



2017 Annual Report

For the years ended September 30, 2017 and 2016

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

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

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Forward-Looking Information

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

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in the Corporation's Annual Information Form, dated December 13, 2017 under the heading "Risk Factors," that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, environmental and other liabilities, credit risks of tenants, fluctuations in interest rates and availability of capital, and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements contained herein.

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

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

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

KEY METRICS | 2017 PERFORMANCE HIGHLIGHTS

Rental Revenue from Operation		Up 4% \$104.7 million (vs. \$100.3 million in 2016)
Rental Revenue – Same Assets Properties		Down 1% to \$98.6 million (vs. \$99.3 million in 2016)
Net Operating Income (NOI)		
From Operations		Up 1% to \$64.4 million (vs. \$64.0 million in 2016)
Same Assets Properties		Down 3% to \$61.4 million (vs. \$63.5 million in 2016)
FFO per Share		Up 6% to \$2.91 per share (vs. \$2.74 per share in 2016)
Funds from Operations		Down 1% to \$25.9 million (vs. \$26.2 million in 2016)
FFO per Share		Up 2% to \$2.88 per share (vs. \$2.82 per share in 2016)
FFO – Excluding One-Time Items		Down 5% to \$25.6 million (vs. \$27.0 million in 2016)
Operating Margin		
From Operations		62% (vs. 64% in 2016)
Same Assets Properties		62% (vs. 64% in 2016)
Total Acquisition		\$65.3 million (vs. \$56.6 million in 2016)
Total Capital Expenditures		\$23.9 million (vs. \$20.4 million in 2016)
Stabilized Units		216 properties (9,305 units) out of 237 properties (10,480 units)
Acquisitions		601 units in Alberta and Saskatchewan (\$109,000/unit)
Subsequent Acquisitions		706 units in Alberta and Saskatchewan
Vacancy Rate		10.5% (vs. 8.9% in 2016)
Same Asset Vacancy Rate		8.4% (vs. 8.7% 2016)
Vacancy rate as of December 1, 2017		9.5% excluding 214 units under complete re-construction

FIVE-YEAR FINANCIAL TRENDS (2013 – 2017)

Metric	2016 vs 2017 (%)	2017	2016	2015	2014	2013
Total number of units	6%	10,480	9,878	9,319	8,780	8,218
Market value of the portfolio	12%	\$ 1,632	\$ 1,460	\$ 1,386	\$ 1,259	\$ 1,127
Rental revenue	4%	\$ 104.7	\$ 100.3	\$ 100.4	\$ 90.4	\$ 78.2
Same asset rental revenue	(1%)	\$ 98.6	\$ 99.3	\$ 97.9	\$ 88.3	\$ 75.0
Net operating income	1%	\$ 64.4	\$ 64.0	\$ 67.3	\$ 60.1	\$ 52.1
Same asset net operating income	(3%)	\$ 61.4	\$ 63.5	\$ 65.8	\$ 59.0	\$ 50.1
Funds from operations*	(5%)	\$ 25.6	\$ 27.0	\$ 31.8	\$ 25.6	\$ 19.1
FFO from operations per share*	2%	\$ 2.88	\$ 2.82	\$ 3.06	\$ 2.45	\$ 1.83
Operating margins	(3%)	62%	64%	67%	66%	67%

*(before current income tax, insurance settlement, pay-out penalties, stock option cash settlement expenses and loss on disposition from investment property)

MESSAGE FROM THE PRESIDENT & CEO

For the years ended September 30, 2017 and 2016

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

Despite sustained economic volatility over the past three years, Mainstreet still managed to create substantial value for its shareholders and considerably grow its portfolio without causing dilution. The market value of our portfolio in 2017 increased to \$1.63 billion (this does not include 706 units acquired subsequent to year-end), an increase of 30% over 2014. Our net asset value ("NAV") increased by 16% to \$797 million over the last 3 years. The total unit count year-to-date is 11,186 units, a 27% increase from 8,780 units at the end of fiscal year 2014. In addition, Mainstreet also expanded its portfolio to include Regina, Saskatchewan. We believe these achievements are a result of our long-term, value-add strategy that is fundamentally rooted in creating real value for shareholders, independent of volatile macroeconomic conditions.

FINANCIAL HIGHLIGHTS FOR 2017:

Growth

Continued to demonstrate the effectiveness of our 100% organic growth model. During the year, Mainstreet acquired 601 units of residential apartments for \$65 million (\$109,000 per unit). Subsequent to the year-to-date, we acquired an additional 706 units for \$78 million (\$109,900 per unit).

Financing

Our decision to refinance all pre-maturity mortgages for the fiscal year 2017 and 2018 at a cost of \$2.9 million payout penalty was in anticipation of rising interest rates. The average interest rate for the early refinancing was 2.47%. Should we have refinanced those mortgages on their maturity dates, the interest rate would have been approximately 33 basis points higher, resulting in additional interest expense of approximately \$973,500 per annum or \$9.7 million over 10 years.

NCIB

Repurchased and cancelled 53,569 shares under our normal course issuer bid (NCIB) at an average price of \$36.83 per common share, in order to take advantage of our common shares trading below what we believe is the true NAV.

Liquidity

Maintained our sizeable year-to-date estimated liquidity position of \$175 million, including a cash balance of \$25 million, to pursue further organic growth.

Vancouver/Lower Mainland remains robust (it comprises 26% of our portfolio) and continues to outperform the balance of Western Canada. Our vacancy rate in the region was 0.9% over 2017, down from 1.8% the year before; NOI grew 10% year-over-year. The fair market value determined by independent qualified real estate appraisers increased by \$82 million, or 21%, over 2016 to \$176,000 per unit due to the booming estate market in Vancouver/Lower Mainland.

For more detailed analysis of Mainstreet operating results for Q4 2017, please refer to the sections titled "Funds from Operations" and "Rental Operations" in our MD&A.

RESULTS

In fiscal 2017, FFO per basic share increased 2% to \$2.88, compared with \$2.82 in 2016. FFO decreased 1% to \$25.9 million, compared with \$26.2 million in 2016.

Rental revenues in the fiscal year 2017 increased 4% to \$104.7 million, compared with \$100.3 million in 2016; this came alongside a 1% decrease in same-asset rental revenues to \$98.6 million, from \$99.3 million in 2016. NOI increased 1% to \$64.4 million, and decreased 3% to \$61.4 million on a same-asset basis. Operating margins both from continuing operations and on a same-asset basis were 62%, down 3% compared with 2016.

The 2017 vacancy rate on a same-asset basis dropped to 8.4%, compared with 8.7% in 2016. Overall vacancy increased to 10.5%, up from 8.9% in 2016, mainly due to the recent acquisitions of unstabilized assets.

Mainstreet raised \$127 million in funds through financing activities in fiscal year 2017. The Corporation refinanced \$60 million pre-maturity loans at an average interest rate of 5.19%, for \$122 million, into new 10-year, CMHC-insured mortgages at an average interest rate of 2.43%, resulting in approximately \$1.6 million in annualized interest savings, or \$16 million over 10 years. It also financed 12 clear title assets for \$65 million 10-year, CMHC-insured mortgages at an average interest rate of 2.55%.

CHALLENGES

Economic uncertainty remains our biggest challenge in the Alberta and Saskatchewan markets. Oil and gas producers have begun to gradually increase their capital spending plans, with oil now trading above US \$50. Even so, oil markets remain below the levels needed to spur major new developments.

A combination of macroeconomic conditions and new acquisitions is creating vacancies, which is in turn causing higher operating costs. These costs include higher expenses for HR, marketing, advertising and maintenance. Because Mainstreet adds value by renovating its suites every time a tenant moves out, maintenance costs tend to rise alongside higher churn rates. Our overall vacancy rate in 2017 remained above average at 10.5%. However, management believes this is a finite trend as we continue to undergo the stabilization process through ongoing renovations. As of the year-end date, 1,175 units, or 11% of the portfolio, remained in the stabilization, reposition and construction process.

We have also seen increased operating costs due to higher property taxes, as well as the introduction of a carbon tax in Alberta, which targets property owners. Heating costs have risen due to marginally higher natural gas prices.

Negative economic forces over the past two years have likewise caused significant short positions in respect of Mainstreet's stock. As of November 15, 2017, the short position in respect of Mainstreet totaled 558,215 common shares. However, that short position is smaller than the previous quarter ended June 30, 2017, when it totaled 711,600 common shares. Management believes these short positions are partly responsible for MEQ shares trading below NAV.

OUTLOOK

Economic activity remains well below pre-recession levels in the Prairie Provinces, but the region is still expected to lead economic growth in Canada as commodity prices rise, according to the Conference Board of Canada. The CBOC estimates Alberta's GDP growth will reach 6.7%, in 2017, the highest in recent memory. In 2018, it projects Alberta to grow 2.1%, while Saskatchewan is expected to grow 1.6%.

Several indicators suggest the outlook for the resource sector is improving. Oil prices in November were trading around the highest levels in years. Utilization rates of drilling rigs in Canada averaged 30% — the highest in 10 quarters, according to data from the Canadian Association of Drilling Contractors. Meanwhile, Nebraska approved the Keystone XL pipeline in November.

Even in a recession, year-to-year in-migration over the last three years has been positive. Total in-migration into Alberta was 105,322 in the three years ended Q2 2017, while Saskatchewan increased by 28,146 over the same period (Statistics Canada). In addition, we believe the federal government's strategy to boost immigration numbers into Canada will have a broadly positive effect on migration levels in Western provinces.

As in-migration levels stabilize, we believe the current oversupply in the rental market will continue to be gradually absorbed. This current oversupply is largely the result of a rapid build out of investor-owned condominiums during times of high economic growth, many of which were later converted into rental units that spilled over into the broader rental market. We are already seeing some encouraging signs of absorption: according to the CMHC, Calgary's vacancy rate in the primary rental market declined to 6.3% in October 2017, down from 7.0% a year earlier. This was the first decline in Calgary apartment vacancy rates in three years.

Stable in-migration comes alongside encouraging employment numbers in the Prairie Provinces. Alberta added 16,000 jobs in October 2017 compared to a year earlier, while Saskatchewan was flat over the same period.

Economic volatility has in turn created opportunities to accelerate acquisitions. While we remain conservative in our approach, management expects to continue accelerating our strategy of acquiring value-added assets on an opportunistic basis through 2018.

With the Bank of Canada set to raise interest rates in 2018 and 2019, we plan to continue refinancing our existing mortgages and clear-title assets into long-term, CMHC-insured debts at record-low levels. This frees up funds for future growth while also mitigating risks against further interest rate hikes.

Lastly, renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. With its price-point average rental rate between \$900 and \$1,000, we believe Mainstreet is perfectly positioned to capture that mid-market demand. Tighter loan requirements introduced by the Office of the Superintendent of Financial Institutions are expected to make it more difficult for first-time home buyers to secure financing. The Bank of Canada estimates the new rules could disqualify as much as 10% of new buyers every year, according to its latest Financial System Review.

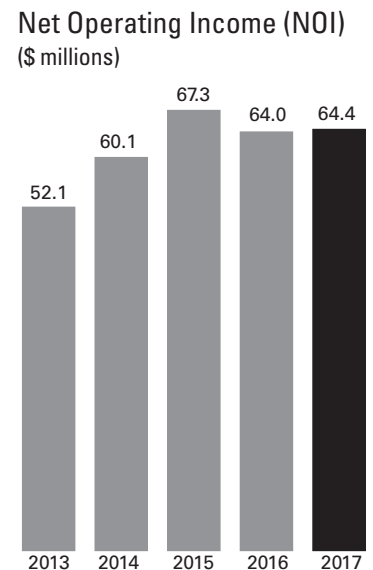
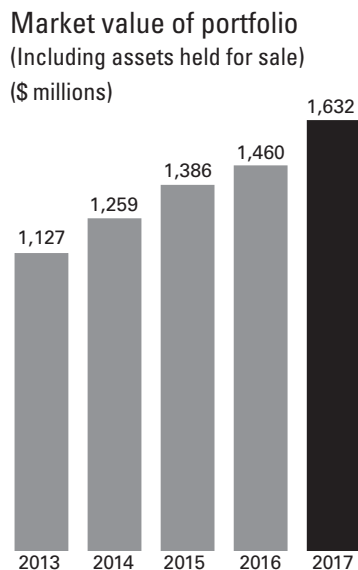
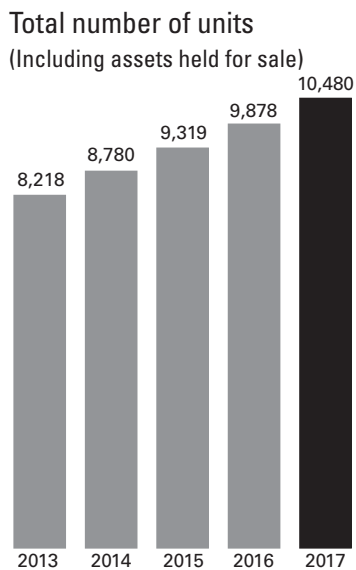
RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: Over fiscal year 2017, 11% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO. However, we expect to close this gap over time after stabilization.
- 2) Pursuing our organic growth model: Using our strong potential liquidity position of approximately \$175 million, Mainstreet's business strategy will allow us to continue to boost NOI and FFO while avoiding equity dilution.
- 3) Buying back shares at discount: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our own shares on an opportunistic basis under our normal course issuer bid.

(Signed)

"Bob Dhillon"
President & CEO
Calgary, Alberta
December 12, 2017

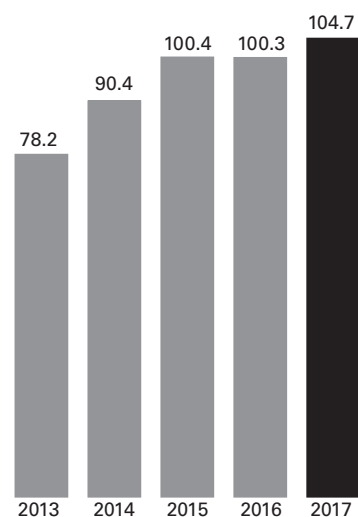
2017 KEY PERFORMANCE INDICATORS



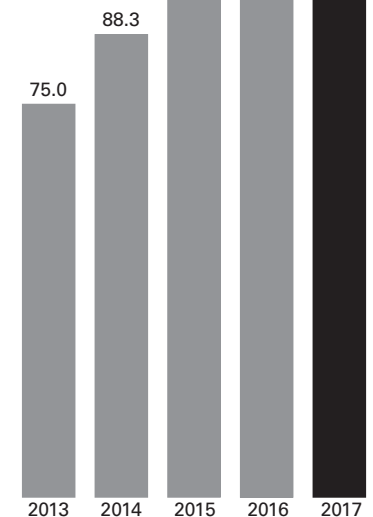
Net Operating Income (NOI) – Same Assets
(\$ millions)



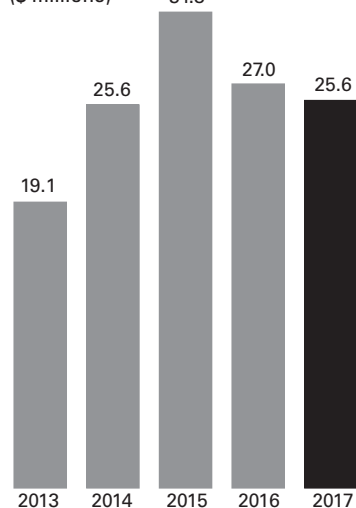
Rental Revenue
(\$ millions)



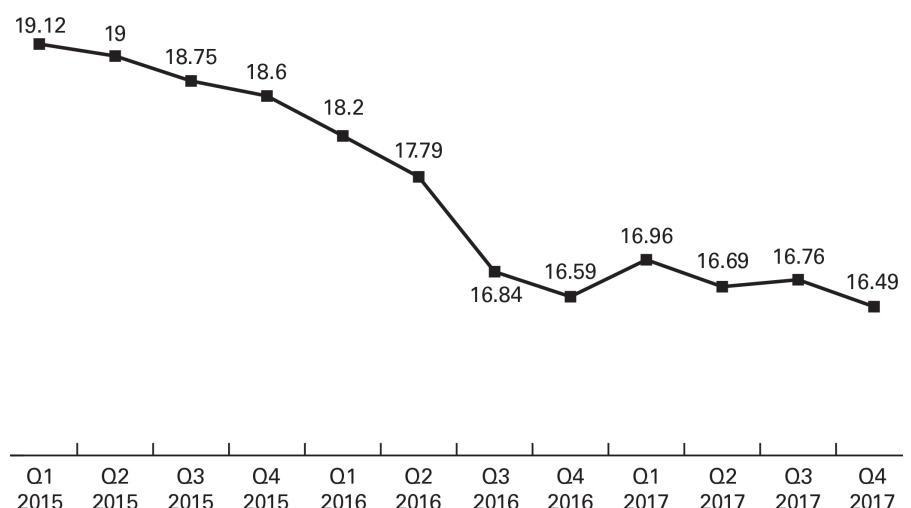
Rental Revenue – Same Assets
(\$ millions)



Funds from Operations (FFO)
(Before current income taxes and one time items)
(\$ millions)



Same Asset Revenue Trend – AB & SK



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, 2017 and 2016. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2017 and 2016. 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 12, 2017. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com). Unless indicated otherwise, reference herein to 2017 and 2016 refers to the years ended September 30, 2017 and 2016, respectively.

BUSINESS OVERVIEW

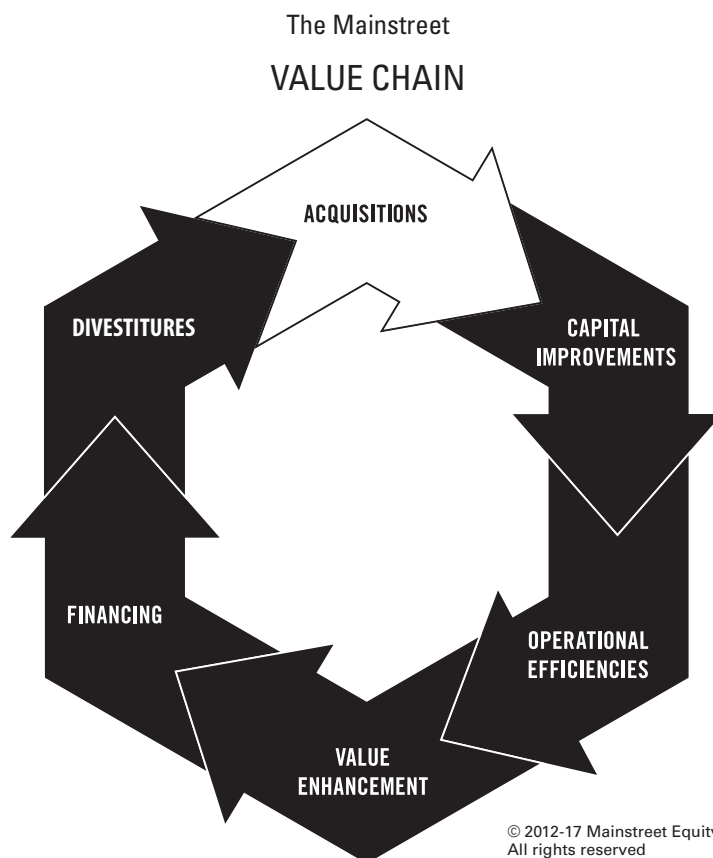
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/Lower Mainland, Southern Alberta (including the City of Calgary and Lethbridge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

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

BUSINESS STRATEGY

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

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



INTERNATIONAL FINANCIAL REPORTING STANDARDS

The 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, 2017, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,632 million at September 30, 2017 (\$1,460 million at September 30, 2016). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at September 30, 2017 and September 30, 2016, respectively.

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

Note (1) - Includes the City of Lethbridge and the Town of Cochrane

Note (2) - Includes the City of Fort Saskatchewan

As at September 30, 2016	Number of properties	Number of units	Market value (\$million)	Average value per unit (\$000)	Average capitalization rate
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

The fair market value of the Mainstreet portfolio in Vancouver/Lower Mainland has increased substantially by \$82 million, or 21%, to an average price of \$176,000 per unit, compared with \$145,000 per unit in 2016. The increase was due to a sustained boom in the real estate market where selling prices have been increasing month after month. In agreement with Mainstreet management, the appraisers have adopted a very conservative approach in their valuation procedures. They did this by comparing sales on actual transactions over an extended period before adjusting fair market values in their appraisal report, in order to determine whether increased sales prices were a permanent trend.

Management is aware of the challenge Mainstreet is facing in estimating the fair market value of its investment portfolio under the current, ever-changing market conditions, but is committed to continue monitoring the market, reviewing all completed transactions and communicating with the appraisers on a frequent basis in order to determine the values which will reflect the true and fair market value of its investment properties for the quarterly and annual financial reports.

Acquisitions & Growth

(000s of dollars)

For the financial year ended September 30,	2017	2016
	Calgary, Edmonton, and Saskatoon	Abbotsford, Calgary, Edmonton, and Saskatoon
Number of rental units (Note 1) (Note 2)	601	583
Total costs	\$ 65,374	\$ 56,612
Average price per apartment unit (Note 1)	\$ 109	\$ 97

Note (1) - Includes 1 commercial unit in Calgary, Alberta for 2016

Note (2) - Includes 1 corporate unit in Calgary, Alberta for 2017

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 2017, Mainstreet acquired 112 residential units in Calgary, Alberta, 288 residential units in Edmonton, Alberta and 201 residential unit in Saskatoon, Saskatchewan for a total consideration of \$65.4 million – an average purchase price of \$109,000 per residential unit. Since Mainstreet's previous financial year-end (September 30, 2016), the Corporation has grown its portfolio of properties by 6%.

Subsequent to the year end date, the Corporation acquired additional 706 residential units and grown its portfolio further by 7%.

As of September 30, 2017, Mainstreet's portfolio included 10,480 units, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments; 91% of these residential units were rented, while 7% were being renovated and the remainder left vacant because of current unfavourable rental market conditions, primarily in the provinces of Alberta and Saskatchewan.

Since 1997, the Corporation's portfolio has increased from 10 to 237 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,632 million as of September 30, 2017.

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

	Number of units as at Oct. 1, 2016	Acquisitions/ disposition 12 months ended Sep. 30, 2017	Number of units as at Sep. 30, 2017	% growth
Surrey, British Columbia	1,775	–	1,775	–
Abbotsford, British Columbia	975	–	975	–
Calgary and Southern Alberta, Alberta (Note 1)	1,813	112	1,925	6%
Edmonton, Alberta (Note 2) (Note 3)	3,883	289	4,172	7%
Saskatoon, Saskatchewan	1,432	201	1,633	14%
Investment properties	9,878	602	10,480	6%

Note (1) - Includes the City of Lethbridge and the Town of Cochrane

Note (2) - Includes the City of Fort Saskatchewan

Note (3) - Including 1 unit converted from extra space in an existing property

CAPITAL IMPROVEMENTS

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

In 2017, the Corporation spent \$23.9 million (2016 – \$20.4 million), of which \$20.3 million (2016 – \$18.0 million) was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, windows, siding and insulation. These expenditures also covered mechanical interior upgrades such as new boilers, flooring and paint, to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio, Mainstreet plans to spend an estimated \$20 million on renovations in fiscal year 2018. These improvements are expected to be financed

through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of the renovations of its existing properties within the next 12 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,	2017	2016	2015	% Change 2016	% Change 2015
Gross revenue	\$ 105,241	\$ 100,494	\$ 100,553	5%	0%
Profit and comprehensive income from operations	90,935	17,171	64,708	430%	(73%)
Fair value (gain) loss	(82,889)	3,035	(54,742)	(2,831%)	(106%)
Depreciation	414	366	392	13%	(7%)
Income tax – current and deferred	17,392	5,646	21,447	208%	(74%)
Funds from operations before current income tax	25,852	26,218	31,805	(1%)	(18%)
Current income tax	–	–	(1,763)	–	–
Funds from operations (Note 1)	25,852	26,218	30,042	(1%)	(13%)
Interest income	(581)	(206)	(161)	182%	28%
Current income tax	–	–	1,763	–	–
General and administrative expenses	10,265	9,599	8,715	7%	10%
Mortgage interest	28,402	26,033	25,020	9%	4%
Financing cost	2,828	2,379	1,943	19%	22%
Insurance settlement	(2,400)	–	–	–	–
Net operating income (Note 2)	\$ 64,366	\$ 64,023	\$ 67,322	1%	(5%)
Operating margin from operations	62%	64%	67%		
Profit per share					
Basic	\$ 10.25	\$ 1.79	\$ 6.23	473%	(71%)
Fully diluted	\$ 9.51	\$ 1.67	\$ 5.84	469%	(71%)
Funds from operations before current income tax per share					
Basic	\$ 2.91	\$ 2.74	\$ 3.06	6%	(10%)
Fully diluted	\$ 2.70	\$ 2.56	\$ 2.87	5%	(11%)
Funds from operations per share					
Basic	\$ 2.91	\$ 2.74	\$ 2.89	6%	(5%)
Fully diluted	\$ 2.70	\$ 2.56	\$ 2.71	5%	(6%)
Weighted average number of shares					
Basic	8,870,871	9,568,897	10,383,151		
Fully diluted	9,565,110	10,258,220	11,086,870		
Total assets	\$ 1,668,528	\$ 1,476,765	\$ 1,401,332		
Total long term liabilities	\$ 966,670	\$ 789,986	\$ 676,055		

Note (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.

Note (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 2017, revenue was primarily comprised of rental and ancillary rental income totalling \$104.7 million (2016 – \$100.3 million) and interest income. Overall, the revenue increased by 4% as compared to 2016, which is discussed and analyzed in the session entitled “Rental Operations” below.

PROFIT

For the year ended September 30, 2017, Mainstreet reported a profit from operations of \$90.9 million (\$10.25 per basic share), as compared to a profit of \$17.2 million (\$1.79 per basic share) in 2016.

Profit from operations is further analyzed as follows:

(000s of dollars)

For the year ended September 30,	2017	2016	% Change
Funds from operations before current income tax	\$ 25,852	\$ 26,218	(1 %)
Fair value gain (loss)	82,889	(3,035)	(2831 %)
Depreciation	(414)	(366)	13%
	108,327	22,817	
Income tax – current and deferred	17,392	5,646	208%
Profit and comprehensive income from operations	\$ 90,935	\$ 17,171	430%

In 2017, a fair value gain of \$82.9 million was incurred as compared to a fair value loss of \$3.0 million in 2016. It is mainly due to changes that are analyzed as follows:

(000s of dollars)

Fair value gain (loss) from appraisals	2017	2016
Surrey	\$ 63,550	\$ 27,800
Abbotsford	18,875	7,497
Calgary	55	(1,709)
Edmonton	18,571	(16,646)
Saskatoon	5,730	379
	106,781	17,321
Capital expenditure	(23,892)	(20,356)
Fair value (loss) gain	\$ 82,889	\$ (3,035)

The reduction in funds from continuing operations in 2017 and 2016 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 2017, Mainstreet's FFO from operations before current income tax slightly decreased by 1% to \$25.9 million as compared to \$26.2 million in 2016. In 2017, Mainstreet incurred one-time pay-out penalties of \$2.1 million (2016 – \$745,000). Additionally, Mainstreet received an insurance settlement of \$2.4 million (2016 – Nil) for a property destroyed by fire in Edmonton, Alberta. Excluding these one-time items, FFO decreased by 5% to \$25.6 million in 2017 as compared to \$27.0 million in 2016.

(000s of dollars)

Year ended September 30,		2017		2016	% Change
Funds from operations	\$	25,852	\$	26,218	(1%)
Insurance settlement		(2,400)		–	100%
Pay-out penalties		2,130		745	186%
Funds from operations before insurance settlement and pay-out penalties	\$	25,582	\$	26,963	(5%)

The decrease in FFO in 2017 was mainly attributable to the increased G & A expenses of \$666,000 and increased mortgage interest of \$2.4 million from 2016, 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 salary expenses. In 2017, G&A expenses increased by \$666,000 (7%) to \$10.3 million as compared to \$9.6 million in 2016, mainly resulting from increase of advertising and salary expenses. The Corporation continues to build up its management team in anticipation of continued growth.

MORTGAGE INTEREST

Mortgage interest expenses increased by 9% to \$28.4 million in 2017 compared to \$26.0 million in 2016. The rise was mainly attributable to an increase in mortgage loans from refinancing of pre-maturity mortgages and financing of clear title assets as well as pay-out penalties of \$2.1 million (2016 – \$745,000) incurred during the year. Excluding these pay-out penalties, mortgage interest expenses increased by 4% to \$26.3 million in 2017 as compared to \$25.3 million in 2016.

Mainstreet refinanced \$60 million pre-maturity loans at an average interest rate of 5.19% into 10-year, CMHC-insured mortgages at an average interest rate of 2.43%, resulting in approximately \$1.6 million in annualized interest savings, or \$16 million over 10 years. As a result of refinancing, Mainstreet raised additional funds of \$62 million including an early payout penalty of \$2.1 million. The Corporation also financed 12 clear title assets for \$65 million 10-year, CMHC-insured mortgages at an average interest rate of 2.55%. The total funds raised through the financing activities amounted to \$127 million for the year to support further growth.

Management believes that the decrease in FFO in 2017 resulting from the pay-out penalty is justified by a long-term gain in future savings in interest expense and reduction in the overall interest risk exposure of the Corporation.

RENTAL OPERATIONS

(000s of dollars)

For the year ended Sep. 30,	Total Portfolio			Same Asset			Acquisition		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Rental revenue and ancillary rental income	\$ 104,660	\$ 100,288	4%	\$ 98,598	\$ 99,282	(1%)	\$ 6,062	\$ 1,006	503%
Operating expenses	40,294	36,265	11%	37,164	35,788	4%	3,130	477	556%
Net operating income	\$ 64,366	\$ 64,023	1%	\$ 61,434	\$ 63,494	(3%)	\$ 2,932	\$ 529	454%
Operating margin	62%	64%		62%	64%		48%	53%	
Average vacancy rate	10.5%	8.9%	18%	8.4%	8.7%	(7%)	33.8%	6.9%	390%
Weighted average number of units	10,142	9,427	8%	9,301	9,301	0%	841	126	567%
Average rental rate per unit per month	\$ 860	\$ 887	(3%)	\$ 883	\$ 890	(1%)	\$ 601	\$ 665	(10%)
Average operating expense per unit per month	\$ 331	\$ 321	3%	\$ 333	\$ 321	4%	\$ 310	\$ 315	(2%)

Despite the increase in the vacancy rate to 10.5% in 2017 from 8.9% in 2016 and a drop in the average monthly rental rate to \$860 per unit in 2017 from \$887 per unit in 2016, the overall rental revenue and ancillary rental income increased by 4% to \$104.7 million in 2017 as compared to \$100.3 million in 2016. This was due to the continued growth of the Corporation's portfolio. The average number of unit increased by 8% over the year.

For same asset properties, which refer to properties owned by the Corporation for the entire twelve-month period ended September 30, 2017 and 2016, the rental revenue slightly dropped by 1% to \$98.6 million in 2017 from \$99.3 million in 2016. The average rental rate per unit per month decreased by 1% to \$883 in 2017 from \$890 per unit in 2016. The vacancy rate decreased to 8.4% in 2017 from 9.0% in 2016.

Persistently low petroleum and natural gas commodity prices have negatively impacted the Alberta and Saskatchewan markets, which comprise 74% of the Corporation's portfolio. The economic downturn has caused a reduction in net inter-province immigration, lower GDP growth and higher unemployment rates, which directly affected occupancy rates and rental rates in 2017.

Mainstreet's operating expenses have also increased substantially. The overall and same asset properties average operating cost per month per unit has increased by 11% and 4% compared to 2016, respectively.

The increase in operating expenses was due to increased utility expenses of \$1.9 million and property tax expenses of \$585,000, which were expenses the Corporation can not control, and an increase in advertising, repair and maintenance expenses.

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

As a result, the net operating income increased by 1% to \$64.4 million in 2017 from \$64.0 million in 2016 while the net operating margin dropped to 62% in 2017 from 64% in 2016.

For the same asset properties, the net operating income decreased by 3% to \$61.4 million in 2017 from \$63.5 million in 2016 and the net operating margin dropped to 62% in 2017 from 64% in 2016.

RENTAL OPERATIONS BY PROVINCE

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

BRITISH COLUMBIA

Mainstreet achieved 1% growth in its British Columbia portfolio in 2017; the average number of rental units grew to 2,750, compared with 2,735 in 2016. The average vacancy rate also improved to 0.9% in 2017 from 1.8% in 2016 mainly due to an improved occupancy rate in both the Surrey and Abbotsford markets and stabilization of certain properties.

An above-average vacancy rate can also be attributed to the overall economic performance in British Columbia, which is among the strongest in the country, according to information published by Statistics Canada. As a result, rental revenue per unit significantly increased by 7% to \$905 per month in 2017 from \$848 per month in 2016.

The operating expense per unit increased by 2% to \$289 per month compared to \$284 per month in 2016, due mainly to increased property taxes and utility expenses. As a result, the net operating income increased by 10% and the net operating margin increased to 68% as compared to 66% in 2016.

(000s of dollars except per unit data)

For the year ended September 30,	2017		2016		% Change
Rental revenue and ancillary rental income	\$	29,855	\$	27,836	7%
Operating expenses		9,534		9,331	2%
Net operating income	\$	20,321	\$	18,505	10%
Weighted average number of units		2,750		2,735	1%
Average rent per unit per month	\$	905	\$	848	7%
Operating cost per unit per month	\$	289	\$	284	2%
Average vacancy rate		0.9%		1.8%	
Operating margin		68%		66%	

ALBERTA

Mainstreet achieved a growth of 7% in its Alberta portfolio in 2017; the weighted average number of rental units has grown to 5,923 units, compared to 5,547 units in 2016. The average vacancy rate increased to 13.5% in 2017 from 10.9% in 2016. The increase of vacancy rate was mainly due to continued weaker economic conditions in the province. Rental revenue per unit decreased by 7% to \$870 per month in 2017 from \$935 per month in 2016 as a result of the increased vacancy rate and rental incentives during the period.

The operating expense per unit increased by 4% to \$358 per month in 2017 from \$344 per month in 2016. The increase in operating expense was mainly due to increased utility, property taxes, leasing, repairs and maintenance expenses in the fiscal year. As a result, the net operating income decreased by 7% and the net operating margin decreased to 59% as compared to 63% in 2016.

(000s of dollars except per unit data)

For the year ended September 30,	2017	2016	% Change
Rental revenue and ancillary rental income	\$ 61,804	\$ 62,223	(1%)
Operating expenses	25,411	22,905	11%
Net operating income	\$ 36,393	\$ 39,318	(7%)
Weighted average number of units	5,923	5,547	7%
Average rent per unit per month	\$ 870	\$ 935	(7%)
Operating cost per unit per month	\$ 358	\$ 344	4%
Average vacancy rate	13.5%	10.9%	
Operating margin	59%	63%	

SASKATCHEWAN

Mainstreet achieved significant growth of 28% in the Saskatchewan portfolio in 2017; the average number of rental units grew to 1,469 units, compared with 1,145 units in 2016. The average vacancy rate decreased to 16.2% in 2017, down from 16.4% in 2016.

Rental revenue per unit decreased slightly by 1% to \$738 per month in 2017, down from \$744 per month in 2016 as a result of increased rental incentives offered by the Corporation during the year.

The operating expense per unit increased by 3% to \$303 per month in 2017 from \$293 per month in 2016 due mainly to increased property taxes, leasing, repairs and maintenance expenses in the fiscal year. As a result, the net operating income significantly increased by 23% while the net operating margin decreased to 59% from 61% in 2016.

(000s of dollars except per unit data)

For the year ended September 30,	2017	2016	% Change
Rental revenue and ancillary rental income	\$ 13,001	\$ 10,229	27%
Operating expenses	5,349	4,029	33%
Net operating income	\$ 7,652	\$ 6,200	23%
Weighted average number of units	1,469	1,145	28%
Average rent per unit per month	\$ 738	\$ 744	(1%)
Operating cost per unit per month	\$ 303	\$ 293	3%
Average vacancy rate	16.2%	16.4%	
Operating margin	59%	61%	

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, 2017.

City	Stabilized Properties					Unstabilized Properties				
	Total number of units	Number of stabilized units	Current rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	Number of unstabilized units	Current 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 (\$000)
Abbotsford, BC	975	937	\$ 836	0.43%	\$ 883	38	\$ 760	0.00%	\$ 920	599
Surrey, BC	1,775	1,775	939	0.51%	1,013	—	—	—	—	—
Calgary, AB	1,925	1,813	1,027	7.89%	1,215	112	934	12.50%	1,031	4,749
Edmonton, AB	4,172	3,707	935	12.41%	1,034	465	966	52.90%	1,008	10,070
Saskatoon, SK	1,633	1,073	849	17.15%	988	560	700	11.96%	1,079	5,775
	10,480	9,305	\$ 934	8.60%	\$ 1,045	1,175	\$ 830	27.83%	\$ 1,041	21,194

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Rental revenue	\$ 25,977	\$ 25,952	\$ 25,579	\$ 25,499	\$ 24,761	\$ 24,225	\$ 24,828	\$ 25,055
Ancillary rental income	412	428	469	344	341	291	450	337
Interest income	141	152	174	114	32	40	100	34
Total revenue from operations	\$ 26,530	\$ 26,532	\$ 26,222	\$ 25,957	\$ 25,134	\$ 24,556	\$ 25,378	\$ 25,426
Fair value gain (loss)	\$ 116,464	\$ (17,282)	\$ (8,545)	\$ (7,748)	\$ 54,723	\$ (5,273)	\$ (36,432)	\$ (16,053)
Profit (loss) from operations	\$ 107,069	\$ (10,216)	\$ (2,219)	\$ (3,698)	\$ 53,012	\$ (259)	\$ (27,098)	\$ (8,484)
Net profit (loss) per share								
Basic	\$ 12.10	\$ (1.15)	\$ (0.25)	\$ (0.42)	\$ 5.97	\$ (0.03)	\$ (2.67)	\$ (0.83)
Diluted	\$ 11.21	\$ (1.15)	\$ (0.25)	\$ (0.42)	\$ 5.54	\$ (0.03)	\$ (2.67)	\$ (0.83)
Average vacancy rate	10.9%	10.6%	10.7%	9.7%	10.3%	9.2%	8.3%	7.8%
Net operating income	\$ 17,242	\$ 16,620	\$ 14,814	\$ 15,690	\$ 15,868	\$ 15,546	\$ 15,975	\$ 16,634
Same assets rent and ancillary rental income	\$ 24,541	\$ 24,736	\$ 24,596	\$ 24,725	\$ 24,292	\$ 24,409	\$ 25,189	\$ 25,392
Same assets net operating income	\$ 16,338	\$ 15,872	\$ 14,141	\$ 15,083	\$ 15,440	\$ 15,491	\$ 15,929	\$ 16,634
Stabilized FFO	\$ 7,434	\$ 6,427	\$ 4,604	\$ 3,916	\$ 5,236	\$ 5,775	\$ 5,973	\$ 6,807
Funds from operations	\$ 7,607	\$ 6,743	\$ 7,208	\$ 4,294	\$ 5,614	\$ 6,207	\$ 6,746	\$ 7,651
Funds from operations per share								
Basic	\$ 0.86	\$ 0.76	\$ 0.81	\$ 0.48	\$ 0.63	\$ 0.68	\$ 0.67	\$ 0.75
Diluted	\$ 0.80	\$ 0.70	\$ 0.75	\$ 0.45	\$ 0.59	\$ 0.63	\$ 0.62	\$ 0.71

- Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2017. Rental and ancillary rental income remained constant at \$26.5 million, compared to Q3 2017 and a 6% increase from \$25.1 million in Q4 2016.
- In Q4 2017, the average vacancy rate for the quarter was 10.9%, compared to 10.6% in Q3 2017 and 10.3% in Q4 2016.
- Fair value gain for the quarter was \$116.5 million, mainly due to substantial fair value increase in Vancouver/Lower Mainland, compared to a loss of \$17.3 million in Q3 2017 and a gain of \$54.7 million in Q4 2016.
- Funds from operations for the quarter were \$7.6 million, the increase was mainly due to, a 13% increase from \$6.7 million in Q3 2017 and a 36% increase from \$5.6 million in Q4 2016. The increase was mainly due to improved net operating income in Q4 2017.
- Net operating income was \$17.2 million, a 4% increase from \$16.6 million in Q3 2017 and an 8% increase from \$15.9 million in Q4 2016.

- Same assets rental and ancillary rental income was \$24.5 million, a 1% decrease from \$24.7 million in Q3 2017 and a 1% increase from \$24.3 million in Q4 2016.
- Same assets net operating income was \$16.3 million, a 3% increase from \$15.9 million in Q3 2017 and a 6% increase from \$15.4 million in Q4 2016.
- Funds from operations related to stabilized properties were \$7.4 million, a 16% increase from \$6.4 million in Q3 2017 and a 42% increase from \$5.2 million in Q4 2016.

STABILIZED PROPERTIES

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

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

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

As of September 30, 2017, 216 properties (9,305 units) out of 237 properties (10,480 units) were stabilized. The following table summarizes the change of the Corporation’s stabilized and unstabilized units since the beginning of fiscal year 2017.

	Oct. 1, 2016	%	Acquisition/ addition	Number of units stabilized	Sep. 30, 2017	%
Stabilized Units	8,714	88%	1	590	9,305	89%
Unstabilized Units	1,164	12%	601	(590)	1,175	11%
Total Units	9,878	100%	602	–	10,480	100%

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

	Oct. 1, 2016	No. of units stabilized during the year	No. of unstabilized units acquired/ disposed during the year	Sep. 30, 2017
Numbers of unstabilized units held for renovation	1,164	(590)	601	1,175
Numbers of unstabilized units held for redevelopment	–	–	–	–
Total number of unstabilized units	1,164	(590)	601	1,175
Number of months				
Average time spent on stabilization	13	28	5	10
Estimated remaining time for stabilization	17	–	23	14

During the year ended September 30, 2017, the Corporation acquired 201 unstabilized units in Saskatoon, Saskatchewan, 288 unstabilized units in Edmonton, Alberta and 112 unstabilized units in Calgary, Alberta that required substantial renovation and with rents considered well below the market for stabilized units. The Corporation has stabilized 590 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2017, FFO from operations of Mainstreet’s stabilized property portfolio amounted to \$22.4 million (\$2.52 per basic share and \$2.34 per fully diluted share).

(000s of dollars except per share amounts)

Year ended September 30, 2017	Stabilized properties	Unstabilized properties	Total
Rental and ancillary rental income	\$ 98,248	\$ 6,412	\$ 104,660
Property operating expenses	37,147	3,147	40,294
Net operating income	\$ 61,101	\$ 3,265	\$ 64,366
Operating margin	62%	51%	62%
Vacancy rate	8.4%	32.0%	10.5%
Interest income	\$ 531	\$ 50	\$ 581
Insurance settlement	—	2,400	2,400
General and administrative expenses	9,323	942	10,265
Mortgage interest	27,296	1,106	28,402
Financing cost	2,632	196	2,828
Funds from operations	\$ 22,381	\$ 3,471	\$ 25,852
Funds from operations per share			
Basic	\$ 2.52	\$ 0.39	\$ 2.91
Diluted	\$ 2.34	\$ 0.36	\$ 2.70
Weighted average number of shares			
Basic	8,870,871		
Diluted	9,565,110		

In 2017, FFO of the stabilized property portfolio decreased by 12% to \$22.4 million as compared to \$25.3 million in 2016, while the number of stabilized units increased by 7% to 9,305 units as of September 30, 2017 compared to 8,714 units as of September 30, 2016.

(000s of dollars except per share amounts)

For the year ended September 30,	2017	2016	% Change
Stabilized FFO	\$ 22,381	\$ 25,320	(12%)
Number of stabilized units	9,305	8,714	7%

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 2017, after payments of all required expenses, the Corporation generated funds from operations of \$25.9 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 2017, the Corporation spent approximately \$90.2 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.

Mainstreet refinanced \$60 million pre-maturity loans at an average interest rate of 5.19% into 10-year, CMHC-insured mortgages at an average interest rate of 2.43%, resulting in approximately \$1.6 million in annualized interest savings, or \$16 million over 10 years. Mainstreet raised additional funds of \$62 million including an early pay-out penalty of \$2.1 million.

The Corporation also financed 12 clear title assets for \$65 million 10-year, CMHC-insured mortgages at an average interest rate of 2.55%. The total funds raised through the financing activities amounted to \$127 million for the year. The next mortgage loan will not be due until Q1 2019.

Subsequent to the year ended September 30, 2017, the Corporation has financed 3 clear-title properties for \$24 million at an interest rate of 3.05%.

As of September 30, 2017, the Corporation owned the following 29 clear-title properties and 2 development lots having an aggregate fair value of approximately \$153 million:

Clear Title Asset List as of September 30, 2017

(000s of dollars except per share amounts)

Property address	Number of units	Cost of acquisition	Fair value
103 Village Acres NW, Edmonton, AB	186	\$ 17,800	\$ 19,750
11720,11730 – 127 St / 12702,12706,12707,12710,12714 – 117 Avenue / 12711,12715 – 118 Avenue, Edmonton, AB	178	14,472	17,332
3147, 151 Avenue, Edmonton, AB	99	10,000	10,700
525,529,601 – 605 Avenue X S / 2309, 17 Street W, Saskatoon, SK	69	4,945	8,400
1122, 8 Avenue SW, Calgary, AB	50	1,975	12,100
2121, 17 Street SW, Calgary, AB	45	5,650	7,500
10625 & 10635, 115 Street, Edmonton, AB	43	4,693	5,120
33361 Old Yale Road, Abbotsford, BC	38	3,940	6,350
10615, 111 Street NW, Edmonton, AB	33	3,366	3,620
2010, 22 Street W, Saskatoon, SK	31	2,025	2,650
1817, 22nd Street W, Saskatoon, SK	30	2,100	3,000
1335 & 1339, 10th Avenue SE, Calgary, AB	29	3,000	6,100
807 Royal Avenue SW, Calgary, AB	28	4,336	4,750
14224 McQueen Road, Edmonton, AB	27	950	4,300
11343, 124 Street, Edmonton, AB	25	624	2,910
127, 13 Avenue SW, Calgary, AB	24	3,960	5,050
3105, 7 Street East, Saskatoon, SK	24	2,476	2,800
2024, 22 Street West, Saskatoon, SK	24	2,190	2,650
10610, 115 Street, Edmonton, AB	23	1,150	2,600
10625, 113 Street NW, Edmonton, AB	22	1,980	2,650
10741, 108 Street NW, Edmonton, AB	22	1,980	2,520
11930, 104 Street, Edmonton, AB	18	790	2,260
11828, 105 Street, Edmonton, AB	17	697	2,050
13608, 109A Avenue, Edmonton, AB	17	574	2,100
322, 6 Avenue North, Saskatoon, SK	16	1,644	2,250
1805, 17 Street SW, Calgary, AB	15	2,075	2,300
10435, 156 Street NW, Edmonton, AB	12	1,200	1,270
336 to 338, 18 Avenue SW, Calgary, AB	7	–	3,300
322, 18 Avenue SW, Calgary, AB	1	1,275	2,550
Multi-family development lot, 10125, 114 Street, Edmonton, AB	–	1,103	1,110
Multi-family development lot, 33283 Bourquin Crescent E, Abbotsford, BC	–	306	525
Total as of September 30, 2017	1,153	\$ 103,276	\$ 152,567

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 51%, which Management believes leaves considerable room to raise additional funds from refinancing if the need arises.

Potential Liquidity

Management estimates a potential liquidity of approximately \$175 million available in the fiscal year 2018 which comprise a cash on hand of \$25 million, estimated funds to be raised through financing activities of \$125 million and available line of credit of approximately \$25 million.

Pursuing our organic growth model: Using our strong potential liquidity position of approximately \$175 million, Mainstreet's business strategy will allow us to continue to boost NOI and FFO while avoiding equity dilution.

Banking Facility

Effective January 2014, the Corporation was granted a new banking facility to a maximum of \$85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.75%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has obtained an extension of the maturity date to December 6, 2019. As of September 30, 2017, the Corporation has drawn \$Nil (September 30, 2016 – \$40.1 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of September 30, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% and 1.30, respectively, which were calculated as follows:

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

(000s of dollars)

Total funded debt

Mortgages payable	\$ 839,981
Gross book value of assets	
Investment properties	\$ 1,632,235
Property, plant and equipment	5,235
	\$ 1,637,470
Overall funded debt to gross book value ratio	51%

Debt service coverage ratio

(000s of dollars)

Earning before interest, tax, depreciation and amortization, and non-recurring earnings and gain for 2017

Net profit	\$ 90,935
Add (deduct):	
Mortgage interest	28,402
Income tax	17,392
Depreciation	414
Amortization of deferred financing cost	2,828
Insurance settlement	(2,400)
Fair value (gain)	(82,889)
	\$ 54,682
Principal and interest payments	\$ 42,021
Debt service coverage ratio	1.30

CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY PERIOD

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

Year ended September 30,	Amount
2018	\$ 16,788
2019	44,471
2020	60,016
2021	93,909
2022	59,544
Subsequent	584,435
	859,163
Deferred financing costs	(19,182)
	\$ 839,981

LONG-TERM DEBT

(000s of dollars)

	Amount	% of Debt	Average interest rate (%)
Fixed rate debt			
CMHC insured	\$ 817,790	95%	3.04%
Non-CMHC insured	41,373	5%	3.64%
Total fixed rate debt	859,163	100%	3.07%
Deferred financing cost	(19,182)		
	\$ 839,981		

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, 2017, total mortgages payable was \$840 million compared to \$714 million on September 30, 2016 – an increase of 18% due to financing during the year ended September 30, 2017.

As of September 30, 2017, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 51% of fair value of investment properties. About 95% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with interest rates lower than those available through conventional financing.

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

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2018	\$ –	–	–
2019	28,855	3%	5.06%
2020	47,120	5%	3.67%
2021	85,439	10%	3.94%
2022	51,574	6%	3.47%
Subsequent	646,175	75%	2.79%
	\$ 859,163	100%	3.07%

The average maturing term of mortgage loans is 7.0 years as of September 30, 2017, the same as the year prior. There are no mortgage loans maturing in fiscal year 2018.

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

No changes were made to the Corporation's DC & P during the fiscal year ended September 30, 2017.

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

Financial Instruments & Risk Management

Fair value of financial assets and liabilities

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

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

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

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

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

(000s of dollars)

		September 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Restricted cash	Level 1	\$ 2,730	\$ 2,730	\$ 2,858	\$ 2,858
Cash and cash equivalents	Level 1	24,767	24,767	1,095	1,095
Trade and other receivables	Level 2	1,004	1,004	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
Financial liabilities					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	839,981	844,147	714,481	769,086
Trade and other payables	Level 2	6,912	6,912	6,898	6,898
Refundable security deposits	Level 1	\$ 4,108	\$ 4,108	\$ 4,100	\$ 4,100

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

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

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

(000s of dollars)

		September 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets					
Investment properties	Level 3	\$ 1,632,235	\$ 1,632,235	\$ 1,460,080	\$ 1,460,080

Risk Associated with Financial Assets & Liabilities

The Corporation is exposed to risks arising from its financial assets and liabilities. These include market risk related to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled "Risk Associated with Financial Assets and Liabilities" on page 52 and Note 20 to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2017 and 2016.

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:

(000s of dollars except per share amounts)

	Year ended September 30, 2017		Year ended September 30, 2016	
	Number of common shares	Amount	Number of common shares	Amount
Issued and outstanding – beginning of the year	8,883,333	\$ 24,315	10,271,251	\$ 28,114
Shares purchased for cancellation	(53,569)	(147)	(1,387,918)	(3,799)
Exercise of stock option	6,200	57	–	–
Issued and outstanding – end of the year	8,835,964	\$ 24,225	8,883,333	\$ 24,315

All common shares share an equal right to dividends.

On March 31, 2017, a director of the Corporation exercised 6,200 stock options to purchase 6,200 common shares at the exercised price of \$5.51 per common share.

On May 30, 2017, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 479,437 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2017. The current NCIB expires on May 31, 2018. The Corporation's previous NCIB expired on May 30, 2017. In 2017, the Corporation purchased and cancelled 53,569 (2016 – 187,918) common shares under the NCIB at an average price of \$36.83 per common share (2016 – \$32.76).

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.

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, 2017, and September 30, 2016 and changes during the periods are presented below:

Stock option	September 30, 2017		September 30, 2016	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of the year	828,200	\$ 5.51	828,200	\$ 5.51
Exercised	(6,200)	5.51	–	–
Outstanding and exercisable, end of the year	822,000	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life – years	1.44		2.44	
The range of exercise prices	\$ 5.51		\$ 5.51	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 26, 2010, March 21, 2013 and March 18, 2016, the Corporation was entitled to grant options to its directors, officers, employees and consultants of the Corporation, subsidiaries and affiliated companies for up to 20% of the issued and outstanding common shares until but not after March 26, 2017. The exercise prices of the options were to equal the market-trading price of the Corporation's common share on the date of grant. The stock options were fully vested at the time of issue. The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate and expected dividend rate. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration received by the Corporation on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

In 2017, a director of the Corporation exercised 6,200 stock options (2016 – Nil).

The stock option plan will remain in place until all stock options granted thereunder are exercised or expired, provided that no further stock options may be granted under the stock option plan after March 26, 2017.

Shareholder Rights Plan

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

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

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

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

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

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

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

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

Key accounting estimates and assumptions

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

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

Actual results could differ from estimates.

Transactions with Related Parties

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in limited circumstances, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the year ended September 30, 2017 amounted to \$282,000 (2016 – \$173,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.
- b) The Corporation paid legal and professional fees and reimbursements for the year ended September 30, 2017 amounting to \$240,000 (2016 – \$197,500), respectively, to a law firm of which a director and officer of the Corporation is a partner. At September 30, 2017, the amounts payable to the law firm was \$Nil (2016 – \$600).

Key management personnel

Key management personnel of the Corporation during the year ended September 30, 2017, were:

Navjeet (Bob) Dhillon, President and Chief Executive Officer

Johnny C.S. Lam, Chief Operating Officer

Trina Cui, Chief Financial Officer

Sheena Keslick, Vice President Operations

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

Year ended September 30,	2017	2016
Short-term benefits	\$ 3,044	\$ 2,706

The remuneration of the Corporation's key management personnel excludes the commissions of \$282,000 (2016 \$173,000) received by the President and Chief Executive Officer during the year ended September 30, 2017.

In addition, there are 772,000 option-based awards outstanding at the end of the financial year ended September 30, 2017 to the key management personnel of the Corporation.

New Accounting Policies and Changes to Accounting Policies

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

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

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

The IASB has undertaken a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") with IFRS 9 Financial Instruments ("IFRS 9"). In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. IFRS 9 is still available for early adoption. The full impact of the standard on the 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 2017.

Subsequent Events

Subsequent to the year ended September 30, 2017, the Corporation has financed 3 clear-title properties for \$24 million at an interest rate of 3.05%.

Subsequent to the year end date, the Corporation acquired additional 706 residential units in Saskatoon and Regina, Saskatchewan and Edmonton, Alberta for total consideration of \$78 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 home buyers. This increases vacancy rates and decreases rental revenue cash flow.

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

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

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

Economic Uncertainty

Any worldwide or regional economic slowdown, stock market uncertainty and international political credit crisis or uncertainty could adversely impact the business and the future profitability of the Corporation. In addition, worldwide falling petroleum and natural gas commodity prices and speculation that lower commodity prices will continue over an extended period of time have resulted in a significant economic slowdown in Western Canada, particularly in the Prairie provinces. During any period of economic uncertainty tenants may experience financial difficulty and may default in payment of rent or possibly look for less expensive accommodations thereby having a corresponding longer-term impact on rental and vacancy rates. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

This slowing of Western Canada's economic growth rate has filtered through to weaker employment prospects in the Prairie Provinces, a tempering of housing and rental demand and a decline in net migration with a corresponding impact on the Corporation's rental and occupancy levels. Still unknown is the impact of various recently enacted or pending government initiatives, including the effect on employment resulting from the minimum wage increase in Alberta by \$1.00 commencing in October, 2016 and increasing to \$15.00 an hour by 2018; or increases to operating costs resulting from the recently enacted carbon tax in Alberta, similar pending federal tax legislation and the implementation of new climate change plans at both the provincial and federal government levels.

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. No mortgages is subject to renewal in the next 12 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. The Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage

program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

Utilities and Tax Risk

Mainstreet's business is exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices as well as exposure to significant increases in property taxes. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. In recent years, water and sewer costs have increased significantly, as other forms of direct and indirect "taxes" imposed by various municipalities. In addition, the recently implemented carbon tax by the Government of Alberta has increased the costs of natural gas by an additional \$1.12 per gigajoule ("GJ") effective January 1, 2017, increasing to \$1.65 per GJ in 2018. Any significant increase in these costs that cannot be passed on to the tenant / customer may have a significant impact on the operations of the Corporation.

Management continues to monitor all these costs very closely. In order to mitigate these risks, the Corporation has implemented the following steps:

- Where possible, electrical sub-metering devices have been installed, passing on the responsibility for electrical charges to the end tenant / customer;
- In other cases, rents have been, or will be adjusted upward to cover increased costs; and
- Where possible, the Corporation enters into long term supply contracts at a fixed price.

For example, Mainstreet has entered into a rate protected natural gas contract with a maturity date of November 30, 2019 that caps future natural gas costs at \$3.50 per GJ in Alberta, but permits the Corporation to purchase natural gas at lower market rates.

In addition, over the past few years, municipal property taxes have increased as a result of re-valuations of municipal properties and their inherent tax rates. These re-valuations may result in significant increases in some property assessments due to enhancements, which often are not represented on the Corporation's balance sheet as such representations are contrary to existing IFRS reporting standards. To address these risks, the Corporation has a team of property reviewers who, with the assistance of outside consultants, constantly review property tax assessments and, if warranted, appeal them. While it is not unusual for the Corporation to receive property tax refunds and / or adjustments, due to uncertainty of the timing and the amount of the refunds or adjustments, these amounts are only reported when they are actually received.

Risks of Real Estate Property Ownership

Real estate investments and projects are, generally, subject to numerous risks depending on the nature and location of the property that can affect attractiveness and sale ability of real estate assets to potential purchasers or other investors, or the owner's use of such real estate assets, all of which are beyond the control of the Corporation. Such risks include:

- The highly competitive nature of the real estate industry;
- changes in general economic conditions (such as the availability and cost of the property or widespread fluctuations in adjacent property values);
- Changes in general or local conditions (such as the supply of competing real estate assets or the possibility of competitive overbuilding or the inability to obtain full occupancy or other usage of any real estate assets);
- Governmental regulation, rules or policies (such as increased taxation on the sale of or profits from real estate property, environmental legislation or municipal approvals for usage, development or subdivision); and
- Changes in costs or operating expenses anticipated for real estate assets.

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

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

Alberta and Saskatchewan. As a result, economic and real estate conditions in Western Canada will significantly affect the Corporation's revenues and the value of its properties.

Renovation Risks

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

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of September 30, 2017, rents due from current tenants amounted to \$355,000 (September 30, 2016 – \$336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.1 million (September 30, 2016 – \$4.1 million) and provisions for bad debts of \$130,000 (September 30, 2016 – \$130,000).

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

Liquidity Risk

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

Financing Risk

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

Reliance on Key Employees

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

Income Tax Risk

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

Market Risks

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

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

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

Acquisitions Risks

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

Environmental, Health and Safety Matters

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

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

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

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

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

Cyber Security Risk

Cyber security has become an increasingly issue for corporations and businesses. Cyber-attack is an intentional attack which can include gaining unauthorized access to information systems to disrupt business operations, corrupt data or steal confidential information. Such an attack could compromise Mainstreet, its employees and tenants' confidential information, and third parties with whom Mainstreet interacts and may result in negative consequences, including remediation costs, loss of revenue, data corruption, additional regulatory scrutiny, litigation and reputational damages. As a result, Mainstreet

has implemented processes, procedures and controls to help mitigate these cyber-security risks, but these measures do not guarantee that cyber-attack can be totally avoided due to ever increasing sophistication of all forms of cyber-attacks.

Workforce Availability

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

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

Uninsured Losses

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

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

Substitutions for Residential Rental Units

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

Litigation Risks

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

Increases in real estate taxes and income, service and transfer taxes, or introductions of new taxes such as Alberta's recently enacted carbon tax, cannot always be passed through to residents or users in the form of higher rents, and may adversely affect the Corporation's operating expenses and to pay amounts due on its debt. Similarly, changes or interpretations of existing laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which could have a material adverse effect on

the Corporation. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce rental revenues or increase operating costs.

Rent Control

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

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

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

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

Operational Risks

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

Public Market Risk

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

Potential Conflicts of Interest

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

Appraisals of Properties

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

CHALLENGES

Economic uncertainty remains Mainstreet's biggest challenge in the Alberta and Saskatchewan markets. Oil and gas producers have begun to gradually increase their capital spending plans, with oil now trading above US\$50. Even so, oil markets remain below the levels needed to spur major new developments.

A combination of macroeconomic conditions and new acquisitions is creating vacancies, which is in turn causing higher operating costs. These costs include higher expenses for HR, marketing, advertising and maintenance. Because Mainstreet adds value by renovating its suites every time a tenant moves out, maintenance costs tend to rise alongside higher churn rates. Our overall vacancy rate in 2017 remained above average at 10.5%. However, management believes this is a finite trend as we continue to undergo the stabilization process through ongoing renovations. As of the year-end date, 1,175 units, or 11% of the portfolio, remained in the stabilization, reposition and construction process.

Management has also seen increased operating costs due to higher property taxes, as well as the introduction of a carbon tax in Alberta, which targets property owners. Heating costs have risen due to marginally higher natural gas prices.

Negative economic forces over the past two years have likewise caused significant short positions in respect of Mainstreet's stock. As of November 15, 2017, the short position in respect of Mainstreet totaled 558,215 common shares. However, that short position is smaller than the previous quarter ended June 30, 2017, when it totaled 711,600 common shares. Management believes these short positions are partly responsible for MEQ shares trading below NAV.

OUTLOOK

Economic activity remains well below pre-recession levels in the Prairie Provinces, but the region is still expected to lead economic growth in Canada as commodity prices rise, according to the Conference Board of Canada. The CBOC estimates Alberta's GDP growth will reach 6.7%, in 2017, the highest in recent memory. In 2018, it projects Alberta to grow 2.1%, while Saskatchewan is expected to grow 1.6%.

Several indicators suggest the outlook for the resource sector is improving. Oil prices in November were trading around the highest levels in years. Utilization rates of drilling rigs in Canada averaged 30% — the highest in 10 quarters, according to data from the Canadian Association of Drilling Contractors. Meanwhile, Nebraska approved the Keystone XL pipeline in November.

Even in a recession, year-to-year in-migration over the last three years has been positive. Total in-migration into Alberta was 105,322 in the three years ended Q2 2017, while Saskatchewan increased by 28,146 over the same period (Statistics Canada). In addition, we believe the federal government's strategy to boost immigration numbers into Canada will have a broadly positive effect on migration levels in Western provinces.

As in-migration levels stabilize, we believe the current oversupply in the rental market will continue to be gradually absorbed. This current oversupply is largely the result of a rapid build out of investor-owned condominiums during times of high economic growth, many of which were later converted into rental units that spilled over into the broader rental market. We are already seeing some encouraging signs of absorption: according to the CMHC, Calgary's vacancy rate in the primary rental market declined to 6.3% in October 2017, down from 7.0% a year earlier. This was the first decline in Calgary apartment vacancy rates in three years.

Stable in-migration comes alongside encouraging employment numbers in the Prairie Provinces. Alberta added 16,000 jobs in October 2017 compared to a year earlier, while Saskatchewan was flat over the same period.

Economic volatility has in turn created opportunities to accelerate acquisitions. While Mainstreet remains conservative in its approach, management expects to continue accelerating the strategy of acquiring value-added assets on an opportunistic basis through 2018.

With the Bank of Canada set to raise interest rates in 2018 and 2019, Mainstreet plans to continue refinancing its existing mortgages and clear-title assets into long-term, CMHC-insured debts at record-low levels. This frees up funds for future growth while also mitigating risks against further interest rate hikes.

Lastly, renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. With its price-point average rental rate between \$900 and \$1,000, Management believes Mainstreet is perfectly positioned to capture that mid-market demand. Tighter loan requirements introduced by the Office of the Superintendent of Financial Institutions are expected to make it more difficult for first-time home buyers to secure financing. The Bank of Canada estimates the new rules could disqualify as much as 10% of new buyers every year, according to its latest Financial System Review.

RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: Over fiscal year 2017, 11% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect its NOI and FFO. However, Management expects to close this gap over time after stabilization.
- 2) Pursuing Mainstreet's organic growth model: Using its strong potential liquidity position of approximately \$175 million, Mainstreet's business strategy will allow it to continue to boost NOI and FFO while avoiding equity dilution.
- 3) Buying back shares at discount: Management believes MEQ shares continue to trade well below its NAV. Management will therefore continue to buy back Mainstreet's own shares on an opportunistic basis under the normal course issuer bid.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at www.mainst.biz and on Sedar at www.sedar.com. The Corporation's Annual Information Form for the year ended September 30, 2017 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 12, 2017

(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, 2017 and September 30, 2016, and the consolidated statements of net income and total comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mainstreet Equity Corp. as at September 30, 2017 and September 30, 2016, 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 12, 2017
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

Year ended September 30,	Note	2017	2016
Non-current assets			
Investment properties	4	\$ 1,632,235	\$ 1,460,080
Property, plant and equipment	5	5,235	4,822
Intangible assets	6	564	423
		1,638,034	1,465,325
Current assets			
Prepaid assets	7	1,639	1,774
Current income tax receivable		110	1,261
Trade and other receivables	8	1,004	1,614
Restricted cash	14	2,730	2,858
Inventory	9	244	338
Mortgage receivable	10	–	2,500
Cash and cash equivalents		24,767	1,095
		30,494	11,440
Total assets		\$ 1,668,528	\$ 1,476,765
Liabilities			
Non-current liabilities			
Mortgages payable	11	\$ 826,116	\$ 666,824
Deferred tax liabilities	12	140,554	123,162
		966,670	789,986
Current liabilities			
Mortgages payable	11	13,865	47,657
Trade and other payables	13	6,912	6,898
Refundable security deposits	14	4,108	4,100
Bank indebtedness	15	–	40,148
		24,885	98,803
Total liabilities		991,555	888,789
Equity			
Share capital	16	24,225	24,315
Contributed surplus		2,382	2,404
Retained earnings		650,366	561,257
Total equity		676,973	587,976
Total liabilities and equity		\$ 1,668,528	\$ 1,476,765

See accompanying notes to these consolidated financial statements.

(Signed)

“Bob Dhillon”
Director
December 12, 2017

(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,	Note	2017	2016
Rental revenue		\$ 103,007	\$ 98,869
Ancillary rental income		1,653	1,419
		104,660	100,288
Property operating expenses		\$ 40,294	\$ 36,265
Net operating income		64,366	64,023
Interest income		581	206
		64,947	64,229
Mortgage interest		28,402	26,033
Amortization of deferred financing cost		2,828	2,379
General and administrative expenses		10,265	9,599
Depreciation		414	366
		41,909	38,377
Profit before other items and income tax		23,038	25,852
Fair value gain (loss)	4	82,889	(3,035)
Proceeds from insurance		2,400	—
Profit before income tax		108,327	22,817
Deferred income tax expense	12	17,392	5,646
Net profit and total comprehensive income		\$ 90,935	\$ 17,171
Net profit per share			
Basic	17	\$ 10.25	\$ 1.79
Diluted	17	\$ 9.51	\$ 1.67

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$000s of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Total shareholders equity
Balance, October 1, 2015		\$ 28,114	\$ 2,404	\$ 589,888	\$ 620,406
Shares purchased for cancellation		(3,799)	–	(45,802)	(49,601)
Profit for the year		–	–	17,171	17,171
Balance, September 30, 2016		24,315	2,404	561,257	587,976
Balance, October 1, 2016		24,315	2,404	561,257	587,976
Shares purchased for cancellation	16	(147)	–	(1,826)	(1,973)
Exercise of stock option		57	(22)	–	35
Profit for the year		–	–	90,935	90,935
Balance, September 30, 2017		\$ 24,225	\$ 2,382	\$ 650,366	\$ 676,973

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(\$000s of Canadian dollars)

Year ended September 30,	Note	2017	2016
Cash obtained from (used in) operating activities			
Net profit		\$ 90,935	\$ 17,171
Adjustments for:			
Amortization of deferred financing cost		2,828	2,379
Depreciation		414	366
Fair value (gain) loss		(82,889)	3,035
Deferred income tax expense		17,392	5,646
Mortgage interest		28,402	26,033
Interest paid on mortgages payable		(28,402)	(26,026)
		28,680	28,604
Change in working capital			
Prepaid assets		135	147
Current income tax receivable		1,151	(1,261)
Trade and other receivables		610	(770)
Inventory		94	124
Restricted cash		128	194
Mortgage receivable		2,500	—
Trade and other payables		(7)	(1,265)
Refundable security deposits		8	(117)
Cash from operating activities		33,299	25,656
Financing activities			
Bank indebtedness		(40,148)	3,239
Financing of investment properties		193,468	148,627
Repayment of mortgages payable		(83,392)	(71,686)
Repurchase of shares		(1,916)	(49,601)
Exercise of stock option		(22)	—
Cash from financing activities		67,990	30,579
Investing activities			
Purchase of and additions to investment properties	4	(76,649)	(56,048)
Purchase of and additions to property, plant and equipment		(827)	(467)
Purchase of and additions to intangible assets		(141)	(151)
Cash used in investing activities		(77,617)	(56,666)
Net increase (decrease) in cash and cash equivalents		23,672	(431)
Cash and cash equivalents, beginning of year		1,095	1,526
Cash and cash equivalents, end of year		\$ 24,767	\$ 1,095
Cash and cash equivalents are comprised of:			
Cash (overdraft)		\$ 706	\$ (177)
Short-term deposits		24,061	1,272
		\$ 24,767	\$ 1,095

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2017 and 2016

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

1. GENERAL

Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") is a Canadian real estate corporation, incorporated under the Business Corporations 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, 2 Street SW, Calgary, Alberta T2R 0W7 and 305, 10 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 Chartered Professional Accountants Canada ("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. From time to time 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 require or permit a different accounting treatment, are recorded using the cost model in accordance with IAS 16 – Property, Plant and Equipment ("IAS 16") which requires, after initial recognition, that the tangible assets be carried at their cost 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:

	Over the Estimated Useful Life, not Exceeding 40 Years	Straight Line
Administrative building		
Building Improvements	20% – 40%	declining balance
Equipment	4% – 30%	declining balance
Furniture	20%	declining balance
Vehicle	40%	declining balance
Computer and Software	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 tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the reporting date. In addition, deferred income tax assets and liabilities are measured using the rate that is consistent with the expected manner of recovery (i.e. using the asset versus selling the asset). Where applicable, current and deferred income taxes relating to items recognized directly in equity or comprehensive income are also recognized directly in equity or comprehensive income, respectively.

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> <p>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 a 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.</p> <p>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>	<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).

Note (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.

Note (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> <p>– 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 a 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.</p> <p>– 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>	<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).

Note (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(p) 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) Determining the useful lives for the PPEs based on their estimated useful lives;
- 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 and expected dividend rates;
- iv) Allocation of purchase cost in the acquisition of investment properties, property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and
- v) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

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

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

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

On October 1, 2018, the Corporation will be required to adopt IFRS 9 "Financial Instruments," which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives." 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. Amendments to IFRS 7 "Financial Instruments: Disclosures" will also be required to be adopted by the Corporation simultaneously with IFRS 9. The Corporation is currently evaluating the impact of the new standard on its financial statements.

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

On October 1, 2018, the Corporation will be required to adopt IFRS 15 "Revenue from Contracts with Customers." IFRS 15 was issued in May 2014 and will replace IAS 11 "Construction Contracts," IAS 18 "Revenue Recognition," IFRIC 13 "Customer Loyalty Programmes," IFRIC 15 "Agreements for the Construction of Real Estate," IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services." IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments," IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements." In addition

to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Corporation's ordinary activities. The Corporation is currently evaluating the impact of the new standard on its financial statements.

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

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

4. INVESTMENT PROPERTIES

Year ended September 30,	2017	2016
Balance, beginning of year	\$ 1,460,080	\$ 1,386,035
Additions related to acquisitions	65,630	63,938
Building improvements	23,636	13,142
Fair value gain (loss)	82,889	(3,035)
Balance, end of year	\$ 1,632,235	\$ 1,460,080

The fair value of investment properties held by the Corporation as of September 30, 2017 was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate. 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, 2017.

The fair value of Mainstreet's investment properties as of September 30, 2017, 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:

Year ended September 30,	2017	2016
Surrey, BC	4.05%	4.56%
Abbotsford, BC	4.70%	5.13%
Calgary, AB	4.81%	4.86%
Edmonton, AB	5.74%	5.92%
Saskatoon, SK	6.64%	6.77%
	5.17%	5.41%

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

As at September 30, 2017

Net operating income					As estimated			
		-3%		-1%		+1%		+3%
	\$	81,930	\$	83,619	\$	84,464	\$	85,309
								\$
Capitalization rate								
-0.25%	4.92%	\$	33,011	\$	67,345	\$	84,513	\$
Cap rate used	5.17%	\$	(47,514)	\$	(14,839)	\$	1,632,235	\$
+25%	5.42%	\$	(120,610)	\$	(89,442)	\$	(73,859)	\$
								\$

As at September 30, 2016

Net operating income					As estimated			
		-3%		-1%		+1%		+3%
	\$	76,621	\$	78,200	\$	78,990	\$	79,780
								\$
Capitalization rate								
-0.25%	5.16%	\$	24,816	\$	55,432	\$	70,740	\$
Cap rate used	5.41%	\$	(43,802)	\$	(14,601)	\$	1,460,080	\$
+25%	5.66%	\$	(106,359)	\$	(78,447)	\$	(64,491)	\$
								\$

Investment properties with a fair value of \$1,496 million (September 30, 2016 – \$1,282 million) are pledged as security against the Corporation's mortgages payable.

For the year ended September 30, 2017, investment properties earned rental income (excluding ancillary rental income) of \$103.0 million (2016 – \$98.9 million).

For the year ended September 30, 2017, operating expenses relating to investment properties were \$40.3 million (2016 – \$36.3 million).

5. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2017			September 30, 2016		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 2,159	\$ –	\$ 2,159	\$ 2,080	\$ –	\$ 2,080
Building	2,959	817	2,142	2,616	669	1,947
Equipment	237	96	141	161	69	92
Furniture	479	223	256	442	161	281
Vehicles	223	175	48	194	156	38
Computers	1,976	1,487	489	1,718	1,334	384
	\$ 8,033	\$ 2,798	\$ 5,235	\$ 7,211	\$ 2,389	\$ 4,822

The change of the carrying amount of the property, plant and equipment for the year ended September 30, 2017 was as follows:

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Land	\$ 2,080	\$ 79	\$ –	\$ –	\$ 2,159
Building	1,947	343	–	(148)	2,142
Equipment	92	76	–	(27)	141
Furniture	281	37	–	(62)	256
Vehicles	38	35	(6)	(19)	48
Computers	384	258	–	(153)	489
	\$ 4,822	\$ 828	\$ (6)	\$ (409)	\$ 5,235

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
Computers	401	117	–	(134)	384
	\$ 4,721	\$ 469	\$ (2)	\$ (366)	\$ 4,822

6. INTANGIBLE ASSETS

The carrying amount of the intangible asset was as follows:

	September 30, 2017			September 30, 2016		
	Cost	Additions	Net book value	Cost	Additions	Net book value
Software under development	\$ 423	\$ 141	\$ 564	\$ 272	\$ 151	\$ 423

7. PREPAID ASSETS

Prepaid assets comprise prepaid expenses and utility deposits:

Year ended September 30,	2017	2016
Prepaid expenses	\$ 1,629	\$ 1,762
Utility deposits	10	12
	\$ 1,639	\$ 1,774

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:

Year ended September 30,	2017	2016
Trade receivables	\$ 697	\$ 740
Other receivables	307	874
	\$ 1,004	\$ 1,614

9. INVENTORY

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

Year ended September 30,	2017	2016
Inventory	\$ 244	\$ 338

10. MORTGAGE RECEIVABLE

Mortgage receivable represented a vendor-take-back loan of \$Nil (September 30, 2016 – \$2.5 million) on one of the disposed properties in Ontario. The loan was secured by the said property, bore interest at a rate of 3% per annum, interest payments only until maturity and matured on December 1, 2016. The loan was fully repaid on December 2, 2016.

11. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.07% (September 30, 2016 – 3.39%) per annum and are payable in monthly principal and interest installments totaling \$3.6 million (September 30, 2016 – \$3.2 million), maturing from 2017 to 2027 and are secured by specific charges against specific investment properties, having a fair value of \$1,478 million (September 30, 2016 – \$1,282 million).

Year ended September 30,	2017	2016
Non-current	\$ 826,116	\$ 666,824
Current	13,865	47,657
	\$ 839,981	\$ 714,481

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

Year ended September 30,	Amount
2018	\$ 16,788
2019	44,471
2020	60,016
2021	93,909
2022	59,544
Subsequent	584,435
	859,163
Deferred financing costs	(19,182)
	\$ 839,981

12. DEFERRED INCOME TAX

Income tax expense comprises:

Year ended September 30,	2017	2016
Deferred income tax	\$ 17,392	\$ 5,646

No current or deferred income taxes were recognized in equity for the years ended September 30, 2017 and 2016. 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,	2017	2016
Profit from operations before income tax	\$ 108,327	\$ 22,817
Non taxable income/(expenses)	41,485	(1,562)
	66,842	24,379
Statutory tax rate	26.76%	26.60%
Computed expected tax	17,887	6,485
Increase (decrease) in deferred tax liabilities for changes in future tax rate	(446)	(77)
Other	(49)	(762)
	\$ 17,392	\$ 5,646

As of September 30, 2017 and September 30, 2016, the Corporation does not have any unrecognized deductible temporary differences.

The deferred tax liabilities components and their changes were as follows

Year ended September 30,	2016	Recognized in profit	2017
Deferred tax liabilities			
Differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 121,253	\$ 16,937	\$ 138,190
Differences in tax and book carrying amounts of deferred financing cost	1,909	455	2,364
Deferred tax liabilities	\$ 123,162	\$ 17,392	\$ 140,554

Year ended September 30,	2015	Recognized in Profit	2016
Deferred tax liabilities			
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	\$ 117,516	\$ 5,646	\$ 123,162

13. TRADE AND OTHER PAYABLES

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

Year ended September 30,	2017	2016
Trade payables and accrued liabilities	\$ 5,706	\$ 5,739
Deferred revenue	1,206	1,159
	\$ 6,912	\$ 6,898

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 1.75%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has obtained extension of the maturity date to December 6, 2019. As at September 30, 2017, the Corporation has drawn \$Nil (September 30, 2016 – \$40.1 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of September 30, 2017, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% and 1.30, respectively.

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

(000s of dollars except per share amounts)

Total funded debt	
Mortgages payable	\$ 839,981
Gross book value of assets	
Investment properties	\$ 1,632,235
Property, plant and equipment	5,235
	\$ 1,637,470
Overall funded debt to gross book value ratio	51%

Debt service coverage ratio

(000s of dollars)

Earning before interest, tax, depreciation and amortization, and non-recurring earnings and gain for 2017

Net profit	\$	90,935
Add (deduct):		
Mortgage interest		28,402
Income tax		17,392
Depreciation		414
Amortization of deferred financing cost		2,828
Insurance settlement		(2,400)
Fair value (gain)		(82,889)
	\$	54,682
Principal and interest payments	\$	42,021
Debt service coverage ratio		1.30

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, 2017		Year ended September 30, 2016	
	Number of common shares	Amount	Number of common shares	Amount
Issued and outstanding – beginning of the year	8,883,333	\$ 24,315	10,271,251	\$ 28,114
Shares purchased for cancellation	(53,569)	(147)	(1,387,918)	(3,799)
Exercise of stock option	6,200	57	–	–
Issued and outstanding – end of the year	8,835,964	\$ 24,225	8,883,333	\$ 24,315

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 March 31, 2017, a director of the Corporation exercised 6,200 stock options to purchase 6,200 common shares at the exercise price of \$5.51 per common share.

On May 30, 2017, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 479,437 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2017. The current NCIB expires on May 31, 2018. The Corporation's previous NCIB expired on May 30, 2017. In 2017 and 2016, the Corporation purchased and cancelled 53,569 (2016 – 187,918) common shares under the NCIB at an average price of \$36.83 per common share (2016 – \$32.76), respectively. It is anticipated that the Corporation will make application to the TSX to renew the current NCIB upon expiration thereof.

17. PROFIT PER SHARE

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

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,	2017	2016
Numerator		
Net profit	\$ 90,935	\$ 17,171
Denominator		
For basic profit per share		
Weighted average shares	8,870,871	9,568,897
Dilutive effect of stock options	694,239	689,323
For diluted profit per share	9,565,110	10,258,220
Profit per share		
Basic	\$ 10.25	\$ 1.79
Diluted	\$ 9.51	\$ 1.67

18. STOCK OPTION PLAN

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

Stock option	September 30, 2017		September 30, 2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of the year	828,200	\$ 5.51	828,200	\$ 5.51
Exercised	(6,200)	5.51	–	–
Outstanding and exercisable, end of the year	822,000	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life – years	1.44		2.44	
The range of exercise prices	\$ 5.51		\$ 5.51	

During the fiscal year 2017, a director of the Corporation exercised 6,200 stock options (2016 – Nil). No stock options may be granted under the Corporation's stock option plan after March 24, 2017.

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:

<i>in 000s</i>		September 30, 2017		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Restricted cash	Level 1	\$ 2,730	\$ 2,730	\$ 2,858	\$ 2,858
Cash and cash equivalents	Level 1	24,767	24,767	1,095	1,095
Trade and other receivables	Level 2	1,004	1,004	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
Financial liabilities					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	839,981	844,147	714,481	769,086
Trade and other oayables	Level 2	6,912	6,912	6,898	6,898
Refundable security deposits	Level 1	\$ 4,108	\$ 4,108	\$ 4,100	\$ 4,100

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

<i>in 000s</i>			September 30, 2017		September 30, 2016				
			Carrying amount	Fair value	Carrying amount	Fair value			
Non-financial assets									
Investment properties	Level 3	\$	1,632,235	\$	1,632,235	\$	1,460,080	\$	1,460,080

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. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

A 1% change in the prime lending rate would not have resulted in any change in interest expense for the year ended September 30, 2017.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of September 30, 2017, rents due from current tenants amounted to \$355,000 (September 30, 2016 – \$336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$4.1 million (September 30, 2016 – \$4.1 million) and provisions for bad debts of \$130,000 (September 30, 2016 – \$130,000).

In relation to cash, cash equivalents and restricted cash, the Corporation believes that its exposure to credit risk is low. The Corporation places its cash, cash equivalents, and restricted cash only with 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:

<i>in 000s</i>	1 Year		2 Years		3 Years		4 Years		Beyond 4 years	Total		
Mortgages payable	\$	16,788	\$	44,471	\$	60,016	\$	93,909	\$	643,979	\$	859,163
Mortgages interest payable		26,369		25,846		23,927		21,828		64,158		162,128
Trade and other payables		6,912		—		—		—		—		6,912
Refundable security deposits	\$	4,108	\$	—	\$	—	\$	—	\$	—	\$	4,108

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, 2017 and September 30, 2016, 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. Except in limited circumstances, these commissions are generally incurred or paid by the other selling party or parties to the transaction. The commissions received during the year ended September 30, 2017 amounted to \$282,000 (2016 – \$173,000) and formed part of the President and Chief Executive Officer's total remuneration for the year.
- The Corporation paid legal and professional fees and reimbursements for the year ended September 30, 2017 amounting to \$240,000 (2016 – \$197,500), respectively, to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2017, the amounts payable to the law firm was \$Nil (2016 – \$600).

23. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, 2017, were:

Navjeets (Bob) Dhillon, President and Chief Executive Officer

Johnny C.S. Lam, Chief Operating Officer

Trina Cui, Chief Financial Officer

Sheena Keslick, Vice President Operations

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

Year ended September 30,	2017	2016
Short-term benefits	\$ 3,044	\$ 2,706

The remuneration of the Corporation's key management personnel excludes the commissions of \$282,000 (2016 \$173,000) received by the President and Chief Executive Officer during the year ended September 30, 2017.

In addition, there are 772,000 option-based awards outstanding at the end of the financial year ended September 30, 2017 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,	2017	2016
BRITISH COLUMBIA		
Rental revenue	\$ 29,345	\$ 27,457
Ancillary rental income	510	379
Fair value gain	78,264	29,439
Property operating expenses	\$ 9,534	\$ 9,331
ALBERTA		
Rental revenue	\$ 60,764	\$ 61,258
Ancillary rental income	1,040	965
Fair value gain (loss)	1,652	(31,142)
Property operating expenses	\$ 25,411	\$ 22,905
SASKATCHEWAN		
Rental revenue	\$ 12,898	\$ 10,154
Ancillary rental income	103	75
Fair value gain (loss)	2,973	(1,332)
Property operating expenses	\$ 5,349	\$ 4,029
TOTAL		
Rental revenue	\$ 103,007	\$ 98,869
Ancillary rental income	1,653	1,419
Fair value gain (loss)	82,889	(3,035)
Property operating expenses	40,294	36,265
Unallocated revenue*	2,981	206
Unallocated expenses**	\$ 59,301	\$ 44,023
Profit for the year	\$ 90,935	\$ 17,171

* Unallocated revenue represents interest income and insurance settlement.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(\$000s of dollars)

Year ended September 30,	2017	2016
BRITISH COLUMBIA		
Investment properties	\$ 482,825	\$ 400,400
Property, plant and equipment	14	19
Mortgages payable	240,236	156,543
Refundable security deposits	\$ 1,330	\$ 1,290
ALBERTA		
Investment properties	\$ 954,710	\$ 892,480
Property, plant and equipment	5,208	4,794
Mortgages payable	494,080	467,555
Refundable security deposits	\$ 2,160	\$ 2,218
SASKATCHEWAN		
Investment properties	\$ 194,700	\$ 167,200
Property, plant and equipment	13	9
Mortgages payable	105,665	90,383
Refundable security deposits	\$ 618	\$ 592
TOTAL		
Investment properties	\$ 1,632,235	\$ 1,460,080
Property, plant and equipment	5,235	4,822
Mortgages payable	839,981	714,481
Refundable security deposits	\$ 4,108	\$ 4,100

IDENTIFIABLE CAPITAL EXPENDITURES

(\$000s of dollars)

Year ended September 30,	2017	2016
BRITISH COLUMBIA	\$ 4,162	\$ 9,917
ALBERTA	61,540	28,044
SASKATCHEWAN	24,535	39,736
TOTAL	\$ 90,237	\$ 77,697

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, 2017 amounted to \$1,517 million (September 30, 2016 – \$1,343 million).

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

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

The total managed capital for the Corporation is summarized below:

(\$000s of dollars)

Year ended September 30,	2017	2016
Mortgages payable	\$ 839,981	\$ 714,481
Bank indebtedness	–	40,148
Total equity	676,973	587,976
Total Capital	\$ 1,516,854	\$ 1,342,605

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, 2017 is approximately 51% (September 30, 2016 – 52%) 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)

Year ended September 30,	2017	2016
Mortgages payable	\$ 839,981	\$ 714,481
Bank indebtedness	–	40,148
Total debts	839,981	754,629
Investment properties	\$ 1,632,235	\$ 1,460,080
Debt to fair value ratio	51%	52%

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

26. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2017, the Corporation has also financed three clear-title properties for \$24 million at an interest rate of 3.05%.

Subsequent to the year end date, the Corporation acquired additional 706 residential units in Saskatoon and Regina Saskatchewan and Edmonton, Alberta, for total consideration of \$78 million.

27. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on December 12, 2017.

CORPORATE INFORMATION

OFFICERS

President & CEO

Bob Dhillon
Calgary, AB

Chief Financial Officer

Trina Cui
Calgary, AB

Chief Operating Officer

Johnny Lam
Calgary, AB

Secretary

Joe Amantea
Calgary, AB

BOARD OF DIRECTORS

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair

John Irwin
London, ON

Rich Grimaldi
Westport, CT

Ron B. Anderson
Vancouver, BC

Human Resource Committee

Chair

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

REGISTRAR & TRANSFER AGENT

REGISTRAR & TRANSFER AGENT

Computershare o/a
Montreal Trust Company
of Canada
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Calgary, AB

AUDITORS

Deloitte LLP
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Calgary, AB

SOLICITORS

Warren Benson Amantea
LLP
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Borden, Ladner & Gervais
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Calgary, AB

BANKERS

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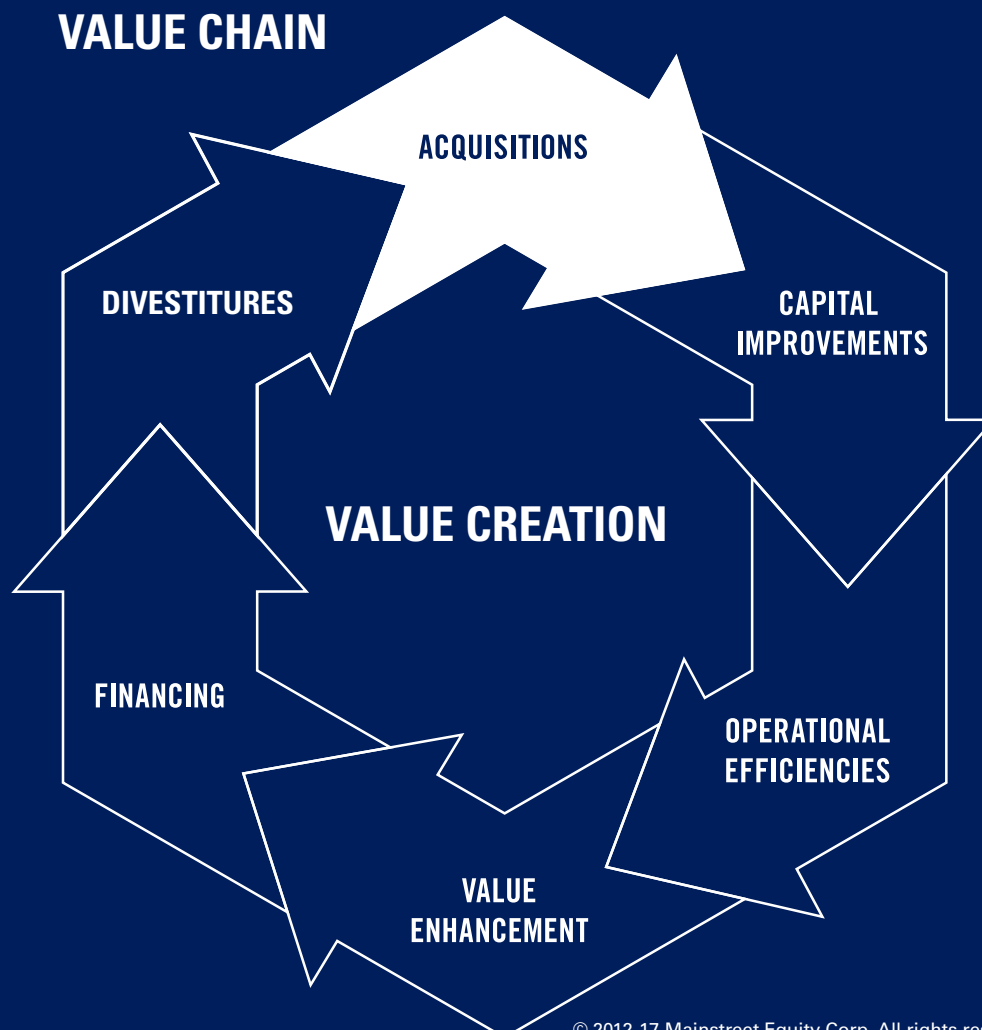
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STOCK EXCHANGE

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 11,186 units (YTD) with appraised values of approximately \$1.7 billion with minimal equity dilution.**