

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") as at and for the three and six months ended March 31, 2015 and 2014. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the three and six months ended March 31, 2015 and 2014, and the MD&A and audited consolidated financial statements and accompanying notes for the years ended September 30, 2014 and 2013. These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been reviewed and approved by the Audit Committee and Board of Directors of the Corporation and is effective as of May 7, 2015. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicate otherwise, reference herein to 2015 and 2014 refers to the three and six month periods ended March 31, 2015 and 2014, respectively.

BUSINESS OVERVIEW

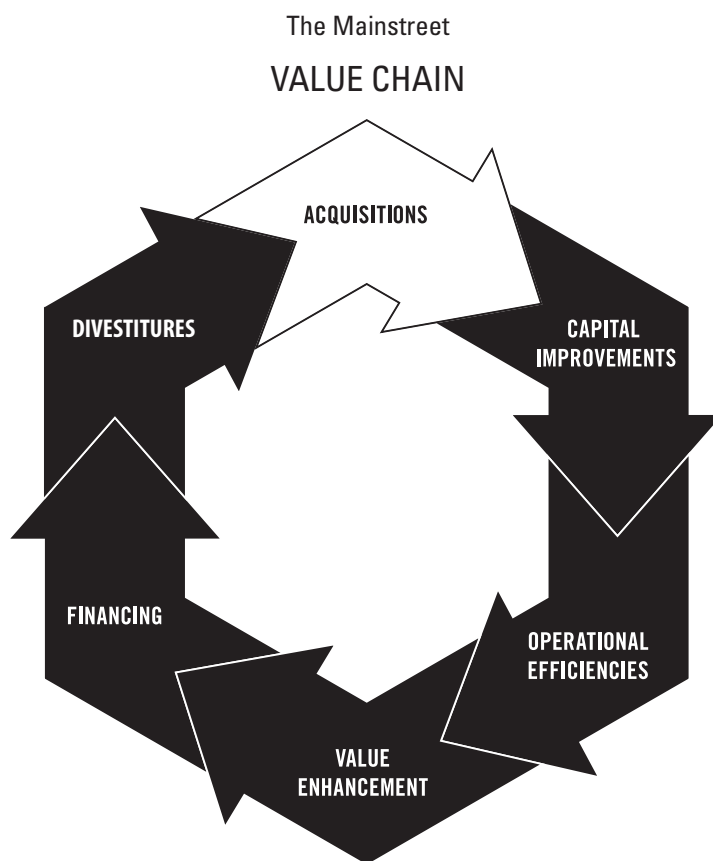
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/ Lower Mainland, Calgary, Edmonton and Saskatoon.

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

BUSINESS STRATEGY

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

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



INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Investment properties

Investment properties are properties held to earn rental income and are initially measured at costs. 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 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, 2014, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The appraisers also reviewed the changes in the market conditions of the underlying assumptions used for the fair value assessment during the period and management estimated the fair value of the investment properties at March 31, 2015 except for three properties acquired during the six months for which the cost of acquisition was used as the best estimate of the fair market value as of March 31, 2015.

The fair values are most sensitive in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,297 million at March 31, 2015. The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at March 31, 2015 and September 30, 2014, respectively.

As of March 31, 2015	Number of properties	Number of units	Market value (\$ million)	Average value per unit	Average capitalization rate as at Mar. 31, 2015
Surrey, BC	10	1,775	\$ 207	\$ 117	5.44%
Abbotsford, BC	14	937	\$ 111	\$ 118	5.37%
Calgary, AB	32	1,656	\$ 367	\$ 222	4.64%
Edmonton, AB	120	3,725	\$ 489	\$ 131	5.68%
Saskatoon, SK	39	1,066	\$ 123	\$ 115	6.58%
Total investment properties	215	9,159	\$ 1,297	\$ 142	5.40%

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

Acquisitions & Growth

(000s of dollars)

	Three months ended March 31		Six months ended March 31	
	2015	2014	2015	2014
	Surrey	Calgary & Edmonton	Saskatoon & Surrey	Calgary, Edmonton & Abbotsford
Number of rental units	331	109	379	196
Total costs	\$ 33,650	\$ 12,442	\$ 38,250	\$ 21,470
Average price per unit	\$ 102	\$ 114	\$ 101	\$ 110

Employing a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties in Western Canada that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In Q2 2015, Mainstreet purchased 331 apartment units in Surrey BC for \$33.7 million – an average purchase price of \$102,000 per unit. Since Mainstreet's previous financial year-end (September 30, 2014), the Corporation has grown its portfolio of properties by 4%. Mainstreet's portfolio now includes 9,159 residential units, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments.

As of March 31, 2015, 94% of these residential units were rented, while 2% were being renovated and the remainder left vacant because of current market conditions.

Since 1997, the Corporation's portfolio has increased from 10 to 215 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,297 million as of March 31, 2015.

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

	Number of units as of Oct. 1, 2014	Acquisitions during the six month period ended Mar. 31, 2015	Disposition during the six month period ended Mar. 31, 2015	Number of units as of Mar. 31, 2015	% Growth
Surrey, British Columbia	1,444	331	–	1,775	23%
Abbotsford, British Columbia	937	–	–	937	–
Calgary, Alberta	1,656	–	–	1,656	–
Edmonton, Alberta	3,725	–	–	3,725	–
Saskatoon, Saskatchewan	1,018	48	–	1,066	5%
Investment properties	8,780	379	–	9,159	4%

CAPITAL IMPROVEMENTS

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

In Q2 2015, the Corporation spent \$ 3.8 million (Q2 2014 – \$3.6 million), of which \$3 million was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, new window, new siding and insulation. These expenditures also covered mechanical interior upgrades such as new boilers, new flooring and paint. To address the balance of non-renovated units and maintain the condition of properties in the current portfolio, Mainstreet plans to spend an estimated \$12 million on renovations in the remaining six months of 2015. These improvements are expected to be financed through existing cash balances, funds from operations and on-going refinancing of existing properties. Mainstreet expects to complete most of these renovations of existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

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

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of Financial Results

(000s of dollars except per share amounts)

	Three months ended Mar. 31,			Six months ended Mar. 31,		
	2015	2014	% change	2015	2014	% change
Gross revenue	\$ 24,991	\$ 22,030	13%	\$ 49,667	\$ 43,561	14%
Profit and comprehensive income						
from continuing operations before						
other items and income tax expense	\$ 6,766	\$ 4,843	40%	\$ 14,306	\$ 10,737	33%
Loss from discontinued operations	\$ –	\$ (198)	(100%)	\$ –	\$ (196)	(100%)
(Loss) profit and comprehensive						
income from continuing operations	\$ (2,792)	\$ (905)	209%	\$ 1,805	\$ 2,377	(24%)
Fair value losses	\$ 5,910	\$ 4,151	42%	\$ 10,127	\$ 8,539	19%
Depreciation	\$ 93	\$ 91	2%	\$ 176	\$ 176	0%
Income tax (recovery)						
current and deferred	\$ 3,648	\$ 1,597	128%	\$ 2,374	\$ (179)	(1,426%)
Funds from continuing operations	\$ 6,859	\$ 4,934	39%	\$ 14,482	\$ 10,913	33%
Current income tax	\$ (730)	\$ –	100%	\$ (730)	\$ –	100%
Funds from continuing operations						
after current income tax	\$ 6,129	\$ 4,934	24%	\$ 13,752	\$ 10,913	26%
Funds from discontinued operations	\$ –	\$ (282)	(100%)	\$ –	\$ (80)	(100%)
Funds from operations (Note 1)	\$ 6,129	\$ 4,652	32%	\$ 13,752	\$ 10,833	27%
Funds from discontinued operations	\$ –	\$ 282	(100%)	\$ –	\$ 80	(100%)
Interest income	\$ (48)	\$ (22)	118%	\$ (86)	\$ (51)	69%
Current income tax	\$ 730	\$ –	100%	\$ 730	\$ –	100%
General and administrative expenses	\$ 2,536	\$ 2,128	19%	\$ 4,809	\$ 4,287	12%
Mortgage interest	\$ 6,402	\$ 6,095	5%	\$ 12,437	\$ 11,964	4%
Financing cost	\$ 483	\$ 447	8%	\$ 942	\$ 842	12%
Net operating income (Note 2)	\$ 16,232	\$ 13,582	20%	\$ 32,584	\$ 27,955	17%
Operating margin from						
continuing operations	65%	62%		66%	64%	
(Loss) profit per share						
Basic – continuing operations	\$ (0.27)	\$ (0.09)	200%	\$ 0.17	\$ 0.23	(26%)
Basic – discontinued operations	\$ –	\$ (0.02)	–	\$ –	\$ (0.02)	–
Fully diluted – continuing operations	\$ (0.27)	\$ (0.09)	200%	\$ 0.16	\$ 0.21	(24%)
Fully diluted – discontinued operations	\$ –	\$ (0.02)	–	\$ –	\$ (0.02)	–
Funds from operations per share						
Basic – continuing operations	\$ 0.59	\$ 0.47	26%	\$ 1.32	\$ 1.04	27%
Basic – discontinued operations	\$ –	\$ (0.03)	–	\$ –	\$ (0.01)	–
Fully diluted – continuing operations	\$ 0.55	\$ 0.44	25%	\$ 1.23	\$ 0.98	26%
Fully diluted – discontinued operations	\$ –	\$ (0.03)	–	\$ –	\$ (0.01)	–
Weighted average number of shares						
Basic	10,441,641	10,466,681		10,455,512	10,466,347	
Fully diluted	10,441,641	10,466,681		11,163,712	11,170,006	
March 31, 2015						
Total Assets	\$1,313,173					
Total Long term liabilities	\$ 657,161					

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

2. Net operating income ("NOI") is rental revenue minus property operating expenses. While Mainstreet uses NOI to measure its operational performance, it is not a recognized measure under IFRS. The IFRS measure most directly comparable to NOI is profit. NOI should not be construed as an alternative to profit determined in accordance with IFRS. Readers are cautioned that NOI may differ from similar calculations used by other comparable entities. A reconciliation of profit to net operating income from continuing operations for the period is provided above.

REVENUE

In Q2 2015, revenue was primarily comprised of rental and ancillary rental income totalling \$25.0 million (Q2 2014 – \$22.0 million) and interest income. The 13% increase in revenue over Q2 2014 is due to increases in the rental and ancillary rental income, which is discussed and analysed in the session entitled "Rental Operations" below.

(LOSS) PROFIT FROM CONTINUING OPERATIONS

For the three and six months ended March 31, 2015, Mainstreet reported a loss from continuing operations of \$2.8 million (\$0.27 per basic share) and a profit of \$1.8 million (0.17 per basic share), respectively as compared to a loss of \$0.9 million (\$0.09 per basic share) and a profit of \$2.4 million (\$0.23 per basic share), respectively in 2014. Included in the Q2 loss is a non-cash negative fair value adjustment to investment properties of the Corporation of \$5.9 million (2014 – \$4.1 million) and non cash deferred income taxes of \$2.9 million (2014 – \$1.6 million). Please refer to the discussion of "Funds from Operations" below for an analysis and comparison of profitability excluding these non-cash items.

FUNDS FROM OPERATIONS

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

In Q2 2015, Mainstreet's FFO from continuing operations before current income tax increased to \$6.9 million, an increase of 39% over Q2 2014 of \$4.9 million. FFO from continuing operations after current income tax increased to \$6.1 million (\$0.59 per basic share) as compared to \$4.9 million in Q2 2014 (\$0.47 per basic share), an increase of 24%. The increase is a result of a 14% growth in the Corporation's portfolio relative to Q2 2014, and a substantial improvement in the rental operations as analysed under the section entitled "Rental Operations" below.

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, professional fees and salaries. In Q2 2015, G&A expenses moderately increased by 19% to \$2.5 million as compared to \$2.1 million in Q2 2014. The increase in G&A expenses was mainly attributable to growth of the Corporation, an increase in staff, salary adjustments and legal and professional fees.

MORTGAGE INTEREST

Mortgage interest expenses increased 5% to \$6.4 million in Q2 2015 compared to \$6.1 million in Q2 2014. The rise is mainly attributable to an increase in mortgage loans from new acquisitions and refinancing of matured debts.

RENTAL OPERATIONS

(000s of dollars except per unit data)

3 months ended March 31,

	Total Portfolio			Same Asset			Acquisition		
	2015	2014	% change	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 24,991	\$ 22,030	13%	\$ 23,268	\$ 21,768	7%	\$ 1,723	\$ 262	558%
Operating expenses	\$ 8,759	\$ 8,448	4%	\$ 8,105	\$ 8,342	(3%)	\$ 654	\$ 106	517%
Net operating income	\$ 16,232	\$ 13,582	20%	\$ 15,163	\$ 13,426	13%	\$ 1,069	\$ 156	585%
Operating margin	65%	62%		65%	62%		62%	60%	
Average vacancy rate	7.5%	8.4%	(11%)	6.0%	8.2%	(27%)	21.2%	18.2%	16%
Weighted average number of units	9,077	8,347	9%	8,218	8,218	–	859	129	566%
Average rental rate per unit per month	\$ 918	\$ 880	4%	\$ 944	\$ 883	7%	\$ 669	\$ 677	(1%)
Average operating expense per unit per month	\$ 322	\$ 337	(5%)	\$ 329	\$ 338	(3%)	\$ 254	\$ 274	(7%)

6 months ended March 31,

	Total Portfolio			Same Asset			Acquisition		
	2015	2014	% change	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 49,667	\$ 43,561	14%	\$ 46,669	\$ 43,235	8%	\$ 2,998	\$ 326	820%
Operating expenses	\$ 17,083	\$ 15,606	9%	\$ 15,913	\$ 15,480	3%	\$ 1,170	\$ 126	829%
Net operating income	\$ 32,584	\$ 27,955	17%	\$ 30,756	\$ 27,755	11%	\$ 1,828	\$ 200	814%
Operating margin	66%	64%		66%	64%		61%	61%	
Average vacancy rate	7.2%	8.2%	(12%)	6.1%	8.1%	(24%)	18.8%	9.9%	90%
Weighted average number of units	8,947	8,302	8%	8,218	8,218	–	729	84	768%
Average rental rate per unit per month	\$ 925	\$ 875	6%	\$ 946	\$ 877	8%	\$ 685	\$ 647	6%
Average operating expense per unit per month	\$ 318	\$ 313	2%	\$ 323	\$ 314	3%	\$ 267	\$ 250	7%

The overall rental revenue increased by 13% to \$25.0 million in Q2 2015 from \$22.0 million in Q2 2014, as the result of the growth of the Corporation's portfolio, increases in rental rates and decreased vacancy rate.

The weighted average number of units increased by 9% to 9,077 units in Q2 2015 from 8,347 units in Q2 2014. The average rental rate per unit per month increased by 4% to \$918 in Q2 2015 from \$880 per unit. The rise was due to the combined effects of a reduction in the average vacancy rate from 8.4% to 7.5% and an increase in rental rates post-stabilization of unstabilized properties.

Overall, operating costs increased by 4% to \$8.8 million in Q2 2015, compared to \$8.4 million in Q2 2014, due mainly to the growth of the Corporation's portfolio of properties. The average operating expense per unit per month decreased by 5% to \$322 in Q2 2015 from \$337 per unit in Q2 2014 due mainly to decreased heating costs. As a net result, the net operating income increased by 20% over the period and the overall operating margin increased to 65% as compared to 62% in Q2 2014.

SAME ASSETS PROPERTIES

"Same assets" properties are properties owned by the Corporation for the entire three and six month periods ended March 31, 2015 and 2014. As of March 31, 2015, 193 properties (8,218 units) out of Mainstreet's 215 properties (9,159 units) constituted same assets properties.

Rental revenues from "same assets" properties increased by 7% to \$23.3 million in Q2 2015 compared to \$21.8 million in Q2 2014 as a result of increased rental rates and decreased vacancy rates.

Operating costs for "same assets" properties decreased by 3% to \$8.1 million in Q2 2015, compared to \$8.3 million in Q2 2014, due mainly to decreases in utility expenses. As a net result, the same assets net operating income increased by 13% over the period and operating margin increased to 65% as compared to 62% in Q2 2014.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet achieved a 19% growth in the British Columbia portfolio in Q2 2015; the average number of rental units has grown to 2,630 units compared to 2,217 units in Q2 2014. The average vacancy rate improved marginally from 9.2% in Q2 2014 to 8.9% in Q2 2015 due mainly to an improved occupancy rate in the Surrey market and stabilization of certain properties acquired in 2014 in Abbotsford. The improvement of the vacancy rate was partially offset by an acquisition of a 331 unit property with a vacancy rate of over 30% in Surrey in Q2 2015.

The operating expense per unit decreased to \$280 per month in Q2 2015 from \$316 per month in Q2 2014 due mainly to a substantial decrease in heating costs. As a net result, the net operating income increased by 29% and the operating margin increased to 62% as compared to 58% in Q2 2014.

(000s of dollars except per unit data)

	Three months ended March 31			Six months ended March 31		
	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 5,889	\$ 4,959	19%	\$ 11,366	\$ 9,731	17%
Operating expenses	\$ 2,211	\$ 2,104	5%	\$ 4,210	\$ 3,959	6%
Net operating income	\$ 3,678	\$ 2,855	29%	\$ 7,156	\$ 5,772	24%
Weighted average number of units	2,630	2,217	19%	2,506	2,203	14%
Average rent per unit per month	\$ 746	\$ 746	0%	\$ 756	\$ 736	3%
Operating cost per unit per month	\$ 280	\$ 316	(11%)	\$ 280	\$ 300	(7%)
Average vacancy rate	8.9%	9.2%		8.0%	9.3%	
Operating margin	62%	58%		63%	59%	

Alberta

Mainstreet achieved 3% growth in the Alberta portfolio in Q2 2015; the average number of rental units has grown to 5,381 units, compared to 5,213 units in Q2 2014. The average vacancy rate decreased to 5.2% in Q2 2015 from 8.4% in Q2 2014. The improvement in vacancy rate was mainly due to completion of the stabilization of several underperforming properties in Calgary and Edmonton subsequent to Q2 2014. Rental revenue per unit also increased by 9% to \$1,024 per month in Q2 2015 from \$940 per month in Q2 2014 as a result of the stabilization of these properties.

The operating expense per unit decreased to \$344 per month in Q2 2015 from \$352 per month in Q2 2014. The decrease in operating expense was mainly due to decreased utility expenses from an exceptionally mild winter in Alberta. As a net result, the net operating income increased by 19% and the operating margin increased to 66% as compared to 63% in Q2 2014.

(000s of dollars except per unit data)

	Three months ended March 31			Six months ended March 31		
	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 16,528	\$ 14,707	12%	\$ 33,025	\$ 29,146	13%
Operating expenses	\$ 5,547	\$ 5,505	1%	\$ 11,807	\$ 10,112	17%
Net operating income	\$ 10,981	\$ 9,202	19%	\$ 21,218	\$ 19,034	11%
Weighted average number of units	5,381	5,213	3%	5,381	5,182	4%
Average rent per unit per month	\$ 1,024	\$ 940	9%	\$ 1,023	\$ 937	9%
Operating cost per unit per month	\$ 344	\$ 352	(2%)	\$ 366	\$ 325	12%
Average vacancy rate	5.2%	8.4%		5.5%	8.0%	
Operating margin	66%	63%		64%	65%	

Saskatchewan

Mainstreet achieved 16% growth in the Saskatchewan portfolio in Q2 2015; the average number of rental units has grown to 1,066 units, compared to 917 units in Q2 2014. The average vacancy rate increased to 15.7% in Q2 2015 from 6.0% in Q2 2014. The substantial increase in the vacancy rate was mainly attributable to the following factors:

1. A significant growth of the Saskatoon market with the acquisition of 149 unstabilized units with high vacancy rates since Q2 2014;
2. Slowdown of the economy due to the significant drop in oil prices; and
3. Following the resignation of the regional operation manager in January 2015, the Corporation is still looking for a suitable replacement for this senior regional management position. Currently, the Saskatoon portfolio is managed by the management team in Calgary which has affected the effectiveness of management and control.
4. As a result of the high vacancy rate, the rental revenue per unit decreased by 6% to \$805 per month in Q2 2015 from \$859 per month in Q2 2014.

The operating expense per unit increased to \$313 per month in Q2 2015 from \$305 per month in Q2 2014 mainly due to increased property tax expenses. As a net result, the net operating income increased marginally by 3% and the operating margin decreased to 61% from 65% in Q2 2014.

(000s of dollars except per unit data)

	Three months ended March 31			Six months ended March 31		
	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 2,574	\$ 2,364	9%	\$ 5,276	\$ 4,684	13%
Operating expenses	\$ 1,001	\$ 839	19%	\$ 1,786	\$ 1,535	16%
Net operating income	\$ 1,573	\$ 1,525	3%	\$ 3,490	\$ 3,149	11%
Weighted average number of units	1,066	917	16%	1,060	917	16%
Average rent per unit per month	\$ 805	\$ 859	(6%)	\$ 830	\$ 851	(3%)
Operating cost per unit per month	\$ 313	\$ 305	3%	\$ 281	\$ 279	1%
Average vacancy rate	15.7%	6.0%		13.7%	6.2%	
Operating margin	61%	65%		66%	67%	

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, due mainly to 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 at the end of Q2 2015.

City	Stabilized properties					Unstabilized properties				\$000
	Total number of units	Number of stabilized units	Current net rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	Number of unstabilized units	Current net rent rate per unit per month	Current vacancy rate	Current market rent rate per unit per month	Potential increase in rental revenue under the optimum operations
Abbotsford, BC	937	731	\$ 757	5.47%	\$ 813	206	\$ 759	17.48%	\$ 855	\$ 953
Surrey, BC	1,775	1,360	\$ 853	3.38%	\$ 901	415	\$ 845	31.57%	\$ 925	\$ 2,018
Calgary, AB	1,656	1,609	\$ 1,211	4.60%	\$ 1,236	47	\$ 1,054	38.30%	\$ 1,200	\$ 640
Edmonton, AB	3,725	3,469	\$ 988	4.53%	\$ 1,026	256	\$ 921	12.50%	\$ 977	\$ 1,676
Saskatoon, SK	1,066	917	\$ 947	16.90%	\$ 996	149	\$ 882	17.45%	\$ 1,015	\$ 2,175
	9,159	8,086	\$ 984	5.84%	\$ 1,024	1,073	\$ 933	22.65%	\$ 946	\$ 7,462

RESULTS OF DISCONTINUED OPERATIONS

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

Management believes Western Canada is the region with better business opportunities, growth potential and business environment, which best matches with the Corporation's add-value business model.

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

Results of discontinued operations

	Three months ended March 31				Six months ended March 31			
	2015		2014		2015		2014	
Rental revenue	\$	–	\$	195	\$	–	\$	919
Ancillary rental income		–		9		–		22
		–		204		–		941
Property operating expenses		–		338		–		656
Net operating (loss) income		–		(134)		–		285
Mortgage interest		–		59		–		185
Amortization of financing cost		–		9		–		37
General and administrative expenses		–		80		–		143
Depreciation		–		–		–		1
		–		148		–		366
Loss from discontinued operations before loss on disposition, fair value losses and income tax (recovery) expense		–		(282)		–		(81)
Loss on disposition		–		(583)		–		(583)
Fair value losses		–		–		–		(223)
Loss before income tax recovery		–		(865)		–		(887)
Income tax recovery		–		(667)		–		(691)
Loss from discontinued operations	\$	–	\$	(198)	\$	–	\$	(196)
Basic loss per share	\$	–	\$	(0.02)	\$	–	\$	(0.02)
Diluted loss per share	\$	–	\$	(0.02)	\$	–	\$	(0.02)

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013
Rental revenue	\$ 24,631	\$ 24,307	\$ 23,538	\$ 22,562	\$ 21,713	\$ 21,256	\$ 20,642	\$ 19,509
Ancillary rental income	360	369	397	389	317	274	400	299
Interest income	48	39	46	32	22	10	14	6
Total revenue from continuing operations	25,039	24,715	23,981	22,983	22,052	21,540	21,056	19,814
Fair value (loss) gain	(5,910)	(4,217)	41,747	23,371	(4,151)	(4,388)	49,244	942
(Loss) profit from continuing operations	(2,792)	4,597	39,607	24,806	(905)	3,263	46,110	(690)
(Loss) profit from discontinued operations	–	–	–	–	(198)	21	(630)	(182)
(Loss) profit for the period	(2,792)	4,597	39,607	24,806	(1,103)	3,284	45,480	(872)
Per share results								
Basic								
– continuing operations	(0.27)	0.44	3.78	2.37	(0.09)	0.31	4.41	(0.07)
Basic								
– discontinued operations	–	–	–	–	(0.02)	–	(0.06)	(0.02)
Diluted								
– continuing operations	(0.25)	0.41	3.54	2.22	(0.08)	0.29	4.13	(0.06)
Diluted								
– discontinued operations	–	–	–	–	(0.02)	–	(0.06)	(0.02)
Average vacancy rate	7.5%	6.9%	6.6%	8.0%	8.4%	7.8%	7.7%	9.1%
Net operating income	\$ 16,232	\$ 16,353	\$ 16,859	\$ 15,286	\$ 13,582	\$ 14,372	\$ 14,504	13,248
Funds from continuing operations	\$ 6,129	\$ 7,623	\$ 8,068	\$ 6,631	\$ 4,934	\$ 5,961	\$ 6,088	\$ 5,276
Per share results								
Basic								
– continuing operations	\$ 0.59	\$ 0.73	\$ 0.77	\$ 0.63	\$ 0.47	\$ 0.57	\$ 0.58	\$ 0.50
Diluted								
– continuing operations	\$ 0.55	\$ 0.68	\$ 0.72	\$ 0.59	\$ 0.44	\$ 0.53	\$ 0.55	\$ 0.47

Highlights of the Corporation's financial results for the second quarter ended March 31, 2015:

- During Q2 2015, Mainstreet acquired one residential apartment building (331 units) at an average cost of \$102,000 per unit.
- In Q2 2015, rental income increased to \$24.6 million from \$24.3 million in Q1 2015 and \$21.7 million in Q2 2014, due mainly to the acquisition of more rental units and increased rental rates.
- In Q2 2015, the average vacancy rate for the quarter was 7.5% compared to 6.9% in Q1 2015 and 8.4% in Q2 2014.
- Fair value loss for the quarter was \$5.9 million as compared to \$4.2 million in Q1 2015 and \$4.2 million in Q2 2014.

STABILIZED PROPERTIES

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

The Corporation refers to the underperforming properties acquired as “Unstabilized Properties”; the process of renovating and repositioning those acquired Unstabilized Properties as in the “Stabilization Process” and properties after the completion of the Stabilization Process 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 whether such properties are subject to rent control legislation in the Provinces in which the properties are acquired.

Based upon the Corporation's past experience, the average period required for the Stabilization Process is approximately two years in provinces without statutory rent controls, like Alberta and Saskatchewan. In British Columbia, due to applicable statutory rent controls, the amount of rent increase allowed annually for existing tenants is determined by the Tenancy Board of the Province of British Columbia (thereby potentially decreasing tenant turnover rate and delaying rent increases to current market levels). For that reason, past experience shows that the average Stabilization Process requires approximately three years in British Columbia.

As of March 31, 2015, 190 properties (8,086 units) out of 215 properties (9,159 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2015.

	October 1, 2014	Acquisition during the period	Number of units stabilized	March 31, 2015
Stabilized units	7,744	–	342	8,086
Unstabilized units	1,036	379	(342)	1,073
Total number of unstabilized units	8,780	379	–	9,159

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

	October 1, 2014	No. of units stabilized during the period	No. of unstabilized unit acquired during the period	March 31, 2015
No. of unstabilized units held for renovation	952	(342)	379	989
No. of unstabilized units held for redevelopment	84	–	–	84
Total no. of unstabilized units	1,036	(342)	379	1,073
Number of months				
Average time spent on stabilization	13	24	3	9
Estimated remaining time for stabilization	15	–	32	22

During the six month period ended March 31, 2015, the Corporation acquired 379 unstabilized units that required substantial renovation and with rents considered well below the market for stabilized units. The Corporation has stabilized 342 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For Q2 2015, FFO from continued operations of Mainstreet's stabilized property portfolio amounted to \$5.9 million (\$0.56 per basic share and \$0.53 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended March 31			Six months ended March 31		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 22,938	\$ 2,053	\$ 24,991	\$ 45,999	\$ 3,668	\$ 49,667
Property operating expenses	\$ 7,955	\$ 804	\$ 8,759	\$ 15,618	\$ 1,465	\$ 17,083
Net operating income	\$ 14,983	\$ 1,249	\$ 16,232	\$ 30,381	\$ 2,203	\$ 32,584
Operating margin	65%	61%	65%	66%	60%	66%
Vacancy rate	5.7%	23.1%	7.7%	5.7%	20.3%	7.3%
Interest income	\$ 42	\$ 6	\$ 48	\$ 77	\$ 9	\$ 86
General & administrative expenses	\$ 2,240	\$ 296	\$ 2,536	\$ 4,285	\$ 524	\$ 4,809
Mortgage interest	\$ 5,765	\$ 637	\$ 6,402	\$ 11,492	\$ 945	\$ 12,437
Financing cost	\$ 405	\$ 78	\$ 483	\$ 789	\$ 153	\$ 942
Funds from operation before current income tax	\$ 6,615	\$ 244	\$ 6,859	\$ 13,892	\$ 590	\$ 14,482
Current income tax	\$ 730	\$ —	\$ 730	\$ 730	\$ —	\$ 730
Funds from operations	\$ 5,885	\$ 244	\$ 6,129	\$ 13,162	\$ 590	\$ 13,752
Funds from operations per share						
– basic	\$ 0.57	\$ 0.02	\$ 0.59	\$ 1.26	\$ 0.06	\$ 1.32
– diluted	\$ 0.53	\$ 0.02	\$ 0.55	\$ 1.18	\$ 0.05	\$ 1.23

Comparing to Q2 2014, FFO of the stabilized property portfolio increased by 25% to \$5.9 million, while the number of stabilized units increased by 13% to 8,086 units as of March 31, 2015 compared to 7,138 units as of March 31, 2014.

(000s in dollars)

	Three months ended March 31			Six months ended March 31		
	2015	2014	% change	2015	2014	% change
Stabilized FFO before loss on disposal and stock option cancellation expense	\$ 5,885	\$ 4,721	25%	\$ 13,162	\$ 10,528	25%
Number of stabilized units	8,086	7,138	13%	8,032	7,128	13%

LIQUIDITY & CAPITAL RESOURCES

Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In Q2 2015, after payments of all required expenses, the Corporation generated funds from operations of \$6.1 million.

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

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In Q2 2015, the Corporation spent approximately \$38.6 million on acquisition of investment properties and capital improvement. Management expects the following capital resources to be sufficient to meet the capital requirement on a year to year basis.

Financing

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

In Q2 2015, Mainstreet refinanced \$ 4.2 million in matured debt with an average interest rate of 4.30% into 10-year long-term CMHC-insured mortgage loans for \$8.3 million at an average interest rate of 2.2%. Mainstreet also financed six clear-title properties for \$9.0 million at an interest rate of 2.4%. Together, this refinancing activity raised approximately \$13.1 million in additional funds, and resulted in an annualized savings in interest expense of approximately \$86,000.

As of March 31, 2015, the Corporation owned the following 26 clear title properties and a development lot with fair value of approximately \$102 million:

Clear Title Asset List as of March 31, 2015

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition (000s)	Fair Value (000s)
2929/2959 Tims St., Abbotsford, BC	108	\$ 10,300	\$ 11,900
3147 – 151 Avenue, Edmonton, AB	99	\$ 10,000	\$ 12,400
3065 Clearbrook Road, Abbotsford, BC	56	\$ 5,550	\$ 6,350
1122 – 8 Avenue SW, Calgary, AB	50	\$ 1,975	\$ 13,000
32120 Peardonville Road, Abbotsford, BC	42	\$ 4,400	\$ 5,450
10625 & 10635 115 Street, Edmonton, AB	42	\$ 4,568	\$ 4,600
11065 – 149 Street, Edmonton, AB	33	\$ 4,027	\$ 5,460
1335 & 1339 – 10 Ave SE, Calgary, AB	29	\$ 3,000	\$ 4,900
11848 – 87 Street, Edmonton, AB	27	\$ 2,783	\$ 3,460
115 Avenue V N, Saskatoon, SK	27	\$ 2,268	\$ 2,550
10125 – 114 Street, Edmonton, AB	24	\$ 1,103	\$ 990
11233 – 124 Street, Edmonton, AB	24	\$ 2,500	\$ 2,620
10630 – 105 Street NW, Edmonton, AB	23	\$ 1,900	\$ 2,800
10633 – 116 Street, Edmonton, AB	21	\$ 2,352	\$ 2,440
10715 – 116 Street, Edmonton, AB	18	\$ 2,010	\$ 2,310
10203 – 156 Street, Edmonton, AB	18	\$ 1,925	\$ 2,100
318 – 14 Avenue SW, Calgary, AB	18	\$ 2,250	\$ 4,150
15216 – 100 Avenue, Edmonton, AB	18	\$ 1,505	\$ 2,120
10626 – 104 Street, Edmonton, AB	16	\$ 1,628	\$ 1,780
11940 – 82 Street, Edmonton, AB	15	\$ 1,500	\$ 1,550
10443 – 156 Street, Edmonton, AB	12	\$ 1,092	\$ 1,600
10016 – 152 Street, Edmonton, AB	12	\$ 1,062	\$ 1,490
1901 – 7 Street E, Saskatoon, SK	12	\$ 1,140	\$ 1,140
10041 – 152 Street, NW Edmonton, AB	12	\$ 1,158	\$ 1,730
1906 – 22 Street W, Saskatoon, SK	11	\$ 902	\$ 1,250
11624 – 124 Street, Edmonton, AB	9	\$ 1,010	\$ 1,060
Multi-family developing lot, 33283 Bourquin Cr. E, Abbotsford, BC		\$ 306	\$ 450
Total as of March 31, 2015	776	\$ 74,214	\$ 101,650

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 50%, which management believes will leave considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

The Corporation has a banking facility for a maximum of \$85 million with a syndicate of Canadian chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and matures on December 6, 2016. The facility is renewable every three years subject to the mutual agreement of the lenders and the Corporation. As at March 31, 2015, the Corporation has drawn \$26 million (September 30, 2014 – \$22.5 million under the old banking facility) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of March 31, 2015, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 49% and 1.50 respectively, which were calculated as follows:

Overall funded debt to gross book value ratio as of March 31, 2015

	\$000s
Total funded debt	
Mortgages payable	\$ 616,664
Bank indebtedness	\$ 25,708
	\$ 642,372
Gross book value of assets	
Investment properties	\$ 1,297,216
Property, plant and equipment	\$ 4,782
	\$ 1,301,998
Overall funded debt to gross book value ratio	49%

Debt Service Coverage Ratio

	\$000s
Earning before interest, tax, depreciation, amortization and extraordinary items for 12 months ended March 31, 2015	
Net income (loss) per financial statements	\$ 66,199
Add (deduct)	
Mortgage interest	\$ 24,595
Income tax	\$ 16,867
Depreciation	\$ 375
Amortization of finance cost	\$ 1,899
Extraordinary item – fair value gains	\$ (54,991)
	\$ 54,944
Principal and interest payments	\$ 36,586
Debt service coverage ratio	1.50

Share Buybacks

Mainstreet is capitalizing on current volatility in the capital markets to purchase and cancel its own shares. Given the discount between its current share price and net asset value (NAV), management believes that the re-purchase of its shares is returning capital to shareholders in a tax-efficient manner that is accretive to NAV. In Q2 2015, Mainstreet repurchased and cancelled 89,930 shares at a weighted average price of \$37.15 per share or an aggregate amount of \$3.3 million.

CONTRACTUAL OBLIGATIONS

As of March 31, 2015, the Corporation had the following contractual obligations, which are anticipated to be met using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of March 31, 2015 are as follows:

12 months ending March 31,	Amount
2015	\$ 60,865
2016	58,158
2017	74,789
2018	33,443
2019	9,655
Subsequent	391,997
	628,907
Deferred financing costs	(12,243)
	<u>\$ 616,664</u>

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 556,702	89%	3.84%
– non-CMHC-insured	\$ 72,205	11%	4.61%
Total fixed rate debt	\$ 628,907	100%	3.92%
Deferred financing cost	\$ (12,243)		
	<u>\$ 616,664</u>		

Mainstreet's long-term debt consists of low-rate, fixed-term mortgage financing. All individual mortgages are secured with their respective real estate assets. Based largely on the fair value of properties, management believes this financing reflects the strength of its property portfolio. The maturity dates for this debt are staggered to mitigate overall interest rate risk.

As of March 31, 2015, total mortgages payable were \$617 million compared to \$579 million on September 30, 2014 – an increase of 7% due to financing during the six months ended March 31, 2015.

At March 31, 2015, management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 50% of fair value of investment properties. About 89% 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 (%)
2015	\$ 48,837	8%	4.51%
2016	\$ 53,688	9%	4.63%
2017	\$ 66,758	11%	5.25%
2018	\$ 27,198	4%	5.39%
2019	\$ 1,504	0%	4.25%
Subsequent	\$ 430,922	68%	3.47%
	<u>\$ 628,907</u>	100%	3.92%

All mortgage loans maturing in 2015 are expected to be refinanced to long term CMHC insured mortgages by the end of the 2015.

INTERNAL CONTROL

Disclosure controls and procedures ("DC & P") are designed to provide reasonable assurances that all relevant 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 regarding public financial disclosure matters.

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

In Q2 2015, these controls and procedures were reviewed and the effectiveness of their design and operation were evaluated. This evaluation confirmed the effectiveness of the design and operation of controls and procedures as at March 31, 2015.

No changes were made to DC & P during the quarter ended March 31, 2015.

As at March 31, 2015, Mainstreet confirmed the design of ICFR to provide reasonable assurances regarding the reliability of the financial reporting and the preparation of financial statements and information for external purposes in accordance with IFRS and 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 ICFR during the financial quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

FINANCIAL INSTRUMENTS & RISK MANAGEMENT

Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, 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:

		March 31, 2015		Sept. 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Restricted cash	Level 1	\$ 3,060	\$ 3,060	\$ 2,993	\$ 2,993
Cash and cash equivalents	Level 1	2,424	2,424	1,041	1,041
Trade and other receivables	Level 2	654	654	1,160	1,160
Mortgage receivable	Level 2	2,500	2,482	2,500	2,500
Bank indebtedness	Level 1	25,708	25,708	22,457	22,457
Mortgages payable	Level 2	616,664	670,148	579,537	612,314
Trade and other payables	Level 2	5,777	5,777	6,264	6,264
Refundable security deposits	Level 1	\$ 4,042	\$ 4,042	\$ 3,965	\$ 3,965

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

		March 31, 2015		Sept. 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:					
Investment properties	Level 3	\$ 1,297,216	\$ 1,297,216	\$ 1,259,010	\$ 1,259,010

Risk Associated with Financial Assets & Liabilities

The Corporation is exposed to risks arising from its financial assets and liabilities. These include market risk related to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled "Risk Assessment and Management" on page 22.

SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Six months ended March 31, 2015		Year ended September 30, 2014	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the period	10,469,081	\$ 28,656	10,465,281	\$ 28,541
Share purchase loan reduction	—	—	—	80
Shares purchased for cancellation	(89,930)	(247)	—	—
Exercise of stock options	—	—	3,800	21
Transfer from contributed surplus	—	—	—	14
Issued and outstanding, end of the period	10,379,151	\$ 28,409	10,469,081	\$ 28,656

All common shares share an equal right to dividends.

On April 17, 2015, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 630,914 common shares of the Corporation under a Normal Course Issuer Bid commencing April 21, 2015 and terminating on April 20, 2016. The Corporation's previous Normal Course Issuer Bid expired on April 20, 2015. During the three and six months ended March 31, 2015 and 2014, the Corporation purchased and cancelled 89,930 shares (2014 Nil) at the average price of \$37.15 per share for \$3.3 million.

STOCK OPTION

A summary of the Corporation's stock option plan as of March 31, 2015, and September 30, 2014 and changes during the periods are presented below:

Stock option	March 31, 2015		September 30, 2014	
	Number of shares	Weighted Average Exercise price	Number of shares	Weighted Average Exercise price
Outstanding and exercisable, beginning of the period	828,200	\$ 5.51	832,000	\$ 5.51
Exercised	–	–	3,800	\$ 5.51
Outstanding and exercisable, end of the period	828,200	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life-years	3.94		4.44	
Exercise price	\$ 5.51		\$ 5.51	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 21, 2014, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of the issued and outstanding common shares. The exercise price of the option shall equal the market-trading price of the Corporation's common share on the date of grant. The stock options are fully vested at the time of issue. The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate of and expected dividend rate. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration received by the Corporation on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost. The stock option plan will remain in place until the termination of the annual general meeting of the Corporation in 2016 unless renewed and approved by the shareholders of the Corporation prior to that date.

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 the shareholders of the Corporation on March 21, 2013 and will remain in effect until the termination of the annual of general meeting of the Corporation in the year 2016, unless renewed and approved by the shareholders of the Corporation prior to that date.

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

The Rights Plan is not intended to prevent a take over bid or deter offers for the common shares of the Corporation. It is designed to encourage any bidder to provide shareholders with equal treatment and full and fair value for their common shares. Immediately upon the Rights Plan coming into effect, one right ("Right") was issued and attached to each common share of the Corporation outstanding and will continue to attach to each common share subsequently issued.

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

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

of \$25, the holder of each Right would be entitled to receive \$200 (twice the Exercise Price) in market value of the Common Shares (8 Common Shares) for \$100, ie. at a 50% discount.

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

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

Key accounting estimates and assumptions

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

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

Actual results could differ from estimates.

Transactions with Related Parties

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the three and six months period ended March 31, 2015 amounted to \$200,000 (2014 – \$76,000) and \$237,500 (2014 – \$113,000) 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 three and six months ended March 31, 2015 amounting to \$19,000 (2014 – \$164,000) and \$65,000 (2014 – \$218,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As at March 31, 2015, the amounts payable to the law firm were \$959 (September 30, 2014 – \$20,000).

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for the six-month period ended March 31, 2015.

Risk Assessment & Management

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

Vacancy Risk

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

Vacancy rates can also be affected negatively by increased supply of multi-family units in the Corporation's core markets. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Mainstreet's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the

apartments or its competitors may be newer, better located or offer lower rents. In addition, an increase in alternative housing could have a material adverse effect on the Corporation's ability to lease units and in the rents charged and could adversely affect the Corporation's revenues and ability to meet its obligations.

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

- attempting to increasing 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 suite, 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.

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling approximately \$64 million are subject to renewal in the next 12 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

Utilities Risk

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

Risks of Real Estate Property Ownership

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

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

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

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

Renovation Risks

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Certain significant expenditures, including property taxes, maintenance costs, interest payments, insurance costs and related charges must be made throughout the period of ownership of real estate property regardless of whether the property is producing revenue. Delays in the renovation of a building or individual apartment units as a result of labour shortfalls 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 such migrant or immigration labour, shipping risks and currency fluctuations, all of which may result in unexpected or higher costs or possible delays. The Corporation addresses these risks by acquiring financing to fund renovations, staggering renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis. However, recent and possible new changes in federal immigration laws related to migrant or immigrant labour may have a negative impact regarding mitigating an increase in labour costs and expenses.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of March 31, 2015, rents due from current tenants amounted to \$201,000 (September 30, 2014 – \$249,000). The possibility of not receiving payment of rent due from current tenants is covered by security deposits of \$4 million (September 30, 2014 – \$4 million) and provisions for bad debts of \$100,000 (September 30, 2014 – \$100,000).

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

Liquidity Risk

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

Financing Risk

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

Reliance on Key Employees

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

Income Tax Risk

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

Economic Uncertainty

Any worldwide economic slowdown, stock market uncertainty, commodity price uncertainty and international credit crisis could adversely impact the business and the future profitability of the Corporation. In addition, worldwide falling oil and nature gas commodity prices could result in an economic slowdown in Western Canada. During any period of economic uncertainty tenants may experience financial difficulty and may default in payment of rent or possibly look for less expensive accommodations. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

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 sales revenue exists in the event that demand diminishes or supply becomes overabundant thereby driving down prices for real estate assets.

Acquisitions Risks

Mainstreet's growth depends in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. It is not possible to manage all risks associated with such acquisitions in the terms and conditions contained in commercial agreements pertaining to such acquisitions. The real estate assets may be subject to unknown, unexpected or undisclosed liabilities that may materially and adversely affect the Corporation's operations and 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 acquires 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.

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 buildings. The Corporation must also balance requirements to maintain adequate staffing levels while balancing the overall cost to the Corporation.

Within Mainstreet, 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, it adjusts the program accordingly. Mainstreet also encourages employee's feedback in these areas to ensure the existing programs are meeting their personal needs.

Uninsured Losses

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

From time to time the Corporation may be subject to lawsuits as a result of the nature of its business. The Corporation intends to maintain business and property insurance policies in amounts and with such coverage and deductibles as are deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. However, there can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the Corporation that is not covered by, or in excess of, the Corporation's insurance could materially affect such entity's operating results and financial condition, which would have an adverse effect on the

Corporation. Claims against the Corporation, regardless of their merit or eventual outcome, will require the Corporation's management to devote time to matters unrelated to the operation of the business. To the extent possible the Corporation intends to minimize these risks by creating a separate entity for each separate property to be acquired.

Substitutions for Residential Rental Units

Demand for the 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. With the recent global economic crisis and its impact on the United States and other credit markets, interest rates offered by financial institutions for financing home ownership have been at historically 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 of 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 of operations. Even if the Corporation prevails in any such legal proceeding, the proceedings could be costly and time consuming and may divert the attention of management and key personnel from the Corporation's business operations, which could have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations and ability to make dividends to shareholders.

Rent Control

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

Currently, the Corporation operates in Canada in the Provinces of Alberta, British Columbia and Saskatchewan. Neither Alberta nor Saskatchewan is subject to rent control legislation; however, under Alberta legislation, a landlord is only entitled to increase rent 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 guideline amount is 2% percent 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 and regulation proceedings. Mainstreet endeavors 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 the 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 interest of these persons could conflict with those of the Corporation. In addition, from time to time, these persons may be competing 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.

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 reasoning quantitative and qualitative, leading to an opinion of value. The analysis, options and conditions in an appraisal are typically developed based on and in conformity with, interpretation of the guidelines and recommendations set forth in the Canadian Uniform Standards of Appraisal Practice. Appraisals are based on various assumptions of future expectations of property performance and while the appraiser's internal forecast of net income for the properties appraised are considered to be reasonable at that time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

CHALLENGES

The ongoing weakness in oil prices continues to create uncertainties in regions where the economy is heavily reliant on the energy industry. Canada's GDP in the first two months of 2015 contracted by 0.2% (Stats Canada), and overall estimates for Alberta's economic performance this year have been significantly reduced. With 59% of the Mainstreet portfolio in Alberta, management is mindful of the uncertainty this situation has created, and is monitoring the economic environment while keeping a close watch on costs, operating margins and marketplace conditions. Nevertheless, the oil and natural gas commodity price volatility conversely creates a series of opportunities that are discussed at greater length in the Outlook section below.

To this point in time, Mainstreet has not experienced a material impact to operations from changes in economic conditions. Weaker performance in its Saskatoon portfolio stemmed from local market conditions as well as internal operational challenges that are being addressed.

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

OUTLOOK

Mainstreet has produced consistently strong growth by sticking to a strategy of careful operational management and value creation through opportunistic acquisitions. This two-pronged approach continues to serve it well in the current environment, and Mainstreet sees several important reasons for continued optimism.

Finding promise in uncertain times

The economic impact of falling energy prices in Mainstreet's core markets remains uncertain and, if it persists, may negatively affect vacancy rates and rental concessions. Mainstreet is not immune from broader economic forces. However, it believes any future impact should be considered against a series of positive counter-factors:

- 1) Weak energy prices have coincided with lower natural gas prices and an easing in labour market pressure, both substantial cost areas for Mainstreet. In Q2 2015, the natural gas costs fell 30% in Alberta year-over-year;
- 2) Uncertain economic times tend to be supportive of the rental market, as consumers delay large purchases like new homes; and
- 3) Weaker economic performance has translated into a drop in interest rates to historically low levels. Interest rates have fallen by 114 basis points year-over-year.

Liquidity and promising coastal markets

With the ongoing economic uncertainty in Alberta and Saskatchewan, Mainstreet is taking prudent measures to monitor and assess these markets. It has, accordingly, become more conservative in its underwriting criteria in these regions, although Mainstreet remains prepared to move quickly when it finds opportunities to acquire properties where it can create value. Mainstreet continues to see supportive conditions for further expansion in the British Columbia Lower Mainland. Management anticipates that the Corporation will have approximately \$85 million in liquidity available by the end of the current fiscal year. This includes cash on hand and availability on its line of credit of \$47 million, in addition to an estimated \$38 million that can be raised through refinancing of mortgages maturing before the end of fiscal year 2015. This large liquidity position should allow Mainstreet to act decisively when acquisition opportunities arise, while upholding our commitment not to dilute shareholder value.

Plenty of remaining run-way

- 1) **Squeezing the NOI gap:** At the end of Q2 2015, 12% of the Mainstreet portfolio remained unstabilized, which contributed to higher vacancy rates and lower rental rates. While this is a normal part of the Mainstreet business model, its continual work of renovating and improving properties before releasing them back to the market provides, in our opinion, additional avenues to improve NOI performance. Mainstreet estimates its current outstanding NOI gap at \$7.5-million, which is based on the gains possible by achieving a 95% occupancy rate after stabilization of the existing portfolio at its full market rent.
- 2) **The power of low interest rates:** Mainstreet has never before experienced interest rates as low as they are today. In addition, Mainstreet has successfully negotiated a historically low spread with its major lenders, which has provided a further reduction in borrowing costs. For example, the interest rate obtained in the most recent 10-year, fixed-rate, CMHC-insured mortgage was 2.2%. For the remainder of fiscal 2015, Mainstreet plans to refinance \$48 million of mortgages maturing in the current fiscal year. With an estimated interest rate of 2.3%, management estimates the refinancing will result in a further savings in annualized interest expense of \$830,000 while raising additional capital of approximately \$38 million.
- 3) **A strategy that keeps delivering:** The Mainstreet business model creates value that enables consistent growth through acquisitions without diluting shareholder model. With its substantial liquidity position, Mainstreet believes it has the capacity to maintain that growth in its core markets.
- 4) **Value close to home:** Stock market volatility has created a buying opportunity in Mainstreet's own shares. Mainstreet shares currently trade at approximately \$37 per share. Management believes that the current share price is substantially below the corporation's Net Asset Value and intends to continue to purchase and cancelling shares on an opportunistic basis under its 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.