and profitability, timing of refinancing of debt, access to low-cost, long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans and the effect of stricter federal requirements regarding the same, 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, future in-migration levels in Alberta, the oversupply of condominiums in Alberta, general market conditions and the economy, including the future price of oil and natural gas, potential increases in rental revenue if optimal operations are achieved, projected decreases in operating expenses, 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 1, 2016 under the heading "Risk Factors," that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, environmental and other liabilities, credit risks of tenants, fluctuations in interest rates and availability of capital, and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements contained herein.

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

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

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

5 YEAR TRENDS

Continuing Operations

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

	% change 2015 vs. 2016	2016	2015	2014	2013	2012
Total number of units	6%	9,878	9,319	8,780	8,218	8,180
Market value of the portfolio	5%	1,460	1,386	1,259	1,127	1,051
Rental revenue	0%	100.3	100.4	90.4	78.2	66.8
Same assets rental revenue	(4%)	93.7	97.9	88.3	75.0	62.4
Net operating income						
– from continuing operations	(5%)	64.0	67.3	60.1	52.1	44.9
Same assets net operating income	(9%)	60.0	65.8	59.0	50.1	42.1
Funds from continuing operations	(18%)	26.2	31.8	25.6	19.1	14.9
(before current income tax, stock option cash settlement expense and loss on disposition from investment property)						
FFO from continuing operation per share	(10%)	2.74	3.06	2.45	1.83	1.45
(before current income tax, stock option cash settlement expense and loss on disposition)						
Operating margins	(3%)	64%	67%	66%	67%	67%

MESSAGE FROM THE PRESIDENT & CEO

For the years ended September 30, 2016 and 2015

Financial Year End 2016 financial achievements of Mainstreet Equity Corp. (“Mainstreet” or the “Corporation”):

As Mainstreet entered into the fiscal year 2016, we established a number of strategic plans and financial goals in direct response to macro economic challenges in some of our core markets. These measures were taken very deliberately, and were crafted in order to create opportunity for Mainstreet and its shareholders during this ongoing uncertainty. Our strategies included the accretive acquisitions of assets during periods of economic recession; refinancing a significant portion of our pre-maturity debts at the current record-low 10-year term interest rate; and buying back our own shares, which we believe are trading at a deep discount to the NAV. After following through on these strategies and goals in 2016, we are pleased to detail the results of our efforts below:

- We continued to demonstrate the effectiveness of our 100% organic, non-dilutive growth model by growing our portfolio without increasing share capital. Since its inception Mainstreet’s portfolio has grown close to 10,000 units, while our total number of shares has remained at 8.8 million – the same as when Mainstreet began trading on the TSX in 2000.
- Completed our substantial issuer bid (“SIB”) and normal course issuer bid (“NCIB”) totaling \$49.3 million, allowing us to buy back 1,387,918 shares at a discount to their true net asset value (“NAV”).
- Refinanced pre-maturity debts and clear title assets totaling \$113 million at an average rate of interest of 2.48%, as well as an additional \$89 million of mostly 10-year, long-term CMHC insured mortgages at an average rate of interest of 2.41% subsequent to the year-to-date (“YTD”), for a total refinancing of \$202 million.
- Grew our portfolio base by 6% through acquisitions totaling \$57 million at an average cost of \$97,000 per residential apartment unit. Subsequent to the year-end date, we acquired an additional 56 residential apartment units for a total consideration of \$5.2 million (\$91,000 per unit).
- Maintained our sizeable year-to-date estimated liquidity position of \$150 million, including a cash balance of \$50 million, to pursue further potential growth opportunities.

Mainstreet, an add-value, mid-market consolidator of apartments in Western Canada, is announcing its operating and financial results for the year ended September 30, 2016.

The past year was without question a challenging one for Mainstreet. After five years of successive double-digit growth in net operating income (“NOI”) and funds from operations (“FFO”) between 2011 and 2015, the Corporation encountered negative growth in fiscal year 2016. NOI from operations was down 5% year-to-date, while FFO was down 13%.

This was due to slower economic activity in our Alberta and Saskatchewan markets, resulting in increased vacancies, lower rental rates and concessions to tenants. Alberta was especially impacted by uncertain economic conditions, and posted slower in-migration rates over the year. That slower in-migration was directly related to a 20-year high unemployment rate of 8.6% across the province, as well as record-high unemployment of 10.6% in Calgary (Statistics Canada).

However, lower returns in the Prairie provinces were partially offset by our Vancouver/Lower Mainland assets, which comprises 30% of our portfolio. The region steadily grew in performance over the year, maintaining a vacancy rate below 2% and NOI growth of 5% YTD. We believe there will be a huge potential for further increases in market rental rates in the region, which could raise our NOI and FFO in future years.

For more detailed analysis of Mainstreet operating results for 2016, please refer to the sections titled "Funds from Operations" and "Rental Operations" in our MD&A.

RESULTS

In fiscal year 2016, FFO decreased 13% to \$26.2 million, compared with \$30.0 million in 2015. FFO per basic share decreased 5% to \$2.74, compared with \$2.89 in 2015. Mainstreet's rental stayed relatively the same at \$100.3 million, compared with \$100.4 million in 2015; this came alongside a 4% fall in same asset rental revenues to \$93.7 million, from \$97.9 million in 2015. NOI decreased 5% to \$64.0 million, while falling 9% to \$60.0 million on a same asset basis. Operating margins dropped to 64% compared to 67% in 2015.

The same asset vacancy rate increased year-over-year to 9.0% from 6.5% in 2015. The overall 2016 vacancy rate, which includes vacant units as apartments undergo stabilization, increased year-over-year to 8.9% from 7.5% in 2015. As of the year end date, 1,164 units, or 12% of the portfolio, remained in the stabilization process.

During fiscal year 2016, Mainstreet refinanced \$30.5 million of pre-maturity debts with an average interest rate of 4.89% into 10-year, long-term CMHC-insured mortgage loans totalling \$73.4 million at an average rate of interest of 2.43%. We also financed 10 clear-title asset properties for \$71.3 million at an average rate of interest of 2.53%. Together, this refinancing activity raised approximately \$113 million in additional funds after a pay-out penalty of \$745,000, and resulted in an annualized savings in interest expense of approximately \$758,000.

Subsequent to the financial year ended September 30, 2016, Mainstreet has successfully refinanced an additional \$50 million of pre-matured debts with an average rate of interest of 5.25% into 10-year, long-term CMHC-insured mortgage loans for \$101.5 million at an average rate of interest of 2.44%. Mainstreet also financed 4 clear-title properties for \$37.7 million at an interest rate of 2.34%. Together, this subsequent refinancing activity raised approximately \$89.2 million in additional funds after a pay-out penalty of \$ 2.3 million, and resulted in an annualized savings in interest expense of approximately \$1.5 million.

Management is well aware that the two one-time pay-out penalties of \$745,000 and \$2.3 million, paid in the financial year ended September 30, 2016 and the first quarter of financial year 2017, respectively, would have adverse effect on the Corporation's financial performance in the respective periods. However, with estimated annualized interest savings of over \$2.2 million in the next 10 years, totalling \$22 million; the raising of over \$200 million of low cost capital for potential future share buy backs and acquisitions; and reduction of the Corporation's overall interest risk exposure, Management expects that the long-term benefits will far outweigh the short-term effect on financial performance of the Corporation.

CHALLENGES

Ongoing volatility in petroleum, natural gas and other commodity prices continues to create economic uncertainty in some of our core markets. This uncertainty is compounded by an oversupply of condominiums in such markets, which were commissioned during years of high economic growth and began entering the rental pool around mid-2015. In response to these challenges we have boosted our maintenance, customer service and marketing efforts, causing a rise in operating costs.

Negative macro economic forces have likewise caused significant short positions on Mainstreet stock. We believe this is partly responsible for our share price trading below NAV. As of September 30, the short position on Mainstreet totaled 751,098 shares. A 16% increase in property taxes, increase in rent concessions, tenant turnover and bad debts also created additional cost pressures. Finally, one of the biggest challenges we face is the overbuilding of condominiums during years of high economic growth, which has led to a supply glut in the market.

Broadly speaking, the impact of lower oil and gas prices is difficult to measure in precise terms. However, we believe the current situation also creates a series of opportunities that are discussed at greater length in the Outlook section.

OUTLOOK

Despite challenges, we see plenty of reason to remain cautiously optimistic about the rental market in Western Canada. In-migration levels in Alberta have slowed, but are expected to remain positive in 2017 at 38,200 (Statistics Canada). Additionally, we expect the recent relaxation of Canadian immigration policies to attract a number of foreign workers, foreign students and immigrants to some of our core regions—most of whom are likely to enter the rental market.

The oil and gas industry in Western Canada is also showing early indications of improvement. The federal government recently approved the construction of two major pipeline projects, which is expected to attract new investment into the energy sector. Moreover, oil prices are gradually rising. Prices have been notoriously volatile over the past two years, but in recent months have remained 60% above their February lows. The International Energy Agency estimates demand will continue to steadily grow through 2017.

In our view, stricter requirements on CMHC-insured mortgages recently implemented by the federal government could impact the buying market in Canada. We believe that the new legislation will deter first-time homebuyers in particular, who potentially will be more exposed to higher interest rates and therefore more likely to remain in the rental market. This could also, in our view, help to absorb the aforementioned excess capacity in the condominium market.

Times of economic uncertainty also favour the affordability of Mainstreet rental units. With a price point average rental rate between \$900 and \$1,000, we are perfectly positioned to capture the middle rental market as buyers delay major investments like new homes.

Mainstreet believes these broader market conditions create substantial opportunities for growth, and we are pushing the reset button on our approach to acquisitions. The current environment of low interest rates and slower GDP growth makes this an ideal time to expand our portfolio on an opportunistic basis. We believe that the acquisitions we completed in fiscal year 2016 were highly accretive to our shareholders in the long-term, and we plan to carry that momentum into fiscal year 2017 by continuing our non-dilutive growth strategy.

Lastly, we expect to benefit from lower costs and availability of labour, particularly in the Alberta and Saskatchewan markets. The easing of labour market pressure provides us with an opportunity to bulk up on senior and middle management personnel at a cost that would have been impossible when economic activity was at its peak. We also expect to see substantial reductions in heating costs due to low natural gas prices.

RUNWAY ON EXISTING PORTFOLIO

- 1) **Closing the NOI gap:** At the end of fiscal year 2016, 12% of the Mainstreet portfolio remained unstabilized, which contributed to higher vacancy rates. While this is a normal part of the Mainstreet business model, our continual work in renovating and improving properties before releasing them back to the market provides, in our opinion, potential to improve NOI and FFO performance. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO.
- 2) **Renegotiating long-term debt:** Interest rates, which account for Mainstreet's single largest expense, are among the lowest we have ever experienced. We expect to cut these expenses further by refinancing our remaining \$37 million in mortgage loans maturing in 2017 and some of debts maturing in 2018 at an average interest rate, which we expect will be much lower than the current average rate of 5.2%.
- 3) **Leveraging our ample liquidity:** Finally, we maintain a substantial YTD liquidity position that will allow us to capitalize on opportunities for acquisitions and the repurchasing of shares. We anticipate that our estimated YTD liquidity of \$150 million will translate into roughly \$600 million in acquisition opportunities based on a leverage level of 75%. Following any future acquisitions, this could significantly boost our NOI per share and FFO per share in the long term.

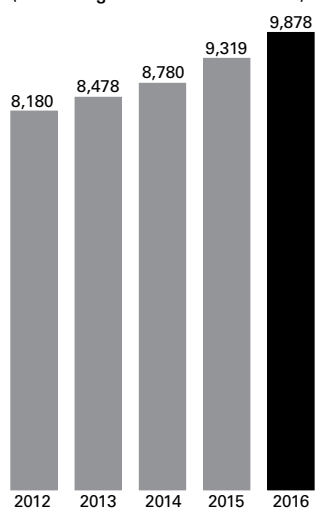
[Signed]

"Bob Dhillon"
President & CEO

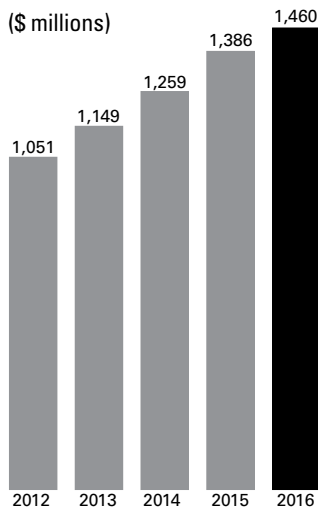
Calgary, Alberta
December 1, 2016

2016 KEY PERFORMANCE INDICATORS

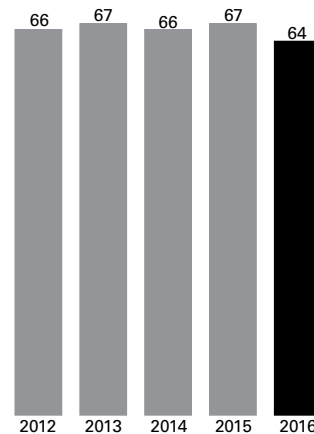
Total number of units
(Including assets held for sale)



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



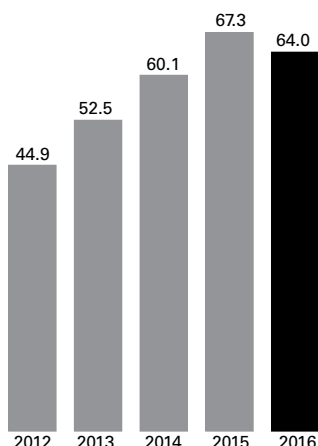
Operating Margins
(%)



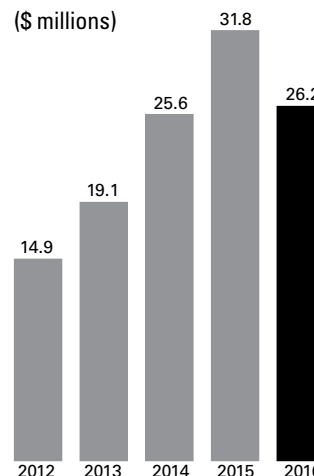
Net Operating Income (NOI)
– Same Assets
(\$ millions)



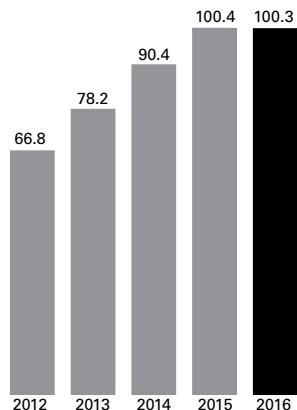
Net Operating Income (NOI)
(\$ millions)



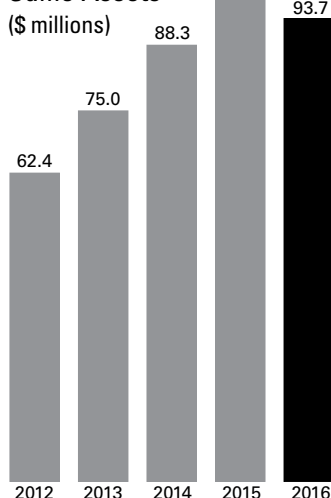
Funds from Operations (FFO)
(Before current income taxes)
(\$ millions)



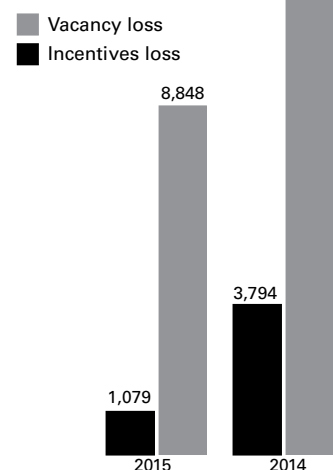
Rental Revenue
(\$ millions)



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, 2016 and 2015. 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, 2016 and 2015. 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 1, 2016. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicated otherwise, reference herein to 2016 and 2015 refers to the years ended September 30, 2016 and 2015, respectively.

BUSINESS OVERVIEW

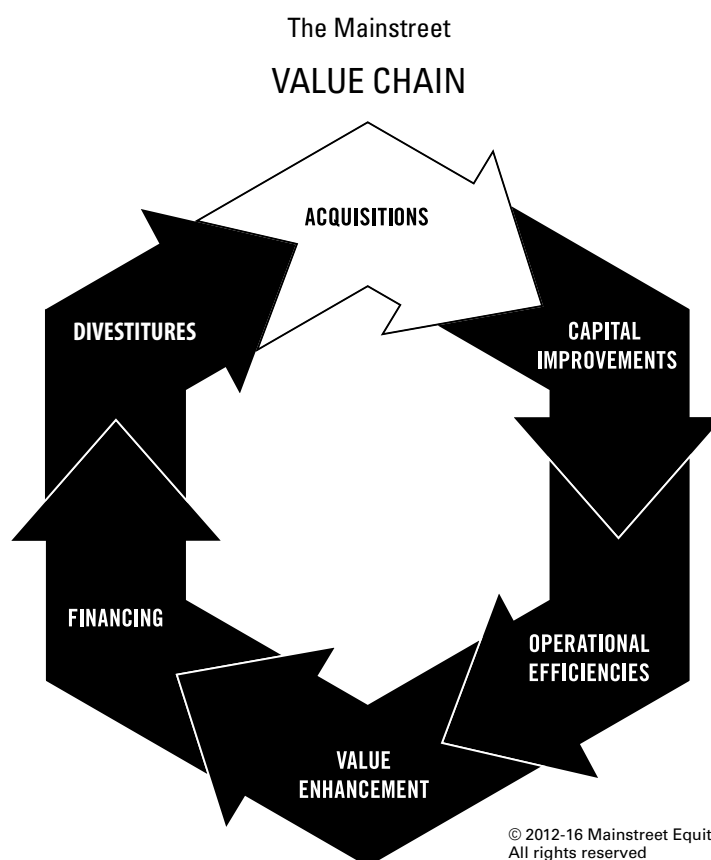
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/Lower Mainland, Calgary (including the City of Lethbridge and the Town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

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

BUSINESS STRATEGY

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

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



INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Investment properties

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

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

Method used in determining the Fair Value of investment properties

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

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,460 million at September 30, 2016 (\$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, 2016 and September 30, 2015, respectively.

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

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

Note (2) – includes the City of Fort Saskatchewan

As at September 30, 2015	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2015
Surrey, British Columbia	10	1,775	\$ 245	\$ 138	4.85%
Abbotsford, British Columbia	14	937	\$ 116	\$ 124	5.19%
Calgary and Southern Alberta, Alberta (Note 1)	33	1,812	\$ 390	\$ 215	4.86%
Edmonton, Alberta (Note 2)	120	3,729	\$ 506	\$ 136	5.71%
Saskatoon, Saskatchewan	39	1,066	\$ 129	\$ 121	6.75%
Total investment properties	216	9,319	\$ 1,386	\$ 149	5.37%

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

Note (2) – includes the City of Fort Saskatchewan

ACQUISITIONS & GROWTH

(000s of dollars)

For the financial year ended September 30,	2016	2015
	Abbotsford, Calgary, Edmonton and Saskatoon	Surrey, Lethbridge, and Saskatoon
Number of rental units (Note 1)	583	535
Total costs	\$ 56,612	\$ 51,606
Average price per apartment unit (Note 1)	\$ 97	\$ 96

Note (1) – includes 1 commercial unit in Calgary, Alberta for 2016

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 2016, Mainstreet acquired 582 apartment units in Abbotsford, British Columbia, Edmonton, Alberta and Saskatoon, Saskatchewan for a total consideration of \$55.4 million – an average purchase price of \$95,000 per apartment unit. The Corporation also acquired a commercial unit in downtown Calgary, Alberta for \$1.2 million in 2016. Since Mainstreet's previous financial year-end (September 30, 2015), the Corporation has grown its portfolio of properties by 6%.

As of September 30, 2016, Mainstreet's portfolio included 9,877 residential units and one commercial unit, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments. 90% of these residential units were rented, while 4% were being renovated and the remainder left vacant because of current unfavourable rental market conditions, primarily in the Province of Alberta and Saskatchewan.

Since 1997, the Corporation's portfolio has increased from 10 to 225 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,460 million as of September 30, 2016.

The following table sets forth the growth of the Corporation by region since the end of the previous financial year ended September 30, 2015.

	Number of units as at Oct. 1, 2015	Acquisitions year ended Sep. 30, 2016	Disposition as at Sep. 30, 2016	Number of units as at Sep. 30, 2016	% Growth
Surrey, British Columbia	1,775	–	–	1,775	–
Abbotsford, British Columbia	937	38	–	975	4%
Calgary and Southern Alberta, Alberta (Note 1)	1,812	1	–	1,813	–
Edmonton, Alberta (Note 2)	3,729	178	(24)	3,883	5%
Saskatoon, Saskatchewan	1,066	366	–	1,432	34%
Investment properties	9,319	583	(24)	9,878	6%

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

Note (2) – including the City of Fort Saskatchewan, 24 suites under re-development were destroyed by fire.

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 2016, the Corporation spent \$20.4 million (2015 – \$20.2 million), of which \$18.0 million (2015 – \$12.7 million) was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, new window, new siding and insulation. These expenditures also covered mechanical interior upgrades such as new boilers, new flooring and paint. To renovate Mainstreet's current non-renovated units and to maintain the condition of properties in its current portfolio, Mainstreet plans to spend an estimated \$20 million on renovations in fiscal year 2017. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of the renovations of its existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

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

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

For the year ended September 30,	2016	2015	2014	% change 2016/2015	% change 2015/2014
Gross revenue	\$ 100,494	\$ 100,553	\$ 90,575	0%	11%
Profit and comprehensive income	\$ 17,171	\$ 64,708	\$ 66,575	(73%)	(3%)
Loss from discontinued operations	\$ –	\$ –	\$ (196)	–	(100%)
Profit and comprehensive income from continuing operations	\$ 17,171	\$ 64,708	\$ 66,771	(73%)	(3%)
Fair value loss (gain)	\$ 3,035	\$ (54,742)	\$ (56,579)	(106%)	(3%)
Depreciation	\$ 366	\$ 392	\$ 375	(7%)	5%
Income tax – current and deferred	\$ 5,646	\$ 21,447	\$ 15,045	(74%)	43%
Funds from continuing operations before current income tax	\$ 26,218	\$ 31,805	\$ 25,612	(18%)	24%
Current income tax	\$ –	\$ (1,763)	\$ –	–	(100%)
Funds from continuing operations after current income tax	\$ 26,218	\$ 30,042	\$ 25,612	(13%)	17%
Funds from discontinued operations	\$ –	\$ –	\$ (80)	–	(100%)
Funds from operations (Note 1)	\$ 26,218	\$ 30,042	\$ 25,532	(13%)	18%
Funds from discontinued operations	\$ –	\$ –	\$ 80	–	(100%)
Interest income	\$ (206)	\$ (161)	\$ (129)	28%	25%
Current income tax	\$ –	\$ 1,763	\$ –	–	–
General and administrative expenses	\$ 9,599	\$ 8,715	\$ 8,698	10%	0%
Mortgage interest	\$ 26,033	\$ 25,020	\$ 24,118	4%	4%
Financing cost	\$ 2,379	\$ 1,943	\$ 1,800	22%	8%
Net operating income (Note 2)	\$ 64,023	\$ 67,322	\$ 60,099	(5%)	12%
Operating margin from continuing operations	64%	67%	66%		
Profit per share					
Basic – continuing operations	\$ 1.79	\$ 6.23	\$ 6.38	(71%)	(2%)
Basic – discontinued operations	\$ –	\$ –	\$ (0.02)	–	(100%)
Fully diluted – continuing operations	\$ 1.67	\$ 5.84	\$ 5.97	(71%)	(2%)
Fully diluted – discontinued operations	\$ –	\$ –	\$ (0.02)	–	(100%)
Funds from continuing operations before current income tax per share					
Basic – continuing operations	\$ 2.74	\$ 3.06	\$ 2.45	(10%)	25%
Basic – discontinued operations	\$ –	\$ –	\$ (0.01)	–	(100%)
Fully diluted – continuing operations	\$ 2.56	\$ 2.87	\$ 2.29	(11%)	25%
Fully diluted – discontinued operations	\$ –	\$ –	\$ (0.01)	–	(100%)
Funds from operations per share					
Basic – continuing operations	\$ 2.74	\$ 2.89	\$ 2.45	(5%)	18%
Basic – discontinued operations	\$ –	\$ –	\$ (0.01)	–	(100%)
Fully diluted – continuing operations	\$ 2.56	\$ 2.71	\$ 2.29	(6%)	18%
Fully diluted – discontinued operations	\$ –	\$ –	\$ (0.01)	–	(100%)
Weighted average number of shares					
Basic	9,568,897	10,383,151	10,467,718		
Fully diluted	10,258,220	11,086,870	11,178,212		
Total Assets	\$ 1,476,765	\$ 1,401,332	\$ 1,273,102		
Total Long term liabilities	\$ 789,986	\$ 676,055	\$ 616,300		

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

REVENUE

In 2016, revenue was primarily comprised of rental and ancillary rental income totalling \$100.3 million (2015 – \$100.4 million) and interest income. Overall, the revenue remained constant as compared to 2015, which is discussed and analyzed in the session entitled "Rental Operations" below.

PROFIT

For the year ended September 30, 2016, Mainstreet reported profit from operations of \$17.2 million (\$1.79 per basic share), as compared to a profit of \$64.7 million (\$6.23 per basic share) in 2015.

Profit from operations is further analyzed as follows:

(000s of dollars)

For year ended September 30,	2016	2015	%Change
Funds from operations before current income tax	\$ 26,218	\$ 31,805	(18%)
Fair value (loss) gain	\$ (3,035)	\$ 54,742	(104%)
Depreciation	\$ (366)	\$ (392)	(7%)
	\$ 22,817	\$ 86,155	–
Income tax -current and deferred	\$ 5,646	\$ 21,447	(70%)
Profit and comprehensive income from operations	\$ 17,171	\$ 64,708	(74%)

In 2016, a fair value loss of \$2,035 was incurred as compared to a fair value gain of \$54,742 in 2015. It is mainly due to changes which are analyzed as follows:

(000s of dollars)

Fair value (loss) gain from appraisals	2016	2015
Surrey	\$ 27,800	\$ 36,450
Abbotsford	\$ 7,497	\$ 5,750
Calgary	\$ (1,709)	\$ 10,725
Edmonton	\$ (16,646)	\$ 16,625
Saskatoon	\$ 379	\$ 5,869
	\$ 17,321	\$ 75,419
Capital expenditure	\$ (20,356)	\$ (20,677)
Fair value (loss) gain	\$ (3,035)	\$ 54,742

The reduction in funds from continuing operations in 2016 and 2015 is further discussed and analyzed in the following section entitled: "Funds From Operations".

FUNDS FROM OPERATIONS

Management believes that FFO rather than profit, as defined in the preceding footnote, is a more meaningful performance measurement for a real estate company's operating performance as FFO excludes these non-operating income and expenses namely fair value gain (loss), depreciation and deferred income taxes. Mainstreet generates FFO from three sources: rental revenue and ancillary rental income from investment properties, sale of properties acquired for resale purposes and the periodic sale of investment properties. Mainstreet generally reinvests the proceeds from the latter into investment properties with greater potential for long-term returns.

In 2016, Mainstreet's FFO from operations before current income tax decreased by 18% to \$26.2 million as compared to \$31.8 million in 2015. The decrease in FFO was mainly attributable to the decreased net operating income of \$3.3 million, which will be discussed and analyzed in the following session entitled "Rental Operations".

FFO in 2016 was further affected by increased G&A expenses of \$884,000 and increased mortgage interest of \$1 million from 2015, which will be discussed and analyzed below.

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, legal and professional fees and salaries expenses. In 2016, G&A expenses increased by \$884,000 (10%) to \$9.6 million as compared to \$8.7 million in 2015. The breakdown of the increased G&A expenses is as follows:

Major increase in General and administrative expenses

	(\$000s)	Remarks
Advertising and promotion	\$ 195	Increase is necessary to remain competitive particularly during the period of economic recession
Auditing and other professional fees	234	Mainly increase in audit, appraisal, property tax appeal and waste management fees
Salary expenses for future expansion	242	Increase due to continued build up of senior management team
Others	213	Mainly increased Workers' Compensation Board (WCB) premium, medical expenses and one-time expenses incurred in disposing of all waste of a property destroyed by fire.
	<u>\$ 884</u>	

MORTGAGE INTEREST

Mortgage interest expenses increased by \$1 million (4%) to \$26.0 million in 2016 compared to \$25.0 million in 2015. The increase is attributable to an increase in mortgage loans from refinancing of pre-maturity mortgages and financing of clear title assets as well as a pay-out penalty of \$745,000 incurred during the year.

To take advantage of current low interest rates, Management decided to refinance all pre-maturity mortgages which would become due prior to the end of the calendar year ending December 2017. During 2016, the Corporation refinanced \$30.5 million of pre-maturity mortgages and incurred pay-out penalties in an aggregate amount of \$745,000. The refinancing reduced the average interest rate from 4.89% to 2.43% resulting in annualized interest savings of \$758,000 and raised additional low cost capital of \$42 million for further growth of the Corporation.

Management believes that the reduction of the FFO in 2016 resulting from the pay-out penalty is justified by a long-term gain in future savings in interest expense and reduction in the over interest risk exposure of the Corporation.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
	2016	2015	% change	2016	2015	% change	2016	2015	% change
Rental revenue and ancillary rental income	\$ 100,288	\$100,392	0%	\$ 93,686	\$97,898	(4%)	\$ 6,602	\$ 2,494	165%
Operating expenses	36,265	33,070	10%	33,711	32,119	5%	2,554	951	169%
Net operating income	\$ 64,023	\$ 67,322	(5%)	\$ 59,975	\$65,779	(9%)	\$ 4,048	\$ 1,543	162%
Operating margin	64%	67%		64%	67%		61%	62%	
Average vacancy rate	8.9%	7.5%	19%	9.0%	6.5%	38%	6.9%	17.0%	(59%)
Weighted average number of units	9,427	9,095	4%	8,762	8,762	0%	665	333	100%
Average rental rate per unit per month	\$ 887	\$ 920	(4%)	\$ 891	\$ 931	(4%)	\$ 827	\$ 624	33%
Average operating expense per unit per month	\$ 321	\$ 303	6%	\$ 321	\$ 305	5%	\$ 320	\$ 238	34%

Despite of the increase in the vacancy rate to 8.9% in 2016 from 7.5% in 2015 and a drop in the average monthly rental rate to \$887 per unit in 2016 from \$920 per unit in 2015, the overall rental revenue and ancillary rental income remained constant at \$100.3 million in 2016 compared to \$100.4 million in 2015. This was due to the continued growth of the Corporation's portfolio. The average number of unit increased by 4% over the year.

For the same asset properties, which refer to properties owned by the Corporation for the entire twelve-month period ended September 30, 2016 and 2015, the rental revenue dropped by 4% to \$93.7 million in 2016 from \$97.9 million in 2015. The average rental rate per unit per month decreased by 4% to \$891 in 2016 from \$931 per unit in 2015. The vacancy rate increased to 9.0% in 2016 from 6.5% in 2015.

Continuing low commodity prices affected the economies of the Provinces of Alberta and Saskatchewan, in which 70% of the Corporation's properties are located. The economic downturn has caused a reduction in net inter-province immigration, negative GDP growth and high unemployment rate in such provinces, which directly affected the occupancy rates and rental rates of these two provinces in 2016.

On top of the decreased rental revenue, particularly on the same asset properties, caused by higher vacancy rates and drops in the average rental rate, Mainstreet's operating expenses have also increased substantially. The overall and same asset properties average operating cost per month per unit has increased by 6% and 5% over 2015, respectively.

The increase in operating expenses was mainly due to increased property tax expenses of \$1.2 million, which was an uncontrollable expense of the Corporation, and an increase in advertising, repair and maintenance expenses.

During this period of economic downturn, Mainstreet has increased spending on advertising as well as on security and maintenance expenses to vacant suites. In addition, Mainstreet has also increased spending related to the upkeep of its properties in an attempt to remain competitive in the rental market.

In addition, substantial amounts of building improvement expenses have been incurred on improving the conditions of the properties which are ready for refinancing.

As a result, the net operating income decreased by 5% to \$64.0 million in 2016 from \$67.3 million in 2015 and the net operating margin dropped to 64% in 2016 from 67% in 2015.

For the same asset properties, the net operating income decreased by 9% to \$60.0 million in 2016 from \$65.8 million in 2015 and the net operating margin dropped to 64% in 2016 from 67% in 2015.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet achieved a 5% growth of its British Columbia portfolio in 2016; the average number of rental units growing to 2,735 units compared to 2,609 units in 2015. The average vacancy rate also improved significantly to 1.8% in 2016 from 7.0% in 2015 mainly due to an improved occupancy rate in both the Surrey and Abbotsford markets and stabilization of certain properties acquired in 2015 in Surrey.

A better than average vacancy rate can also be attributed to overall economic performance in British Columbia, which is among the strongest in economic performance among all provinces, according to information published by Statistics Canada. As a result, rental revenue per unit significantly increased by 10% to \$848 per month in 2016 from \$769 per month in 2015.

The operating expense per unit increased by 4% to \$284 per month compared to \$272 per month in 2015, due mainly to increased property taxes, repair and maintenance expenses. As a result, the net operating income increased by 19% and the net operating margin increased to 66% as compared to 65% in 2015.

(000s of dollars except per unit data)

For the year ended September 30,	2016	2015	% change
Rental revenue and ancillary rental income	\$ 27,836	\$ 24,063	16%
Operating expenses	9,331	8,527	9%
Net operating income	\$ 18,505	\$ 15,536	19%
Weighted average number of units	2,735	2,609	5%
Average rent per unit per month	\$ 848	\$ 769	10%
Operating cost per unit per month	\$ 284	\$ 272	4%
Average vacancy rate	1.8%	7.0%	
Operating margin	66%	65%	

Alberta

Mainstreet achieved a marginal growth of 2% in its Alberta portfolio in 2016; the weighted average number of rental units has grown to 5,547 units, compared to 5,423 units in 2015. The average vacancy rate increased to 10.9% in 2016 from 5.7% in 2015. The increase of vacancy rate was mainly due to weakened economic conditions in the province. Rental revenue per unit decreased by 8% to \$935 per month in 2016 from \$1,020 per month in 2015 as a result of the increased vacancy rate, rental incentives and bad debts during the period.

The operating expense per unit increased by 6% to \$344 per month in 2016 from \$325 per month in 2015. The increase in operating expense was mainly due to increased advertising, property taxes, security, repairs and maintenance expenses in the fiscal year. As a result, the net operating income decreased by 13% and the net operating margin decreased to 63% as compared to 68% in 2015.

(000s of dollars except per unit data)

For the year ended September 30,	2016	2015	% change
Rental revenue and ancillary rental income	\$ 62,223	\$ 66,404	(6%)
Operating expenses	\$ 22,905	\$ 21,168	8%
Net operating income	\$ 39,318	\$ 45,236	(13%)
Weighted average number of units	5,547	5,423	2%
Average rent per unit per month	\$ 935	\$ 1,020	(8%)
Operating cost per unit per month	\$ 344	\$ 325	6%
Average vacancy rate	10.9%	5.7%	
Operating margin	63%	68%	

Saskatchewan

Mainstreet achieved an 8% growth in the Saskatchewan portfolio in 2016; the average number of rental units growing to 1,145 units, compared to 1,063 units in 2015. The average vacancy rate improved to 16.4% in 2016 from 17.7% in 2015.

Rental revenue per unit decreased by 4% to \$744 per month in 2016 from \$778 per month in 2015 as a result of increased rental incentives offered by the Corporation and bad debts during the year.

The operating expense per unit increased by 11% to \$293 per month in 2016 from \$265 per month in 2015 due mainly to increased advertising, property taxes, security, repairs and maintenance expenses in the fiscal year. As a result, the net operating income decreased by 5% and the net operating margin decreased to 61% from 66% in 2015.

(000s of dollars except per unit data)

For the year ended September 30,	2016	2015	% change
Rental revenue and ancillary rental income	\$ 10,229	\$ 9,925	3%
Operating expenses	\$ 4,029	\$ 3,376	19%
Net operating income	\$ 6,200	\$ 6,549	(5%)
Weighted average number of units	1,145	1,063	8%
Average rent per unit per month	\$ 744	\$ 778	(4%)
Operating cost per unit per month	\$ 293	\$ 265	11%
Average vacancy rate	16.4%	17.7%	
Operating margin	61%	66%	

POTENTIAL GROWTH IN RENTAL REVENUE UNDER OPTIMUM OPERATIONS

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

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

The following table indicates the potential increase in rental revenue should the Corporation operate under the optimum operating conditions as defined in the preceding paragraph, as of the year-end dated September 30, 2016.

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	975	731	\$ 800	1.09%	\$ 865	244	\$ 794	0.82%	\$ 877	\$ 801
Surrey, BC	1,775	1,444	\$ 897	1.25%	\$ 985	331	\$ 868	1.51%	\$ 977	\$ 1,931
Calgary, AB	1,813	1,813	\$ 1,107	8.44%	\$ 1,213	—	—	—	—	\$ 3,016
Edmonton, AB	3,883	3,705	\$ 967	11.28%	\$ 1,032	178	\$ 976	66.29%	\$ 1,033	\$ 6,824
Saskatoon, SK	1,432	1,021	\$ 869	14.69%	\$ 983	411	\$ 948	17.27%	\$ 1,071	\$ 3,510
	9,878	8,714	\$ 959	8.57%	\$ 1,042	1,164	\$ 897	16.82%	\$ 1,001	\$ 16,082

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014
Rental revenue	\$ 24,761	\$ 24,225	\$ 24,828	\$ 25,055	\$ 25,295	\$ 24,700	\$ 24,631	\$ 24,307
Ancillary rental income	341	291	450	337	340	390	360	369
Interest income	32	40	100	34	39	35	48	39
Total revenue from operations	\$ 25,134	\$ 24,556	\$ 25,378	\$ 25,426	\$ 25,674	\$ 25,125	\$ 25,039	\$ 24,715
Fair value gain (loss)	\$ 54,723	\$ (5,273)	\$ (36,432)	\$ (16,053)	\$ 75,860	\$ (10,993)	\$ (5,910)	\$ (4,217)
Profit (loss) from operations	\$ 53,012	\$ (259)	\$ (27,098)	\$ (8,484)	\$ 72,228	\$ (9,325)	\$ (2,792)	\$ 4,597
Net profit (loss) per share								
– Basic	\$ 5.97	\$ (0.03)	\$ (2.67)	\$ (0.83)	\$ 7.19	\$ (0.90)	\$ (0.27)	\$ 0.44
– Diluted	\$ 5.54	\$ (0.03)	\$ (2.67)	\$ (0.83)	\$ 6.74	\$ (0.90)	\$ (0.27)	\$ 0.41
Average vacancy rate	10.27%	9.20%	8.34%	7.77%	7.47%	8.00%	7.50%	6.88%
Net operating income	\$ 15,868	\$ 15,546	\$ 15,975	\$ 16,634	\$ 17,894	\$ 16,843	\$ 16,232	\$ 16,353
Same assets rent and ancillary rental income	\$ 22,848	\$ 23,012	\$ 23,800	\$ 24,026	\$ 23,066	\$ 23,125	\$ 23,268	\$ 23,401
Same assets net operating income	\$ 14,477	\$ 14,683	\$ 15,082	\$ 15,722	\$ 16,200	\$ 15,805	\$ 15,163	\$ 15,591
Stabilized FFO	\$ 5,236	\$ 5,774	\$ 5,973	\$ 6,807	\$ 8,739	\$ 7,234	\$ 5,885	\$ 7,097
Funds from operations	\$ 5,614	\$ 6,207	\$ 6,746	\$ 7,651	\$ 8,741	\$ 7,549	\$ 6,129	\$ 7,623
Funds from operations per share								
– Basic	\$ 0.63	\$ 0.68	\$ 0.67	\$ 0.75	\$ 0.85	\$ 0.73	\$ 0.59	\$ 0.73
– Diluted	\$ 0.59	\$ 0.63	\$ 0.62	\$ 0.71	\$ 0.80	\$ 0.68	\$ 0.55	\$ 0.68

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2016:

- Rental and ancillary rental income was \$25.1 million, a 2% increase from \$24.5 million in Q3 2016 and a 2% decrease from \$25.6 million in Q4 2015.
- In Q4 2016, the average vacancy rate for the quarter was 10.3%, compared to 9.2% in Q3 2016 and 7.5% in Q4 2015. Excluding the newly acquired unstabilized buildings in Q4 2016, the average vacancy rate for the quarter was 9.4%.
- Fair value gain for the quarter was \$54.7 million, compared to a loss of \$5.3 million in Q3 2016 and a gain of \$76.3 million in Q4 2015.
- Funds from operations for the quarter were \$5.6 million, a 10% decrease from \$6.2 million in Q3 2016 and a 36% decrease from \$8.7 million in Q4 2015.
- Net operating income was \$15.9 million, a 3% increase from \$15.5 million in Q3 2016 and an 11% decrease from \$17.9 million in Q4 2015.
- Same assets rental and ancillary rental income was \$22.8 million, a 1% decrease from \$23.0 million in Q3 2016 and a 1% decrease from \$23.1 million in Q4 2015.
- Same assets net operating income was \$14.5 million, a 1% decrease from \$14.7 million in Q3 2016 and a 11% decrease from \$16.2 million in Q4 2015.
- Funds from operations related to stabilized properties were \$5.2 million, a 9% decrease from \$5.7 million in Q3 2016 and a 40% decrease from \$8.7 million in Q4 2015.

STABILIZED PROPERTIES

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

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

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

As of September 30, 2016, 210 properties (8,714 units) out of 225 properties (9,878 units) were stabilized. The following table summarizes the change of the Corporation’s stabilized and unstabilized units since the beginning of fiscal year 2016.

	Oct. 1, 2015	%	<u>During the year</u>		Number of units stabilized	Sep. 30, 2016	%
			Acquisition	Disposition			
Stabilized units	8,214	88%	–	–	500	8,714	88%
Unstabilized units	1,105	12%	583	(24)	(500)	1,164	12%
Total units	9,319	100%	583	(24)	–	9,878	100%

The following table summarizes the progress of the Corporation’s stabilization progress since the beginning of fiscal year 2016.

	Oct. 1, 2015	No. of units stabilized during the period	No. of unstabilized units acquired/ disposed of during the year	Sep. 30, 2016
Numbers of unstabilized units held for renovation	1,063	(482)	583	1,164
Numbers of unstabilized units held for redevelopment	42	(18)	(24)	–
Total no. of unstabilized units	1,105	(500)	559	1,164
Number of months				
Average time spent on stabilization	12	23	3	13
Estimated remaining time for stabilization	4	–	22	17

During the year ended September 30, 2016, the Corporation acquired 366 unstabilized units in Saskatoon, Saskatchewan, 178 unstabilized units in Edmonton, Alberta and 38 unstabilized units in Abbotsford, British Columbia that required substantial renovation and with rents considered well below the market for stabilized units. The Corporation has stabilized 500 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2016, FFO from operations of Mainstreet’s stabilized property portfolio amounted to \$25.3 million (\$2.65 per basic share and \$2.47 per fully diluted share).

(000s of dollars except per share amounts)

For the year ended September 30, 2016	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 93,161	\$ 7,127	\$ 100,288
Property operating expenses	33,265	3,000	36,265
Net operating income	\$ 59,896	\$ 4,127	\$ 64,023
Operating margin	64%	58%	64%
Vacancy rate	8.9%	8.7%	8.9%
Interest income	\$ 185	\$ 21	\$ 206
General & administrative expenses	8,479	1,120	9,599
Mortgage interest	24,209	1,824	26,033
Financing cost	2,073	306	2,379
Funds from operations before current income tax	\$ 25,320	\$ 898	\$ 26,218
Current income tax	—	—	—
Funds from operations	\$ 25,320	\$ 898	\$ 26,218
Funds from operations per share			
– basic	\$ 2.65	\$ 0.09	\$ 2.74
– diluted	\$ 2.47	\$ 0.09	\$ 2.56
Weighted average number of shares			
– basic	9,568,897		
– diluted	10,258,220		

In 2016, FFO of the stabilized property portfolio decreased by 12% to \$25.3 million as compared to \$28.7 million in 2015, while the number of stabilized units increased by 6% to 8,714 units as of September 30, 2016 compared to 8,214 units as of September 30, 2015.

(000s of dollars)

For the year ended September 30,	2016	2015	% change
Stabilized FFO	\$ 25,320	\$ 28,708	(12%)
Number of stabilized units	8,714	8,214	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 2016, after payments of all required expenses, the Corporation generated funds from operations of \$26.2 million.

Management expects funds generated from operations will continue to grow when more units are renovated and re-introduced to the market at higher rental rates and Management believes that these funds should be sufficient to meet the Corporation's working capital requirements on a year-to-year basis going forward.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In 2016, the Corporation spent approximately \$77 million on acquisitions and capital improvement. Management expects the following capital resources to be sufficient to meet the capital requirements on a year-to-year basis.

Financing

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

In 2016, Mainstreet refinanced \$30.5 million of pre-maturity debts with an average interest rate of 4.89% into 10-year long-term CMHC-insured mortgage loans for \$73.4 million at an average interest rate of 2.43%. Mainstreet also financed 10 clear-title properties for \$71.3 million at an interest rate of 2.53%. Together, this refinancing activity raised approximately \$113 million in additional funds after a pay-out penalty of \$745,000, and resulted in an annualized savings in interest expense of approximately \$758,000.

Mainstreet will continue to take advantage of current low interest rates by continuing to evaluate the financial viability of early refinancing on the remaining mortgages maturing in 2017 and 2018 taking into consideration pay-out penalties, should savings opportunities arise.

Subsequent to the year ended September 30, 2016, Mainstreet has successfully refinanced additional \$50 million of pre-maturity debts with an average interest rate of 5.25% into 10-year long-term CMHC-insured mortgage loans for \$101.5 million at an average interest rate of 2.44%. Mainstreet also financed 4 clear-title properties for \$37.7 million at an interest rate of 2.34%. Together, this subsequent refinancing activity raised approximately \$89.2 million in additional funds after a pay-out penalty of \$2.3 million, and resulted in an annualized savings in interest expense of approximately \$1.5 million.

Management is well aware that the pay-out penalty of \$745,000 and \$2.3 million paid in 2016 and Q1 2017 would have adverse effect on the Corporation's financial performance in the respective periods. However, with estimated annualized interest savings of over \$2.2 million in the next 10 years, the potential raising of over \$200 million in low cost capital potentially to fund future share buy-backs and acquisitions in 2016 and future years and reduction of the Corporation's overall interest risk exposure, Management expects that the long-term benefits will by far out-weighted the short-term effect on the financial performance of the Corporation.

As of September 30, 2016, the Corporation owned the following 28 clear-title properties and a development lot having an aggregate fair value of approximately \$182 million:

Clear Title Asset List as of September 30, 2016

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition	Fair Value
14831 & 14811 – 104 Ave / 14840 – 105 Ave North, Surrey, BC	183	\$ 13,817	\$ 28,100
11720, 11730 – 127 St / 12702, 12706, 12707, 12710, 12714 117 Ave 12711, 12715 – 118 Ave, Edmonton, AB	178	\$ 13,350	\$ 14,700
12269 – 131 Street, Edmonton, AB	132	\$ 6,220	\$ 27,450
2929 to 2959 Tims St, Abbotsford, BC	108	\$ 10,300	\$ 14,150
3147 – 151 Avenue, Edmonton, AB	99	\$ 10,000	\$ 10,600
525, 529, 601, 605 AVE X S / 2309 – 17 St. W, Saskatoon, SK	66	\$ 4,824	\$ 8,300
3065 Clearbrook Road, Abbotsford, BC	56	\$ 5,550	\$ 7,450
1122 – 8 Avenue SW, Calgary, AB	50	\$ 1,975	\$ 12,250
32120 Peardonville Road, Abbotsford, BC	42	\$ 4,400	\$ 6,100
10625 & 10635 – 115 Street, Edmonton, AB	42	\$ 4,568	\$ 4,890
33361 Old Yale Road, Abbotsford, BC	38	\$ 3,940	\$ 5,100
1817 – 22 Street W, Saskatoon, SK	30	\$ 2,100	\$ 2,100
1335 & 1339 – 10 Ave SE, Calgary, AB	29	\$ 3,000	\$ 6,250
14224 McQueen Road, Edmonton, AB	27	\$ 950	\$ 4,150
115 Avenue V N, Saskatoon, SK	27	\$ 2,268	\$ 2,950
11343 – 124 Street, Edmonton, AB	25	\$ 624	\$ 2,880

(continued from previous page)

2024 – 22 Street West, Saskatoon, SK	24	\$	2,190	\$	2,550
10125 – 114 Street, Edmonton, AB	24	\$	1,103	\$	1,070
10633 – 116 Street Edmonton, AB	21	\$	2,352	\$	2,540
10203 – 156 Street, Edmonton, AB	18	\$	1,925	\$	2,250
13608 – 109A Avenue, Edmonton, AB	17	\$	574	\$	2,070
322 – 6 Avenue North, Saskatoon, SK	16	\$	1,644	\$	2,450
11940 – 82 Street Edmonton, AB	15	\$	1,500	\$	1,490
1901 – 7 Street E, Saskatoon, SK	12	\$	1,140	\$	1,600
1906 – 22 Street W, Saskatoon, SK	11	\$	902	\$	1,200
11624 – 124 Street, Edmonton, AB	9	\$	1,010	\$	930
336 to 338 – 18 Avenue SW, Calgary, AB	7	\$	–	\$	3,275
322 – 18 Avenue SW, Calgary, AB	1	\$	1,275	\$	1,650
Multi-family development lot, 33283 Bourquin Cr E, Abbotsford, BC	–	\$	306	\$	450
Total as of September 30, 2016	1,307	\$	103,807	\$	180,945

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

Banking Facility

The Corporation has a revolving banking facility for a maximum of \$85 million with a syndicate of Canadian chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and matures on December 6, 2019. The facility is renewable every three year subject to the mutual agreement of the lenders and the Corporation. As at September 30, 2016, the Corporation has drawn \$40.1 million (September 30, 2015 – \$36.9 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, 2016, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 52% and 1.44 respectively, which were calculated as follows:

Overall funded debt to gross book value ratio as of September 30, 2016

(\$000s)

Total funded debt

Mortgages payable	\$	714,481
Bank indebtedness		40,148
	\$	754,629

Gross book value of assets

Investment properties	\$	1,460,080
Property, plant and equipment		4,822
	\$	1,464,902

Overall funded debt to gross book value ratio	52%
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Debt service coverage ratio

Earning before interest, tax, depreciation, amortization and extraordinary items

For the year ended September 30, 2016

Net profit	\$	17,171
Add:		
Mortgage interest		26,033
Income tax		5,646
Depreciation		366
Amortization of finance cost		2,379
Fair value loss		3,035
	\$	54,630
Principal and interest payments	\$	37,855
Debt service coverage ratio		1.44

CONTRACTUAL OBLIGATIONS

As of September 30, 2016, the Corporation had the following contractual obligations, which are anticipated to be met using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of September 30, 2016 are as follows:

Year ending September 30,	Amount
2017	\$ 50,301
2018	38,355
2019	40,721
2020	56,168
2021	79,235
Subsequent	465,906
	730,686
Deferred financing costs	(16,205)
	\$ 714,481

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 712,112	97%	3.39%
– non-CMHC-insured	18,574	3%	3.20%
Total fixed rate debt	730,686	100%	3.39%
Deferred financing cost	(16,205)		
	\$ 714,481		

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, 2016, total mortgages payable was \$714 million compared to \$614 million on September 30, 2015 – an increase of 16% due to financing during the year ended September 30, 2016.

As of September 30, 2016, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 52% of fair value of investment properties. About 97% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with interest rates lower than those available through conventional financing.

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

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2017	\$ 36,893	5%	5.20%
2018	\$ 25,914	4%	5.15%
2019	\$ 29,645	4%	5.06%
2020	\$ 48,379	7%	3.66%
2021	\$ 75,002	10%	3.98%
Subsequent	\$ 514,853	70%	2.96%
	\$ 730,686	100%	3.39%

The average maturing term of mortgage loans is 7.0 years as of September 30, 2016 compared to 6.8 years as of September 30, 2015.

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

INTERNAL 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 2016, 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 of September 30, 2016. This evaluation confirmed that the Corporation's DC & P and ICFR were effective as of September 30, 2016.

No changes were made to the Corporation's DC & P during the fiscal year ended September 30, 2016.

As of September 30, 2016, 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 fiscal year ended September 30, 2016, 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, 2016		September 30, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash*	Level 1	\$ 2,858	\$ 2,858	\$ 3,052	\$ 3,052
Cash and cash equivalents	Level 1	1,095	1,095	1,526	1,526
Trade and other receivables	Level 2	1,614	1,614	844	844
Mortgage receivable	Level 2	2,500	2,498	2,500	2,468
Financial liabilities:					
Bank indebtedness	Level 1	40,148	40,148	36,909	36,909
Mortgages payable	Level 2	714,481	769,086	614,390	654,686
Trade and other payables	Level 2	6,898	6,898	6,131	6,131
Current income tax payable	Level 2	–	–	1,763	1,763
Refundable security deposits	Level 1	4,100	4,100	4,217	4,217

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

See also the Notes to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015 for additional information regarding financial assets and the risks associated therewith.

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

(000s of dollars)

		September 30, 2016		September 30, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Investment properties	Level 3	\$1,460,080	\$1,460,080	\$1,386,035	\$1,386,035

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 Associated with Financial Assets and Liabilities" on page 51 and Note 20 to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

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, 2016		Year ended September 30, 2015	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the year	10,271,251	\$ 28,114	10,469,081	\$ 28,656
Shares purchased for cancellation	(1,387,918)	(3,799)	(197,830)	(542)
Issued and outstanding,				
– end of the year	8,883,333	\$ 24,315	10,271,251	\$ 28,114

All common shares share an equal right to dividends.

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

On May 30, 2016, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 487,890 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2016. The Corporation's previous NCIB expired on April 20, 2016. In 2016 and 2015, the Corporation purchased and cancelled 187,918 (2015-197,830) common share under the NCIB at an average price of \$32.76 per common share (2015-\$37.15), respectively.

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

STOCK OPTION

A summary of the Corporation's stock option plan as of September 30, 2016, and September 30, 2015 and changes during the periods are presented below:

	September 30, 2016		September 30, 2015	
Stock option	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning and end of the year	828,200	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life-years	2.44		3.44	
Prices	\$ 5.51		\$ 5.51	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 26, 2010, March 21, 2013 and March 18, 2016, the Corporation 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 2019 unless renewed and approved by the shareholders of the Corporation on or before that date.

Shareholder Rights Plan

Effective February 21, 2013, the Board of Directors of the Corporation approved the adoption of a shareholder rights plan agreement (the "Rights Plan") dated February 21, 2013 between the Corporation and Computershare Trust Company of Canada. The Rights Plan was ratified and approved by shareholders of the Corporation on March 21, 2013 and subsequently amended and renewed by the shareholders of the Corporation on March 18, 2016. The Rights Plan was amended to extend the time for a take-over bid to be taken up from 60 days to 120 days.

Until recently securities legislation in Canada required a take over bid to be open for at least 35 days, resulting in the Board of Directors of the Corporation being concerned that this was too short a period of time for companies that are subject to unsolicited take over bids to be able to respond to ensure that shareholders are offered full and fair value for their shares. The Rights Plan is designed to give the Corporation's shareholders sufficient time to properly assess a take over bid without undue pressure and to give the Board of Directors time to consider alternatives designed to allow the Corporation's shareholders to receive full and fair for their common shares.

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

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

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

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

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

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

Key accounting estimates and assumptions

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

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 4 for sensitivity analysis;
- ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities;
- iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock options, expected volatility rate of and expected dividend rates;
- iv) Allocation of purchase cost in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and
- v) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

Transactions with Related Parties

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year ended September 30, 2016 amounted to \$173,000 (2015 – \$371,500) 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, 2016 amounting to \$197,500 (2015 – \$174,000), respectively, to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2016, the amount payable to the law firm was \$600 (2015 – \$Nil).

Key management personnel

Key management personnel of the Corporation during the year ended September 30, 2016, were:

Navjeet (Bob) Dhillon, President and Chief Executive Officer

Johnny C.S. Lam, Chief Operating Officer and Chief Financial Officer

Sheena Keslick, Vice President Operations

Trina Cui, Vice President Corporate Finance

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

Year ended September 30,	2016	2015
Short-term benefits	\$ 2,706	\$ 2,694
	\$ 2,706	\$ 2,694

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, 2016 which amounted to \$173,000 (2015 – \$371,500).

In addition, there are 772,000 option-based awards outstanding at the end of the financial year ended September 30, 2016 and 2015 to the key management personnel of the Corporation.

New accounting policies and changes to 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.

IAS 1 – Presentation of Financial Statements – Effective for annual periods beginning on or after January 1, 2016

The IAS 1 amendment further classifies guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Corporation is currently assessing the impact of the amendments but does not expect to result in any significant change on the consolidated financial statements.

IAS 27 – Consolidated and Separate Financial Statements – Effective for annual periods beginning on or after January 1, 2016

The IAS 27 amendment reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Corporation is currently assessing the impact of the amendments but does not expect to result in any significant change on the consolidated financial statements.

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 – Effective for periods beginning on or after January 1, 2018

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

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

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

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for 2016.

Subsequent Events

Subsequent to the year ended September 30, 2016, the Corporation has refinanced \$50 million of pre-maturity debts with an average interest rate of 5.25% into mostly 10-year long-term CMHC-insured mortgage loans for \$101.5 million at an average interest rate of 2.44%. Mainstreet also financed 4 clear-title properties for \$37.7 million at an interest rate of 2.34%.

Subsequent to the year ended September 30, 2016, the Corporation acquired 56 residential units in Edmonton, AB for a total consideration of \$5.2 million.

Risk Assessment and Management

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

Vacancy Risk

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

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

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

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

Economic Uncertainty

Any worldwide economic slowdown, stock market uncertainty and international political or credit crisis or uncertainty could adversely impact the business and the future profitability of the Corporation. In addition, worldwide falling petroleum and natural gas commodity prices have resulted in an economic slowdown in Western Canada where the Corporation has a significant number of properties. 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 both Alberta and Saskatchewan, the Corporation's vacancy rates have increased and rental rates have decreased as a result, among other things, of a decrease in inter-provincial migration. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling approximately \$37 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. For example, each 1% annual increase in the rate of interest would increase the Corporation's current interest payment obligation by an amount of approximately \$370,000 per annum. 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 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, 2016, rents due from current tenants amounted to \$336,000 (September 30, 2015 – \$240,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.1 million (September 30, 2015 – \$4.2 million) and provisions for bad debts of \$130,000 (September 30, 2015 – \$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 financial institutions.

Liquidity Risk

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

Financing Risk

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

Reliance on Key Employees

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

Income Tax Risk

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

Market Risks

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

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

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

Acquisitions Risks

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

Environmental, Health and Safety Matters

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

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

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

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

Mainstreet has policies and procedures to review and monitor environmental exposure, including the completion of environmental audits in connection with the Corporation's due diligence procedures when looking at potential acquisitions when the Corporation deems it advisable.

Workforce Availability

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

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

Uninsured Losses

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

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

Substitutions for Residential Rental Units

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

Litigation Risks

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

Rent Control

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

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

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

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

Operational Risks

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

Public Market Risk

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

Potential Conflicts of Interest

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

Appraisals of Properties

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

CHALLENGES

Ongoing volatility in petroleum, natural gas and other commodity prices continues to create economic uncertainty in some of Mainstreet's core markets. This uncertainty is compounded by an oversupply of condominiums in such markets, which were commissioned during years of high economic growth and began entering the rental pool around mid-2015. In response to these challenges the Corporation has boosted its maintenance, customer service and marketing efforts, causing a rise in operating costs.

Negative macro economic forces have likewise caused significant short positions on Mainstreet stock. Management believes this is partly responsible for its share price trading below NAV. As of September 30, the short position on Mainstreet totaled 751,098 shares. A 16% increase in property taxes, increase in rent concessions, tenant turnover and bad debts also created additional cost pressures. Finally, one of the biggest challenges Mainstreet faces is the overbuilding of condominiums during years of high economic growth, which has led to a supply glut in the market.

Broadly speaking, the impact of lower oil and gas prices is difficult to measure in precise terms. However, Management believes the current situation also creates a series of opportunities that are discussed at greater length in the Outlook section.

OUTLOOK

Despite challenges, Management sees plenty of reason to remain cautiously optimistic about the rental market in Western Canada. In-migration levels in Alberta have slowed, but are expected to remain positive in 2017 at 38,200 (Statistics Canada). Additionally, Management expects the recent relaxation of Canadian immigration policies to attract a number of foreign workers, foreign students and immigrants to some of our core regions—most of whom are likely to enter the rental market.

The oil and gas industry in Western Canada is also showing early indications of improvement. The federal government recently approved the construction of two major pipeline projects, which is expected to attract new investment into the energy sector. Moreover, oil prices are gradually rising. Prices have been notoriously volatile over the past two years, but in recent months have remained 60% above their February lows. The International Energy Agency estimates demand will continue to steadily grow through 2017.

In Mainstreet's view, stricter requirements on CMHC-insured mortgages recently implemented by the federal government could impact the buying market in Canada. Management believes that the new legislation will deter first-time homebuyers in particular, who potentially will be more exposed to higher interest rates and therefore more likely to remain in the rental market. This could also, in Mainstreet's view, help to absorb the aforementioned excess capacity in the condominium market.

Times of economic uncertainty also favour the affordability of Mainstreet rental units. With a price point average rental rate between \$900 and \$1,000, Mainstreet is perfectly positioned to capture the middle rental market as buyers delay major investments like new homes.

Mainstreet believes these broader market conditions create substantial opportunities for growth, and are pushing the reset button on its approach to acquisitions. The current environment of low interest rates and slower GDP growth makes this an ideal time to expand its portfolio on an opportunistic basis. Management believes that the acquisitions it completed in fiscal year 2016 were highly accretive to its shareholders in the long-term, and they plan to carry that momentum into fiscal year 2017 by continuing our non-dilutive growth strategy.

Lastly, Management expects to benefit from lower costs and availability of labour, particularly in the Alberta and Saskatchewan markets. The easing of labour market pressure provides the Corporation with an opportunity to bulk up on senior and middle management personnel at a cost that would have been impossible when economic activity was at its peak. Mainstreet also expects to see substantial reductions in heating costs due to low natural gas prices.

Runway on existing portfolio

- 1) **Closing the NOI gap:** At the end of fiscal year 2016, 12% of the Mainstreet portfolio remained unstabilized, which contributed to higher vacancy rates. While this is a normal part of the Mainstreet business model, our continual work in renovating and improving properties before releasing them back to the market provides, in our opinion, potential to improve NOI and FFO performance. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO.
- 2) **Renegotiating long-term debt:** Interest rates, which account for Mainstreet's single largest expense, are among the lowest Mainstreet has ever experienced. Management expects to cut these expenses further by refinancing the remaining \$37 million mortgage loans maturing in 2017 and some of debts maturing in 2018 at average interest rates which would be lower than the existing rate of 5.2%.
- 3) **Leveraging Mainstreet's ample liquidity:** Finally, the Corporation maintains a substantial YTD liquidity position that will allow it to capitalize on opportunities for acquisitions and the repurchase of its shares. YTD, Management estimates \$150 million will be available for future growth. The amount is comprised of cash on hand of \$50 million, funds to be obtained from mortgage financing in the amount of \$36 million and available line of credit of \$64 million. Based on a leverage level of 75%, Management anticipates that it will translate into roughly 600 million in acquisition opportunities.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at www.mainst.biz and on Sedar at www.sedar.com. The Corporation's Annual Information Form for the year ended September 30, 2016 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 1, 2016

[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, 2016 and September 30, 2015, and the consolidated statements of net profit and total comprehensive income, consolidated statements of changes in equity and consolidated statements of cashflows for the years then ended, and the notes to the consolidated financial statements.

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, 2016 and September 30, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
December 5, 2016
Calgary, AB

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

September 30	2016	2015
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 1,460,080	\$ 1,386,035
Property, plant and equipment [Note 5]	4,822	4,721
Intangible assets [Note 6]	423	272
	1,465,325	1,391,028
Current assets		
Prepaid assets [Note 7]	1,774	1,921
Prepaid current income tax	1,261	–
Trade and other receivables [Note 8]	1,614	844
Restricted cash [Note 14]	2,858	3,052
Inventory [Note 9]	338	461
Mortgage receivable [Note 10]	2,500	2,500
Cash and cash equivalents	1,095	1,526
	11,440	10,304
Total Assets	\$ 1,476,765	\$ 1,401,332
Liabilities		
Non-current liabilities		
Mortgages payable [Note 11]	\$ 666,824	\$ 558,539
Deferred tax liabilities [Note 12]	123,162	117,516
	789,986	676,055
Current liabilities		
Mortgages payable [Note 11]	47,657	55,851
Trade and other payables [Note 13]	6,898	6,131
Current income tax payable [Note 12]	–	1,763
Refundable security deposits [Note 14]	4,100	4,217
Bank indebtedness [Note 15]	40,148	36,909
	98,803	104,871
Total Liabilities	888,789	780,926
Equity		
Share capital [Note 16]	24,315	28,114
Contributed surplus	2,404	2,404
Retained earnings	561,257	589,888
Total Equity	587,976	620,406
Total Liabilities and Equity	\$ 1,476,765	\$ 1,401,332

See accompanying notes to these consolidated financial statements.

[Signed]

“Bob Dhillon”
Director

December 1, 2016

[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	2016	2015
Rental revenue	\$ 98,869	\$ 98,933
Ancillary rental income	1,419	1,459
	100,288	100,392
Property operating expenses	36,265	33,070
Net operating income	64,023	67,322
Interest income	206	161
	64,229	67,483
Mortgage interest	26,033	25,020
Amortization of deferred financing cost	2,379	1,943
General and administrative expenses	9,599	8,715
Depreciation	366	392
	38,377	36,070
Profit before other items and income tax	25,852	31,413
Fair value (loss) gain [Note 4]	(3,035)	54,742
Profit before income tax	22,817	86,155
Current income tax [Note 12]	–	1,763
Deferred income tax expense [Note 12]	5,646	19,684
Net profit and total comprehensive income	\$ 17,171	\$ 64,708
Net profit per share		
– basic [Note 17]	\$ 1.79	\$ 6.23
– diluted [Note 17]	\$ 1.67	\$ 5.84

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, 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
Balance, October 1, 2015	\$	28,114	2,404	\$	589,888	\$ 620,406
Shares purchased for cancellation		(3,799)	–		(45,802)	(49,601)
Profit for the year		–	–		17,171	17,171
Balance, September 30, 2016	\$	24,315	2,404	\$	561,257	\$ 587,976

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s of Canadian dollars)

Year ended September 30	2016	2015
Cash obtained from (used in) operating activities		
Net profit	\$ 17,171	\$ 64,708
Adjustments for:		
Amortization of deferred financing cost	2,379	1,943
Depreciation	366	392
Fair value loss (gain)	3,035	(54,742)
Deferred income tax expense	5,646	19,684
Mortgage interest	26,033	25,020
Interest paid on mortgages payable	(26,026)	(24,999)
	28,604	32,006
Change in working capital		
Prepaid assets	147	(747)
Prepaid current income tax	(1,261)	–
Trade and other receivables	(770)	316
Inventory	124	(6)
Restricted cash	194	(59)
Trade and other payables	(1,265)	1,780
Refundable security deposits	(117)	252
Cash from operating activities	25,656	33,542
Financing activities		
Bank indebtedness	3,239	14,452
Financing of investment properties	148,627	84,859
Repayment of mortgages payable	(71,686)	(68,499)
Repurchase of shares	(49,601)	(7,349)
Cash from financing activities	30,579	23,463
Investing activities		
Purchase of and additions to investment properties [Note 4]	(56,048)	(55,903)
Purchase of and additions to property, plant and equipment	(467)	(344)
Purchase of and additions to intangible assets	(151)	(273)
Cash used in investing activities	(56,666)	(56,520)
Net (decrease) increase in cash and cash equivalents	(431)	485
Cash and cash equivalents, beginning of year	1,526	1,041
Cash and cash equivalents, end of year	\$ 1,095	\$ 1,526
Cash and cash equivalents are comprised of:		
(Overdraft) Cash	\$ (177)	\$ 30
Short-term deposits	1,272	1,496
	\$ 1,095	\$ 1,526

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2016 and 2015

(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) 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.

g) Property, plant and equipment ("PPE")

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").

h) 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).

i) 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.

j) 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.

k) 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")	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none">– 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.	<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 on measurement recognized in profit or loss.</p>
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 receivables	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 receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	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"> – 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. – 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. 	<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.

l) 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.

m) Stock option plan

The Corporation has a stock option plan, which is described in Note 18.

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.

n) 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.

o) 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 net book value, in the rates same as Canada Revenue Agency ("CRA") classes;
- iv) Assessing potential impairments based on management's judgment of whether there are sufficient internal and external factors that indicate that the Corporation's 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.

p) Key accounting estimates and assumptions

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

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 4 for sensitivity analysis;
- ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows of mortgages for similar loans with similar credit ratings and the same maturities;
- iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock options, expected volatility rate of and expected dividend rates;
- iv) Allocation of purchase cost in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and

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

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

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.

IAS 1 - Presentation of Financial Statements – Effective for annual periods beginning on or after January 1, 2016

The IAS 1 amendment further classifies guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Corporation is currently assessing the impact of the amendments but does not expect to result in any significant change on the consolidated financial statements.

IAS 27 – Consolidated and Separate Financial Statements – Effective for annual periods beginning on or after January 1, 2016

The IAS 27 amendment reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Corporation is currently assessing the impact of the amendments but does not expect to result in any significant change on the consolidated financial statements.

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 – Effective for periods beginning on or after January 1, 2018

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

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

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

4. INVESTMENT PROPERTIES

September 30,	2016	2015
Balance, beginning of year	\$ 1,386,035	\$ 1,259,010
Additions related to acquisitions	63,938	59,061
Building improvements	13,142	13,222
Fair value (loss) gains	(3,035)	54,742
Balance, end of year	\$ 1,460,080	\$ 1,386,035

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

the income (net operating income) estimated by an appropriate capitalization rate. The appraisers also 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, 2016.

The fair value of Mainstreet's investment properties as of September 30, 2016, 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 – Stephanie Bird Edmonton – Alison McGavigan, Ryan Miller	AACI, P.App.	Colliers International
Saskatoon	Stephanie Bird	AACI, P. App.	Colliers International

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

	Sep. 30, 2016	Sep. 30, 2015
Surrey, BC	4.56%	4.85%
Abbotsford, BC	5.13%	5.19%
Calgary, Alberta	4.86%	4.86%
Edmonton, Alberta	5.92%	5.71%
Saskatoon, Saskatchewan	6.77%	6.75%
	5.41%	5.37%

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, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	76,622	\$ 78,202	\$ 78,992	\$ 79,782	\$ 81,362
Capitalization rate						
-0.25%	5.16%	\$ 24,814	\$ 55,431	\$ 70,739	\$ 86,047	\$ 116,663
Cap rate used	5.41%	\$ (43,802)	\$ (14,601)	\$1,460,080	\$ 14,601	\$ 43,802
+0.25%	5.66%	\$ (106,358)	\$ (78,446)	\$ (64,490)	\$ (50,534)	\$ (22,622)

As at September 30, 2015

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	72,197	\$ 73,686	\$ 74,430	\$ 75,174	\$ 76,663
Capitalization rate						
-0.25%	5.12%	\$ 24,066	\$ 53,140	\$ 67,677	\$ 82,215	\$ 111,289
Cap rate used	5.37%	\$ (41,581)	\$ (13,860)	\$1,386,035	\$ 13,860	\$ 41,581
+0.25%	5.62%	\$ (101,388)	\$ (74,900)	\$ (61,656)	\$ (48,413)	\$ (21,925)

Investment properties with a fair value of \$1,282 million (September 30, 2015 – \$1,186 million) are pledged as security against the Corporation's mortgages payable.

For the year ended September 30, 2016, investment properties earned rental income (excluding ancillary rental income) of \$98.9 million (2015 – \$98.9 million).

For the year ended September 30, 2016, operating expenses relating to investment properties were \$36.3 million (2015 – \$33.1 million).

5. PROPERTY, PLANT AND EQUIPMENT

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

September 30, 2016				September 30, 2015			
	Cost	Accum. Deprec.	Net book value		Cost	Accum. Deprec.	Net book value
Admin.							
Land	\$ 2,080	\$ –	\$ 2,080		\$ 2,080	\$ –	\$ 2,080
Building	2,616	669	1,947		2,430	534	1,896
Equipment	161	69	92		129	50	79
Furniture	442	161	281		325	109	216
Vehicles	194	156	38		165	116	49
Computer	1,718	1,334	384		1,622	1,221	401
	\$ 7,211	\$ 2,389	\$ 4,822		\$ 6,751	\$ 2,030	\$ 4,721

The change of the carrying amount of the property, plant and equipment for the year ended September 30, 2016 was as follows:

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Admin.					
Land	\$ 2,080	\$ –	\$ –	\$ –	\$ 2,080
Building	1,896	186	–	(135)	1,947
Equipment	79	31	–	(18)	92
Furniture	216	118	–	(53)	281
Vehicles	49	17	(2)	(26)	38
Computer	401	117	–	(134)	384
	\$ 4,721	\$ 469	\$ (2)	\$ (366)	\$ 4,822

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	\$ 2,080	\$ –	\$ –	\$ –	\$ 2,080
Building	1,951	71	–	(126)	1,896
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

6. INTANGIBLE ASSETS

The carrying amount of the intangible asset was as follows:

September 30, 2016					September 30, 2015				
	Cost	Additions	Accumulated Amortization	Net book value		Cost	Additions	Accumulated Amortization	Net book value
Software under development	\$ 272	\$ 151	\$ –	\$ 423		\$ –	\$ 272	\$ –	\$ 272
	\$ 272	\$ 151	\$ –	\$ 423		\$ –	\$ 272	\$ –	\$ 272

7. PREPAID ASSETS

Prepaid assets comprise prepaid expenses and utility deposits:

	Sep. 30, 2016	Sep. 30, 2015
Prepaid expenses	\$ 1,762	\$ 1,906
Utility deposits	12	15
	\$ 1,774	\$ 1,921

8. TRADE AND OTHER RECEIVABLES

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

	Sep. 30, 2016	Sep. 30, 2015
Trade receivables	\$ 740	\$ 450
Other receivables	874	394
	\$ 1,614	\$ 844

9. INVENTORY

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

	Sep. 30, 2016	Sep. 30, 2015
Inventory	\$ 338	\$ 461
	\$ 338	\$ 461

10. MORTGAGE RECEIVABLE

Mortgage receivable represents a vendor-take-back loan of \$2.5 million (September 30, 2015 – \$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. The loan is fully repaid on December 2, 2016.

11. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.39% (September 30, 2015 – 3.75%) per annum and are payable in monthly principal and interest installments totaling \$3.2 million (September 30, 2015 – \$3.0 million), maturing from 2016 to 2026 and are secured by specific charges against specific investment properties, having a fair value of \$1,282 million (September 30, 2015 – \$1,186 million).

	Sep. 30, 2016	Sep. 30, 2015
Non-current	\$ 666,824	\$ 558,539
Current	47,657	55,851
	\$ 714,481	\$ 614,390

Estimated principal payments required to retire the mortgage obligations as of September 30, 2016 are as follows:

Year ending September 30,	Amount
2017	\$ 50,301
2018	38,355
2019	40,721
2020	56,168
2021	79,235
Subsequent	465,906
	730,686
Deferred financing costs	(16,205)
	\$ 714,481

12. DEFERRED INCOME TAX

Income tax expense comprises:

Year ended September 30	2016	2015
Current Income Tax	\$ –	\$ 1,763
Deferred Income Tax	5,646	19,684
	\$ 5,646	\$ 21,447

No current or deferred income taxes were recognized in equity for the years ended September 30, 2016 and 2015. 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	2016	2015
"Profit from operations before income tax"	\$ 22,817	\$ 86,155
Non taxable income/(expenses)	(1,562)	28,243
	24,379	57,912
Statutory tax rate	26.60%	25.90%
Computed expected tax	6,485	14,999
Undepreciated capital cost adjustment	–	1,742
Increase (decrease) in deferred tax liabilities for change in future tax rate	(77)	5,067
Others	(762)	(361)
	\$ 5,646	\$ 21,447

As of September 30, 2016 and September 30, 2015, the Corporation does not have any unrecognized deductible temporary differences.

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

Deferred tax liabilities	Sep. 30, 2015	Recognized in profit	Sep. 30, 2016
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 115,971	\$ 5,282	\$ 121,253
Differences in tax and book carrying amounts of deferred financing cost	1,545	364	1,909
Deferred tax liabilities for operations	\$ 117,516	\$ 5,646	\$ 123,162

Deferred tax liabilities	Sep. 30, 2014	Recognized in profit	Sep. 30, 2015
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

13. TRADE AND OTHER PAYABLES

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

14. 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.

15. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a new banking facility to a maximum of \$85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 6, 2019. As at September 30, 2016, the Corporation has drawn \$40.1 million (September 30, 2015 – \$36.9 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, 2016, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 52% and 1.44, respectively.

(\$000s)

Total funded debt	
Mortgages payable	\$ 714,481
Bank indebtedness	40,148
	<hr/>
	\$ 754,629
Gross book value of assets	
Investment properties	\$ 1,460,080
Property, plant and equipment	4,822
	<hr/>
	\$ 1,464,902
Overall funded debt to gross book value ratio	52%
Debt service coverage ratio	
Earning before interest, tax, depreciation, amortization and extraordinary items	
For the year ended September 30, 2016	
Net profit	\$ 17,171
Add:	
Mortgage interest	26,033
Income tax	5,646
Depreciation	366
Amortization of finance cost	2,379
Fair value loss	3,035
	<hr/>
	\$ 54,630
Principal and interest payments	\$ 37,855
Debt service coverage ratio	1.44

16. 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, 2016		Year ended September 30, 2015	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the year	10,271,251	\$ 28,114	10,469,081	\$ 28,656
Shares purchased for cancellation	(1,387,918)	(3,799)	(197,830)	(542)
Issued and outstanding,				
– end of the year	8,883,333	\$ 24,315	10,271,251	\$ 28,114

All common shares have an equal right to dividends.

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

On May 30, 2016, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 487,890 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2016. The Corporation's previous NCIB expired on April 20, 2016. In 2016 and 2015, the Corporation purchased and cancelled 187,918 (2015 – 197,830) common share under the NCIB at an average price of \$32.76 per common share (2015 – \$37.15), respectively.

17. 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,	2016	2015
Numerator		
Net Profit	\$ 17,171	\$ 64,708
Denominator		
For basic profit per share		
Weighted average shares	9,568,897	10,383,151
Dilutive effect of stock options	689,323	703,719
For diluted profit per share	10,258,220	11,086,870
Profit per share		
– basic	\$ 1.79	\$ 6.23
– diluted	\$ 1.67	\$ 5.84

18. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of September 30, 2016 and September 30, 2015 and changes during the period are presented below:

Stock option	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable,				
– beginning and end of the year	828,200	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life-years	2.44		3.44	
Prices	\$ 5.51		\$ 5.51	

During the fiscal year 2016 and 2015, no stock option has been granted, exercised or cancelled.

19. 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, 2016		September 30, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash*	Level 1	\$ 2,858	\$ 2,858	\$ 3,052	\$ 3,052
Cash and cash equivalents	Level 1	1,095	1,095	1,526	1,526
Trade and other receivables	Level 2	1,614	1,614	844	844
Mortgage receivable	Level 2	2,500	2,498	2,500	2,468
Financial liabilities:					
Bank indebtedness	Level 1	40,148	40,148	36,909	36,909
Mortgages payable	Level 2	714,481	769,086	614,390	654,686
Trade and other payables	Level 2	6,898	6,898	6,131	6,131
Current income tax payable	Level 2	–	–	1,763	1,763
Refundable security deposits	Level 1	4,100	4,100	4,217	4,217

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

		September 30, 2016		September 30, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$1,460,080	\$1,460,080	\$1,386,035	\$1,386,035

20. 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 \$37 million are subject to renewal before the financial year ending September 30, 2017. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$401,500 in interest expense for the year ended September 30, 2016.

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, 2016, rents due from current tenants amounted to \$336,000 (September 30, 2015 – \$240,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.1 million (September 30, 2015 – \$4.2 million) and provisions for bad debts of \$130,000 (September 30, 2015 – \$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	\$ 50,301	38,355	40,721	56,168	545,141	\$ 730,686
Mortgage interest payable	24,746	22,382	20,658	18,839	60,394	147,019
Bank indebtedness	40,148	–	–	–	–	40,148
Trade and other payables	6,898	–	–	–	–	6,898
Refundable security deposits	4,100	–	–	–	–	4,100

21. 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, 2016 and September 30, 2015, no amounts have been recorded and none are required to be disclosed in the consolidated financial statements with respect to guarantees, contingencies and commitments.

22. 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, 2016 amounted to \$173,000 (2015 – \$371,500) 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, 2016 amounting to \$197,500 (2015 – \$174,000), respectively, to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2016, the amounts payable to the law firm was \$600 (2015 – \$Nil).

23. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, 2016, were:

Navjeet (Bob) Dhillon, President and Chief Executive Officer

Johnny C.S. Lam, Chief Operating Officer and Chief Financial Officer

Sheena Keslick, Vice President Operations

Trina Cui, Vice President Corporate Finance

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

Year ended September 30,	2016	2015
Short-term benefits	\$ 2,706	\$ 2,694
	\$ 2,706	\$ 2,694

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, 2016 which amounted to \$173,000 (2015 – \$371,500).

In addition, there are 772,000 option-based awards outstanding at the end of the financial year ended September 30, 2016 and 2015 to the key management personnel of the Corporation.

24. 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,	2016	2015
BRITISH COLUMBIA		
Rental revenue	\$ 27,457	\$ 23,723
Ancillary rental income	379	340
Fair value gains	29,439	35,633
Property operating expenses	9,331	8,527
ALBERTA		
Rental revenue	\$ 61,258	\$ 65,368
Ancillary rental income	965	1,036
Fair value (loss) gains	(31,142)	15,055
Property operating expenses	22,905	21,167
SASKATCHEWAN		
Rental revenue	\$ 10,154	\$ 9,842
Ancillary rental income	75	83
Fair value (loss) gains	(1,332)	4,054
Property operating expenses	4,029	3,376
TOTAL		
Rental revenue	\$ 98,869	\$ 98,933
Ancillary rental income	1,419	1,459
Fair value (loss) gains	(3,035)	54,742
Property operating expenses	36,265	33,070
Unallocated revenue*	206	161
Unallocated expenses**	(44,023)	(57,517)
Profit for the year	\$ 17,171	\$ 64,708

* 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,	2016	2015
BRITISH COLUMBIA		
Investment properties	\$ 400,400	\$ 361,050
Property, plant and equipment	\$ 19	\$ 21
Mortgages payable	\$ 156,543	\$ 118,878
Refundable security deposits	\$ 1,290	\$ 1,213
ALBERTA		
Investment properties	\$ 892,480	\$ 896,185
Property, plant and equipment	\$ 4,794	\$ 4,693
Mortgages payable	\$ 467,555	\$ 424,678
Refundable security deposits	\$ 2,218	\$ 2,579
SASKATCHEWAN		
Investment properties	\$ 167,200	\$ 128,800
Property, plant and equipment	\$ 9	\$ 7
Mortgages payable	\$ 90,383	\$ 70,834
Refundable security deposits	\$ 592	\$ 425
TOTAL		
Investment properties	\$ 1,460,080	\$ 1,386,035
Property, plant and equipment	\$ 4,822	\$ 4,721
Mortgages payable	\$ 714,481	\$ 614,390
Refundable security deposits	\$ 4,100	\$ 4,217

IDENTIFIABLE CAPITAL EXPENDITURES

(000s of dollars)

Year ended September 30,	2016	2015
BRITISH COLUMBIA		
	\$ 9,917	\$ 40,228
ALBERTA		
	\$ 28,044	\$ 26,308
SASKATCHEWAN		
	\$ 39,736	\$ 6,373
TOTAL identifiable capital expenditures	\$ 77,697	\$ 72,909

25. 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, 2016 amounted to \$1,343 million (September 30, 2015 – \$1,272 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,	2016	2015
Mortgages payable	\$ 714,481	\$ 614,390
Bank indebtedness	40,148	36,909
Total equity	587,976	620,406
Total capital	\$ 1,342,605	\$ 1,271,705

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, 2016 is approximately 52% (September 30, 2015 – 47%) 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,	2016	2015
Mortgages payable	\$ 714,481	\$ 614,390
Bank indebtedness	40,148	36,909
Total debts	\$ 754,629	\$ 651,299
Investment properties	\$ 1,460,080	\$ 1,386,035
Debt to fair value ratio	52%	47%

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.

26. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2016, the Corporation has refinanced \$50 million of pre-maturity debts with an average interest rate of 5.25% into mostly 10-year long-term CMHC-insured mortgage loans for \$ 101.5 million at an average interest rate of 2.44%. Mainstreet also financed 4 clear-title properties for \$37.7 million at an interest rate of 2.34%.

Subsequent to the year ended September 30, 2016, the Corporation acquired 56 residential units in Edmonton, AB for a total consideration of \$5.2 million.

27. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on December 1, 2016.

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

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SOLICITORS

Warren Benson Amantea
LLP
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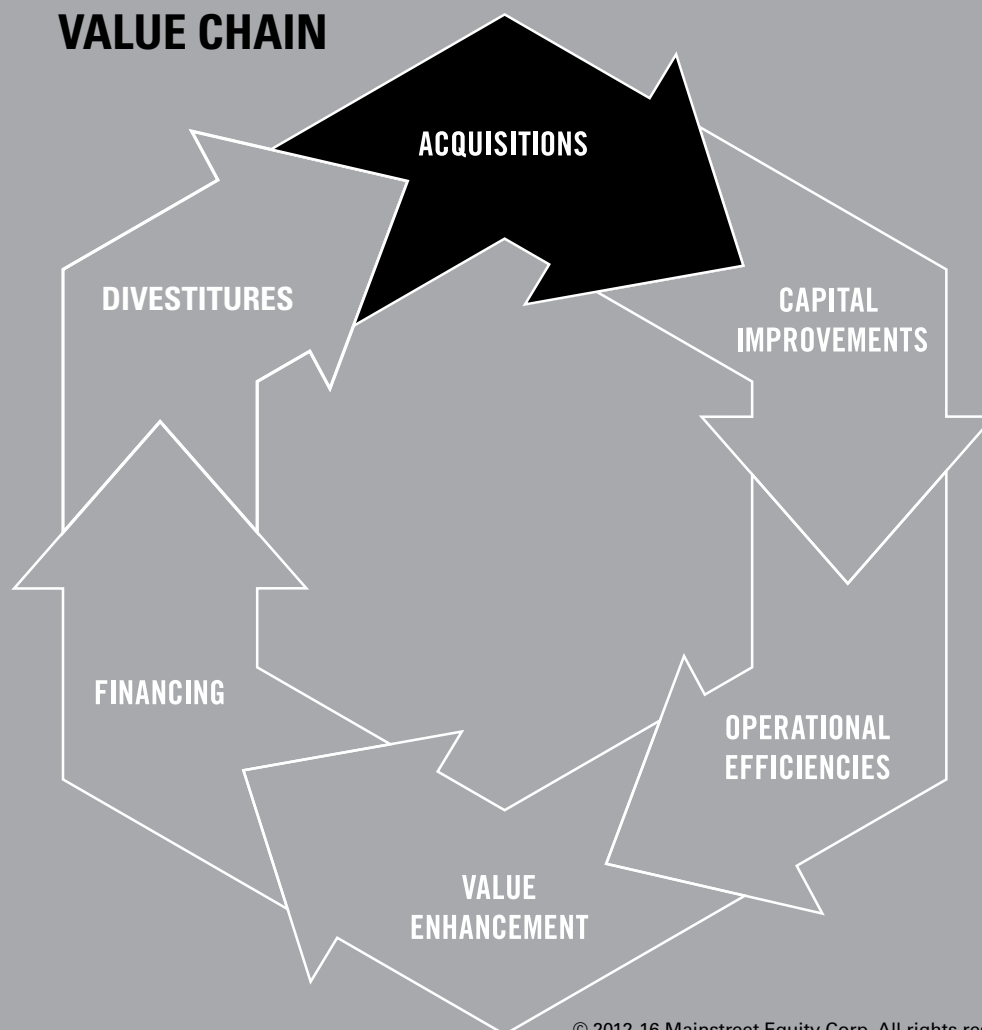
Web site: www.mainst.biz

Twitter: @MEQ_IR

STOCK EXCHANGE

Toronto Stock Exchange
Trading symbol: MEQ

The Mainstreet
VALUE CHAIN



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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 9,934 units (YTD) with appraised values of approximately \$1.4 billion with minimal equity dilution.**