

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 nine months ended June 30, 2015 and 2014. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 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 July 13, 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 indicated otherwise, reference herein to 2015 and 2014 refers to the three and nine month periods ended June 30, 2015 and 2014, respectively.

BUSINESS OVERVIEW

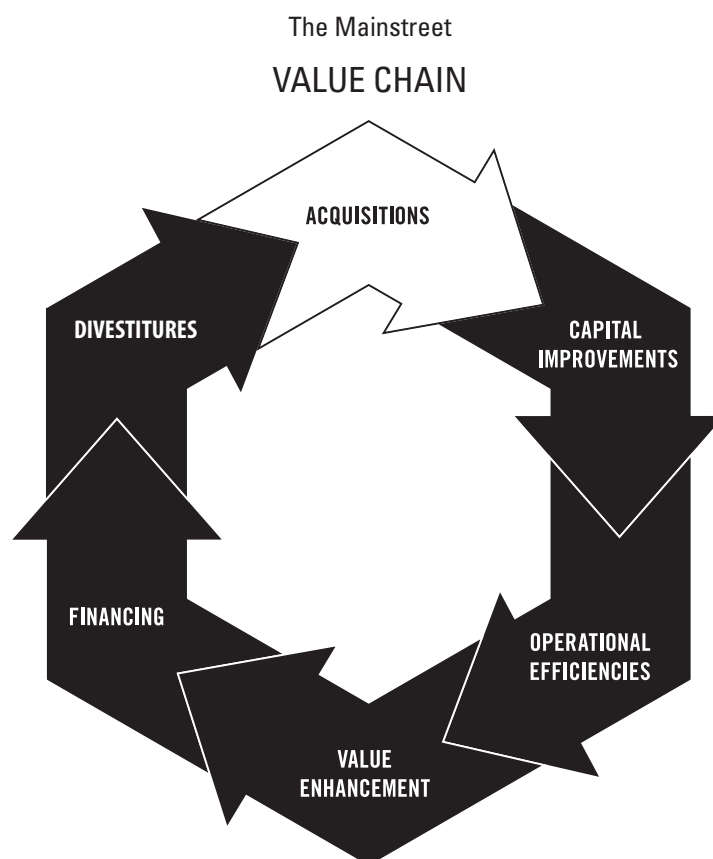
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/Lower Mainland, Calgary (including cities of Lethbridge and Cochrane,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

Investment properties

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

After initial recognition, the Corporation adopts the fair value model to account for the carrying value of investment properties in accordance with International Accounting Standards ("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 June 30, 2015, except for two properties acquired during the nine months for which the cost of acquisition was used as the best estimate of the fair market value as of June 30, 2015.

The fair values are most sensitive in net operating income and capitalization rates. Mainstreet's total portfolio is estimated to be valued at \$1,305 million at June 30, 2015. The following is the breakdown of market value by city and average capitalization rates used in determining the estimated fair value of investment properties at June 30, 2015 and September 30, 2014, respectively.

As of June 30, 2015	Number of properties	Number of units	Market value (\$ million)	Average value per unit	Average capitalization rate as at June 30, 2015
Surrey, BC	10	1,775	\$ 207	\$ 117	5.44%
Abbotsford, BC	14	937	\$ 111	\$ 118	5.37%
Calgary, AB	33	1,812	\$ 380	\$ 209	4.64%
Edmonton, AB	120	3,729	\$ 482	\$ 129	5.68%
Saskatoon, SK	39	1,066	\$ 125	\$ 117	6.58%
Total investment properties	216	9,319	\$ 1,305	\$ 140	5.40%

As of September 30, 2015	Number of properties	Number of units	Market value (\$ million)	Average value per unit	Average capitalization rate as at Sep. 30, 2015
Surrey, BC	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

	Three months ended June 30		Nine months ended June 30	
	2015	2014	2015	2014
	Lethbridge	Abbotsford, Edmonton & Saskatoon	Saskatoon, Surrey & Lethbridge	Calgary, Edmonton, Abbotsford & Saskatoon
Number of rental units	156	298	535	494
Total costs	\$ 13,400	\$ 27,201	\$ 51,650	\$ 48,671
Average price per unit	\$ 86	\$ 91	\$ 97	\$ 99

Employing a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties in Western Canada that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In Q3 2015, Mainstreet purchased 156 apartment units in Lethbridge, Alberta for \$13.4 million – an average purchase price of \$86,000 per unit. Since Mainstreet's previous financial year-end (September 30, 2014), the Corporation has grown its portfolio of properties by 6%. Mainstreet's portfolio now includes 9,319 residential units, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments.

As of June 30, 2015, 92% of these residential units were rented, while 3% were being renovated and the remainder left vacant because of current market conditions.

Since 1997, the Corporation's portfolio has increased from 10 to 216 buildings, while the estimated fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,305 million as of June 30, 2015.

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

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

Note (2) – Conversion of 3 commercial units into 7 residential apartment in one of the existing property.

CAPITAL IMPROVEMENTS

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

In Q3 2015, the Corporation spent \$5.0 million (Q3 2014 - \$3.2 million), of which \$2.3 million was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, new windows, 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 \$5 million on renovations in the remaining three 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, increases in labour and material costs, and a possible slowing or recessionary economy in Western Canada due to lower petroleum and natural gas commodity prices, all of which could have a material impact on the timing and cost of completing these renovations.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of Financial Results

(000s of dollars except per share amounts)

	Three months ended June 30,			Nine months ended June 30,		
	2015	2014	% change	2015	2014	% change
Gross revenue	\$ 25,090	\$ 22,951	9%	\$ 74,757	\$ 66,512	12%
Profit and comprehensive income from continuing operations before other items and income tax expense	7,798	6,535	19%	22,104	17,272	28%
Loss from discontinued operations	–	–	–	–	(196)	(100%)
(Loss) profit and comprehensive income from continuing operations	\$ (9,325)	\$ 24,806	(138%)	\$ (7,520)	\$ 27,183	(128%)
Fair value loss (gain)	10,993	(23,371)	(147%)	21,120	(14,832)	(242%)
Depreciation	110	96	15%	287	272	6%
Income tax – current and deferred	6,130	5,100	20%	8,504	4,921	73%
Funds from continuing operations before current income tax	7,908	6,631	19%	22,391	17,544	28%
Current income tax	(359)	–	100%	(1,090)	–	100%
Funds from continuing operations after current income tax	7,549	6,631	14%	21,301	17,544	21%
Funds from discontinued operations	–	–	–	–	(80)	(100%)
Funds from operations (Note 1)	\$ 7,549	\$ 6,631	14%	\$ 21,301	\$ 17,464	22%
Funds from discontinued operations	–	–	–	–	80	(100%)
Interest income	(35)	(32)	10%	(122)	(83)	47%
Current income tax	359	–	100%	1,090	–	100%
General and administrative expenses	2,125	2,109	1%	6,934	6,397	8%
Mortgage interest	6,347	6,074	4%	18,784	18,037	4%
Financing cost	498	504	(1%)	1,440	1,346	7%
Net operating income (Note 2)	\$ 16,843	\$ 15,286	10%	\$ 49,427	\$ 43,241	14%
Operating margin from continuing operations	67%	67%		66%	65%	
(Loss) profit per share						
Basic – continuing operations	\$ (0.90)	\$ 2.37	(138%)	\$ (0.72)	\$ 2.60	(128%)
Basic – discontinued operations	\$ –	\$ –	–	\$ –	\$ (0.02)	(100%)
Fully diluted – continuing operations	\$ (0.90)	\$ 2.22	(141%)	\$ (0.72)	\$ 2.43	(130%)
Fully diluted – discontinued operations	\$ –	\$ –	–	\$ –	\$ (0.02)	(100%)
Funds from operations per share						
Basic – continuing operations	\$ 0.73	\$ 0.63	16%	\$ 2.04	\$ 1.68	21%
Basic – discontinued operations	\$ –	\$ –	–	\$ –	\$ (0.01)	(100%)
Fully diluted – continuing operations	\$ 0.68	\$ 0.59	15%	\$ 1.91	\$ 1.57	22%
Fully diluted – discontinued operations	\$ –	\$ –	–	\$ –	\$ (0.01)	(100%)
Weighted average number of shares						
Basic	10,345,517	10,469,081		10,418,847	10,467,258	
Fully diluted	11,051,951	11,180,203		11,126,464	11,173,504	
June 30, 2015						
Total Assets	\$1,336,928					
Total Long term liabilities	\$ 658,210					

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

REVENUE

In Q3 2015, revenue was primarily comprised of rental and ancillary rental income totalling \$25.1 million (Q3 2014 – \$23.0 million) and interest income. The 9% increase in revenue over Q3 2014 is due to increases in the rental and ancillary rental income, which is discussed and analysed in the section entitled "Rental Operations" below.

(LOSS) PROFIT FROM CONTINUING OPERATIONS

For the three and nine months ended June 30, 2015, Mainstreet reported a loss from continuing operations of \$9.3 million (\$0.90 per basic share) and \$7.5 million (\$ 0.72 per basic share), respectively, as compared to a profit of \$24.8 million (\$2.37 per basic share) and profit of \$27.0 million (\$2.6 per basic share), respectively, in 2014. The loss from continuing operations included fair value loss of \$11 million (Q3 2014 – a gain of \$23.4 million) which is comprised of the following:

(000s of dollars except per unit data)

	Three months ended June 30,			Nine months ended June 30,		
	2015	2014	% change	2015	2014	% change
Fair value loss (gain) from changes in market condition in Edmonton	\$ 7,662	\$ (20,279)	(138%)	\$ 7,662	\$ (20,279)	(138%)
Fair value (gain) from appraisal	\$ (1,719)	\$ (7,115)	(76%)	\$ (1,719)	\$ (7,115)	(76%)
Capital expenditure incurred	\$ 5,050	\$ 4,023	26%	\$ 15,177	\$ 12,562	21%
Fair value loss (gain)	\$ 10,993	\$ (23,371)	(147%)	\$ 21,120	\$ (14,832)	(242%)

The loss from continuing operations in Q3 2015 and Q3 2014 will be further discussed and analysed in the following section entitled "Funds From Operations".

FUNDS FROM OPERATIONS

Management believes that FFO rather than profit, as defined in the preceding footnote, is a more meaningful performance measurement for a real estate company's operating performance as FFO excludes these non-operating income and expenses namely fair value gain or loss, depreciation and deferred income tax. 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 Q3 2015, Mainstreet's FFO from continuing operations before current income tax increased to \$7.9 million, an increase of 19% over Q3 2014 of \$6.6 million. FFO from continuing operations after current income tax increased to \$7.5 million (\$0.73 per basic share) as compared to \$6.6 million in Q3 2014 (\$0.63 per basic share), an increase of 14%. The increase is a result of increased net rental revenue due to a 7% growth in the Corporation's portfolio and stabilization of unstabilized properties since Q3 2014.

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, professional fees and salaries. In Q3 2015, G&A expenses remained fairly consistent at \$2.1 million, compared to Q3 2014.

MORTGAGE INTEREST

Mortgage interest expenses increased 4% to \$6.3 million in Q3 2015 compared to \$6.1 million in Q3 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 June 30,

	Total Portfolio			Same Asset			Acquisition		
	2015	2014	% change	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 25,090	\$ 22,951	9%	\$ 23,125	\$ 22,214	4%	\$ 1,965	\$ 737	167%
Operating expenses	8,247	7,665	8%	7,320	7,415	(1%)	927	250	271%
Net operating income	\$ 16,843	\$ 15,286	10%	\$ 15,805	\$ 14,799	7%	\$ 1,038	\$ 487	113%
Operating margin	67%	67%		68%	67%		53%	66%	
Average vacancy rate	8.0%	8.0%	0%	6.7%	7.6%	(12%)	19.0%	17.2%	11%
Weighted average number of units	9,167	8,591	7%	8,218	8,218	–	949	373	154%
Average rental rate per unit per month	\$ 912	\$ 891	2%	\$ 938	\$ 901	4%	\$ 690	\$ 659	5%
Average operating expense per unit per month	\$ 300	\$ 297	1%	\$ 297	\$ 301	(1%)	\$ 326	\$ 223	46%

9 months ended June 30,

	Total Portfolio			Same Asset			Acquisition		
	2015	2014	% change	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 74,757	\$ 66,512	12%	\$ 69,793	\$ 65,450	7%	\$ 4,964	\$ 1,062	368%
Operating expenses	25,330	23,271	9%	23,243	22,897	2%	2,087	371	457%
Net operating income	\$ 49,427	\$ 43,241	14%	\$ 46,550	\$ 42,553	9%	\$ 2,877	\$ 686	319%
Operating margin	66%	65%		67%	65%		58%	65%	
Average vacancy rate	7.4%	8.1%	(8%)	6.3%	7.9%	(20%)	18.9%	17.0%	11%
Weighted average number of units	9,020	8,398	7%	8,218	8,218	–	802	180	346%
Average rental rate per unit per month	\$ 921	\$ 880	5%	\$ 944	\$ 885	7%	\$ 688	\$ 655	5%
Average operating expense per unit per month	\$ 312	\$ 308	1%	\$ 314	\$ 310	2%	\$ 289	\$ 231	25%

The overall rental revenue increased by 9% to \$25.1 million in Q3 2015 from \$23.0 million in Q3 2014, as the result of the growth of the Corporation's portfolio by 7% and increase in rental rate.

The weighted average number of units increased by 7% to 9,167 units in Q3 2015 from 8,591 units in Q3 2014. The average rental rate per unit per month increased by 2% to \$912 in Q3 2015 from \$891 per unit. The increase was mainly due to higher rental rates after stabilization of properties.

Overall, operating costs increased by 8% to \$8.2 million in Q3 2015, compared to \$7.7 million in Q3 2014, due mainly to the growth of the Corporation's portfolio of properties. The average operating expense per unit per month slightly increased by 1% to \$300 in Q3 2015 from \$297 per unit in Q3 2014 due mainly to increased repair and maintenance expenses. As a net result, the net operating income increased by 10% over the period and the overall operating margin remained at 67% as compared to Q3 2014.

SAME ASSETS PROPERTIES

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

Rental revenues from "same assets" properties increased by 4% to \$23.1 million in Q3 2015 compared to \$22.2 million in Q3 2014 as a result of increased rental income after stabilization of unstabilized properties.

Operating costs for “same assets” properties decreased by 1% to \$ 7.3 million in Q3 2015, compared to \$7.4 million in Q3 2014, due mainly to decreases in utility expenses and weather-related repairs and maintenance expenses. As a net result, the same assets net operating income increased by 7% over the period and operating margin increased to 68% as compared to 67% in Q3 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 17% growth in the British Columbia portfolio in Q3 2015; the average number of rental units has grown to 2,712 units compared to 2,326 units in Q3 2014. The average vacancy rate also improved from 8.5% in Q3 2014 to 7.4% in Q3 2015, due mainly to an improved occupancy rate in both the Surrey and Abbotsford markets and stabilization of certain properties acquired in 2014 in Abbotsford. In addition, British Columbia is currently experiencing the strongest economic performance of the country's provinces, according to Statistics Canada. Rental revenue per unit increased by 3% to \$764 per month in Q3 2015 from \$741 per month in Q3 2014 as a result of the stabilization of properties during the period.

The operating expense per unit remained the same at \$290 per month compared to Q3 2014. As a net result, the net operating income increased by 23% and the operating margin increased to 62% as compared to 61% in Q3 2014.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 6,216	\$ 5,169	20%	\$ 17,583	\$ 14,900	18%
Operating expenses	2,359	2,021	17%	6,569	5,980	10%
Net operating income	\$ 3,857	\$ 3,148	23%	\$ 11,014	\$ 8,920	23%
Weighted average number of units	2,712	2,326	17%	2,574	2,244	15%
Average rent per unit per month	\$ 764	\$ 741	3%	\$ 759	\$ 738	3%
Operating cost per unit per month	\$ 290	\$ 290	–	\$ 284	\$ 296	(4%)
Average vacancy rate	7.4%	8.5%		7.8%	9.0%	
Operating margin	62%	61%		63%	60%	

Alberta

Mainstreet achieved a marginal growth of 2% in the Alberta portfolio in Q3 2015; the average number of rental units has grown to 5,389 units, compared to 5,297 units in Q3 2014. The average vacancy rate decreased to 5.6% in Q3 2015 from 7.9% in Q3 2014. The improvement in vacancy rates was mainly due to completion of the stabilization of several underperforming properties in Calgary and Edmonton subsequent to Q3 2014. Rental revenue per unit also increased by 6% to \$1,023 per month in Q3 2015 from \$964 per month in Q3 2014 as a result of the stabilization of properties during the period.

The operating expense per unit increased to \$314 per month in Q3 2015 from \$303 per month in Q3 2014. The increase in operating expense was mainly due to increased repair and maintenance expenses. As a net result, the net operating income increased by 9% and the operating margin remained at 69% as compared to Q3 2014.

	Three months ended June 30			Nine months ended June 30		
	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 16,536	\$ 15,319	8%	\$ 49,561	\$ 44,465	11%
Operating expenses	5,074	4,812	5%	16,161	14,924	8%
Net operating income	\$ 11,462	\$ 10,507	9%	\$ 33,400	\$ 29,541	13%
Weighted average number of units	5,389	5,297	2%	5,384	5,220	3%
Average rent per unit per month	\$ 1,023	\$ 964	6%	\$ 1,023	\$ 946	8%
Operating cost per unit per month	\$ 314	\$ 303	4%	\$ 334	\$ 318	5%
Average vacancy rate	5.6%	7.9%		5.5%	8.0%	
Operating margin	69%	69%		67%	66%	

Saskatchewan

Mainstreet achieved 10% growth in the Saskatchewan portfolio in Q3 2015; the average number of rental units has grown to 1,066 units, compared to 969 units in Q3 2014. The average vacancy rate increased to 21.6% in Q3 2015 from 6.8% in Q3 2014. The substantial increase in the vacancy rate was mainly attributable to the following factors:

1. A 10% growth in the Saskatoon portfolio that included the acquisition of unstabilized properties with high vacancy rates;
2. Slowdown of the local economy due to the significant drop in petroleum and natural gas commodity prices; and
3. Since the resignation of the regional operation manager in January 2015, the Saskatoon portfolio has been managed by the management team in Calgary, which Management believes has affected the effectiveness of management and control of these properties. In June 2015, Mainstreet transferred a manager to Saskatoon to manage the portfolio locally. Management expects to see improved performance in Q4 2015.

As a result of the high vacancy rate, the rental revenue per unit decreased by 14% to \$731 per month in Q3 2015 from \$847 per month in Q3 2014.

The operating expense per unit decreased to \$255 per month in Q3 2015 from \$286 per month in Q3 2014, benefitting from lower utility costs. As a net result, the net operating income dropped by 7% and the operating margin decreased to 65% from 66% in Q3 2014.

	Three months ended June 30			Nine months ended June 30		
	2015	2014	% change	2015	2014	% change
Rental revenue and ancillary rental income	\$ 2,338	\$ 2,463	(5%)	\$ 7,613	\$ 7,147	7%
Operating expenses	814	832	(2%)	2,600	2,367	10%
Net operating income	\$ 1,524	\$ 1,631	(7%)	\$ 5,013	\$ 4,780	5%
Weighted average number of units	1,066	969	10%	1,062	934	14%
Average rent per unit per month	\$ 731	\$ 847	(14%)	\$ 797	\$ 850	(6%)
Operating cost per unit per month	\$ 255	\$ 286	(11%)	\$ 272	\$ 282	(3%)
Average vacancy rate	21.6%	6.8%		16.4%	6.4%	
Operating margin	65%	66%		66%	67%	

POTENTIAL GROWTH IN RENTAL REVENUE UNDER OPTIMUM OPERATIONS

Management defines "optimum operations" as when all rental units attain their respective market rental rates and the average vacancy rate reaches 5%.

The Corporation is not currently operating under optimum operations, due mainly to market condition, stabilization of newly acquired properties and renovation of turnover suites.

The following table indicates the estimated potential increase in rental revenue should the Corporation operate under the optimum operating conditions as defined in the preceding paragraph, as of the quarter-end dated June 30, 2015.

(000s of dollars)

City	Stabilized properties					Unstabilized properties				
	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	\$ 761	2.05%	\$ 813	206	\$ 711	8.25%	\$ 854	\$ 626
Surrey, BC	1,775	1,360	\$ 856	3.90%	\$ 901	415	\$ 840	20.24%	\$ 925	\$1,589
Calgary, AB	1,812	1,609	\$1,193	5.28%	\$1,236	203	\$1,203	32.94%	\$1,136	\$1,512
Edmonton, AB	3,729	3,513	\$ 993	5.52%	\$1,033	216	\$ 931	13.43%	\$ 982	\$2,163
Saskatoon, SK	1,066	917	\$ 947	23.56%	\$ 998	149	\$ 900	24.83%	\$1,006	\$2,970
	9,319	8,130	\$ 983	6.92%	\$1,026	1,189	\$ 904	17.97%	\$ 948	\$8,860

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 as a region offers better business opportunities, growth potential and business environment, and best matches 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 June 30		Nine months ended June 30	
	2015	2014	2015	2014
Rental revenue	\$ —	\$ —	\$ —	\$ 919
Ancillary rental income	—	—	—	22
	—	—	—	941
Property operating expenses	—	—	—	656
Net operating income	—	—	—	285
Mortgage interest	—	—	—	185
Amortization of financing cost	—	—	—	37
General and administrative expenses	—	—	—	143
Depreciation	—	—	—	1
	—	—	—	366
Loss from discontinued operations before loss on disposition, fair value loss and income tax (recovery) expense	—	—	—	(81)
Loss on disposition	—	—	—	(583)
Fair value loss	—	—	—	(223)
Loss before income tax expense	—	—	—	(887)
Income tax recovery	—	—	—	(691)
Loss from discontinued operations	\$ —	\$ —	\$ —	\$ (196)
Basic loss per share	\$ —	\$ —	\$ —	\$ (0.02)
Diluted loss per share	\$ —	\$ —	\$ —	\$ (0.02)

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013
Rental revenue	\$ 24,700	24,631	24,307	23,538	\$ 22,562	\$ 21,713	\$ 21,256	\$ 20,642
Ancillary rental income	390	360	369	397	389	317	274	400
Interest income	35	48	39	46	32	22	10	14
Total revenue from continuing operations	25,125	25,039	24,715	23,981	22,983	22,052	21,540	21,056
Fair value (loss) gain	\$ (10,993)	\$ (5,910)	\$ (4,217)	\$ 41,747	\$ 23,371	\$ (4,151)	\$ (4,388)	\$ 49,244
(Loss) profit from continuing operations	\$ (9,325)	\$ (2,792)	\$ 4,597	\$ 39,607	\$ 24,806	\$ (905)	\$ 3,263	\$ 46,110
(Loss) profit from discontinued operations	–	–	–	–	–	(198)	21	(630)
(Loss) profit for the period	\$ (9,325)	\$ (2,792)	\$ 4,597	\$ 39,607	\$ 24,806	\$ (1,103)	\$ 3,284	\$ 45,480
Per share results								
Basic – continuing operations	\$ (0.90)	\$ (0.27)	\$ 0.44	\$ 3.78	\$ 2.37	\$ (0.09)	\$ 0.31	\$ 4.41
Basic – discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.02)	\$ 0.00	\$ (0.06)
Diluted – continuing operations	\$ (0.90)	\$ (0.27)	\$ 0.41	\$ 3.54	\$ 2.22	\$ (0.09)	\$ 0.29	\$ 4.13
Diluted – discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.02)	\$ 0.00	\$ (0.06)
Average vacancy rate	8.00%	7.50%	6.88%	6.60%	8.00%	8.40%	7.80%	7.70%
Net operating income	\$ 16,843	\$ 16,232	\$ 16,353	\$ 16,859	\$ 15,286	\$ 13,582	\$ 14,372	\$ 14,504
Funds from continuing operations	\$ 7,549	\$ 6,129	\$ 7,623	\$ 8,068	\$ 6,631	\$ 4,934	\$ 5,961	\$ 6,088
Per share results								
Basic – continuing operations	\$ 0.73	\$ 0.59	\$ 0.73	\$ 0.77	\$ 0.63	\$ 0.47	\$ 0.57	\$ 0.58
Diluted – continuing operations	\$ 0.68	\$ 0.55	\$ 0.68	\$ 0.72	\$ 0.59	\$ 0.44	\$ 0.53	\$ 0.55

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

- During Q3 2015, Mainstreet acquired one residential apartment building (156 units) at an average cost of \$86,000 per unit;
- In Q3 2015, rental revenue was \$24.7 million, compared to \$24.6 million in Q2 2015 and \$22.6 million in Q3 2014;
- In Q3 2015, the average vacancy rate was 8.0% compared to 7.5% in Q2 2015 and 8.0% in Q3 2014; and
- Fair value loss for the quarter was \$11 million, as compared to \$5.9 million in Q2 2015 and a gain of \$23.4 million in Q3 2014.

STABILIZED PROPERTIES

The Corporation focuses on acquiring underperforming properties, renovating and then repositioning them 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 the "Stabilization Process." Properties that have completed the Stabilization Process are referred to as "Stabilized Properties." The period of time required for the completion of renovations and repositioning of renovated properties at current market rents depends on the condition of

the properties acquired, the amount of renovation work required to raise the property to Mainstreet's standards and the existence of 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, allowable annual rent increases for existing tenants are determined by the provincial Tenancy Board, thereby potentially decreasing tenant turnover and delaying the rise of rental rates to current market levels. For that reason, past experience shows the average Stabilization Process in British Columbia is approximately three years.

As of June 30, 2015, 192 properties (8,130 units) out of 216 properties (9,319 units) were stabilized. The following table summarizes the change of the Corporation's stabilized units and unstabilized units since the beginning of fiscal year 2015.

	October 1, 2014	Acquisition/addition during the period	Number of units stabilized	June 30, 2015
Stabilized units	7,744	4	382	8,130
Unstabilized units	1,036	535	(382)	1,189
Total number of unstabilized units	8,780	539	–	9,319

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	June 30, 2015
No. of unstabilized units held for renovation	952	(382)	535	1,105
No. of unstabilized units held for redevelopment	84	–	–	84
Total no. of unstabilized units	1,036	(382)	535	1,189
Number of months				
Average time spent on stabilization	13	24	4	13
Estimated remaining time for stabilization	15	–	27	19

During the nine month period ended June 30, 2015, the Corporation acquired 535 unstabilized units that required substantial renovation with rents below market rates for stabilized units. The Corporation has stabilized 382 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For Q3 2015, FFO from continued operations of Mainstreet's stabilized property portfolio amounted to \$7.2 million (\$0.70 per basic share and \$0.65 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended June 30			Nine months ended June 30		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 22,888	\$ 2,202	\$ 25,090	\$ 69,094	\$ 5,663	\$ 74,757
Property operating expenses	7,251	996	8,247	22,945	2,385	25,330
Net operating income	\$ 15,637	\$ 1,206	\$ 16,843	\$ 46,149	\$ 3,278	\$ 49,427
Operating margin	68%	55%	67%	67%	58%	66%
Vacancy rate	6.4%	20.3%	8.0%	6.0%	19.9%	7.4%
Interest income	31	4	35	109	13	122
General & administrative expenses	1,876	249	2,125	6,181	753	6,934
Mortgage interest	5,778	569	6,347	17,269	1,515	18,784
Financing cost	421	77	498	1,209	231	1,440
Funds from operations before current income tax	\$ 7,593	\$ 315	\$ 7,908	\$ 21,599	\$ 792	\$ 22,391
Current income tax	359	—	359	1,090	—	1,090
Funds from operations	\$ 7,234	\$ 315	\$ 7,549	\$ 20,509	\$ 792	\$ 21,301
Funds from operations per share						
– basic	\$ 0.70	\$ 0.03	\$ 0.73	\$ 1.97	\$ 0.08	\$ 2.04
– diluted	\$ 0.65	\$ 0.03	\$ 0.68	\$ 1.84	\$ 0.07	\$ 1.91
Weighted average number of shares						
– basic	10,345,517			10,418,847		
– diluted	11,051,951			11,126,464		

Comparing to Q3 2014, FFO of the stabilized property portfolio increased by 12% to \$7.2 million, while the number of stabilized units increased by 6% to 8,130 units as of June 30, 2015 compared to 7,692 units as of June 30, 2014.

(000s of dollars)

	Three months ended June 30			Nine months ended June 30		
	2015	2014	% change	2015	2014	% change
Stabilized FFO before loss on disposal and stock option cancellation expense	\$ 7,234	\$ 6,461	12%	\$ 20,509	\$ 17,954	14%
Number of stabilized units	8,130	7,692	6%	8,130	7,692	6%

LIQUIDITY & CAPITAL RESOURCES

Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In Q3 2015, after payment of all required expenses, the Corporation generated funds from operations of \$7.5 million.

Management expects funds generated from operations will continue to grow when more units are renovated and re-introduced to the market at higher rental rates. 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 Q3 2015, the Corporation spent approximately \$18.4 million on the 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 CMHC insured mortgages at lower interest rates.

In Q3 2015, Mainstreet refinanced \$1.6 million in matured debt with an average interest rate of 3.7% into 10-year long-term CMHC-insured mortgage loans for \$4.1 million at an average interest rate of 2.3%. Mainstreet also financed ten clear-title properties for \$18.4 million at an interest rate of 2.2%. In total, this refinancing activity raised approximately \$20.9 million in additional funds, and resulted in an annualized interest expense savings of approximately \$25,000.

Subsequent to Q3 2015, approval has been obtained by the CMHC to refinance \$10 million in matured mortgage loans with an average interest rate of 5.02% to long-term 10-year CMHC-insured mortgages for \$29 million. With an expected interest rate of 2.7%, this refinancing activity will raise \$19 million in additional funds while trimming annual interest spending by approximately \$230,000.

As of June 30, 2015, the Corporation owned the following 25 clear title properties, as well as a development lot with estimated fair value of approximately \$162 million:

Clear Title Asset List as of June 30, 2015

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition (000s)	Fair Value (000s)
821 – 20 Street North, Lethbridge, AB	156	\$ 13,400	\$ 13,400
2929-2959 Tims, St. Abbotsford, BC	108	\$ 10,300	\$ 11,900
14918 – 108 Avenue, Surrey, BC	102	\$ 5,900	\$ 13,450
3147 – 151 Avenue, Edmonton, AB	99	\$ 10,000	\$ 12,191
2485 HillTout Street, Abbotsford, BC	92	\$ 6,696	\$ 10,650
4610 Hubalta Road SE, Calgary, AB	88	\$ 5,165	\$ 16,000
1210/1211 Cameron Street, New Westminster, BC	84	\$ 7,550	\$ 9,000
33184 George Ferguson Wynd, Abbotsford, BC	69	\$ 7,120	\$ 8,300
32030 George Ferguson Wynd, Abbotsford, BC	60	\$ 5,253	\$ 6,900
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	\$ 4,524
2814 Pratt Crescent, Abbotsford, BC	37	\$ 2,270	\$ 4,200
33298 Robertson Road, Abbotsford, BC	34	\$ 2,383	\$ 3,800
1335 & 1339 – 10th Ave SE, Calgary, AB	29	\$ 3,000	\$ 4,900
115 Avenue V N, Saskatoon, SK	27	\$ 2,268	\$ 2,550
10125 – 114 Street Edmonton, AB	24	\$ 1,103	\$ 990
10633 – 116 St, Edmonton, AB	21	\$ 2,352	\$ 2,402
10203 – 156 Street, Edmonton, AB	18	\$ 1,925	\$ 2,067
318 – 14 Avenue SW, Calgary, AB	18	\$ 2,250	\$ 4,150
11940 – 82 St, Edmonton, AB	15	\$ 1,500	\$ 1,526
1901 – 7 Street E, Saskatoon, SK	12	\$ 1,140	\$ 1,750
1906 – 22 Street W, Saskatoon, SK	11	\$ 902	\$ 1,250
11624 – 124 St, Edmonton, AB	9	\$ 1,010	\$ 1,043
Multi-family developing lot, 33283 Bourquin Cr E, Abbotsford, BC		\$ 306	\$ 450
Total as of June 30, 2015	1,303	\$ 110,285	\$ 162,193

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 maintain a ratio of debt-to-fair value at investment properties of below 70%. The current ratio is approximately 51%, which Management believes leaves considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

The Corporation has a revolving banking facility for a maximum of \$85 million with a syndicate of Canadian chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and matures December 6, 2016. The facility is renewable every three years subject to the mutual agreement of the lenders and the Corporation. As of June 30, 2015, the Corporation has drawn \$52.5 million (September 30, 2014 – \$22.5 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2015, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% and 1.50 respectively, which were calculated as follows:

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

	\$000s
Total funded debt	
Mortgages payable	\$ 618,849
Bank indebtedness	52,518
	\$ 671,367
Gross book value of assets	
Investment properties	\$ 1,304,673
Property, plant and equipment	4,879
	\$ 1,309,552
Overall funded debt to gross book value ratio	51%

Debt Service Coverage Ratio

	\$000s
Earning before interest, tax, depreciation, amortization and extraordinary items for 12 months ended June 30, 2015	
Net profit (loss) per financial statements	\$ 32,068
Add (deduct):	
Mortgage interest	24,868
Income tax	17,538
Depreciation	389
Amortization of finance cost	1,893
Fair value gain	20,627
	\$ 56,129
Principal and interest payments	\$ 37,319
Debt service coverage ratio	1.50

SHARE BUYBACKS

Mainstreet is capitalizing on current volatility in capital markets to purchase and cancel its own shares. Given the discount between the Corporation's current share price and net asset value ("NAV"), Management believes the re-purchase of its shares returns capital to shareholders in a tax-efficient manner that is accretive to NAV. In Q3 2015, Mainstreet repurchased and cancelled 57,900 shares at a weighted average price of \$37.83 per share or an aggregate amount of \$2.2 million. As of July 13, 2015, Mainstreet had repurchased and cancelled 172,830 shares at a weighted average price of \$37.33 per share or an aggregate amount of \$6.5 million.

CONTRACTUAL OBLIGATIONS

As of June 30, 2015, the Corporation had the following contractual obligations, which are anticipated to be met using the existing revolving credit facility, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

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

12 months ending June 30,	Amount
2016	\$ 67,848
2017	43,467
2018	65,542
2019	33,819
2020	35,628
Subsequent	385,185
	631,489
Deferred financing costs	(12,640)
	<u>\$ 618,849</u>

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 572,886	91%	3.72%
– non-CMHC-insured	58,603	9%	4.63%
Total fixed rate debt	631,489	100%	3.84%
Deferred financing cost	(12,640)		
	<u>\$ 618,849</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 June 30, 2015, total mortgages payable were \$619 million compared to \$579 million on September 30, 2014 – an increase of 7% due to financing during the nine months ended June 30, 2015.

At June 30, 2015, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 51% of fair value of investment properties. About 91% 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	\$ 28,590	5%	4.40%
2016	48,839	8%	4.67%
2017	44,521	7%	5.16%
2018	28,775	5%	5.15%
2019	27,055	4%	5.39%
Subsequent	453,709	68%	3.41%
	\$ 631,489	100%	3.84%

All mortgage loans maturing in 2015 are expected to be refinanced to long-term CMHC-insured mortgages by the end of fiscal year 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 was 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 Q3 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 June 30, 2015.

No changes were made to DC & P during the quarter ended June 30, 2015.

As at June 30, 2015, Mainstreet confirmed the design of ICFR to provide reasonable assurances regarding the reliability of the financial reporting and the preparation of financial statements and information for external purposes in accordance with IFRS and 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 June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

FINANCIAL INSTRUMENTS & RISK MANAGEMENT

Fair value of financial assets and liabilities

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

		June 30, 2015		Sept. 30, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 3,071	\$ 3,071	\$ 2,993	\$ 2,993
Cash and cash equivalents	Level 1	17,702	17,702	1,041	1,041
Trade and other receivables	Level 2	1,173	1,173	1,160	1,160
Mortgage receivable	Level 2	2,500	2,455	2,500	2,500
Financial liabilities:					
Bank indebtedness	Level 1	52,518	52,518	22,457	22,457
Mortgages payable	Level 2	618,849	670,148	579,537	612,314
Trade and other payables	Level 2	6,119	6,119	6,264	6,264
Refundable security deposits	Level 1	4,204	4,204	3,965	3,965

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 26.

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:

	Nine months ended June 30, 2015		Year ended September 30, 2014	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the period	10,469,081	\$ 28,656	10,465,281	\$ 28,541
Share purchase loan reduction	–	–	–	80
Shares purchased for cancellation	(147,830)	(405)	–	–
Exercise of stock options	–	–	3,800	21
Transfer from contributed surplus	–	–	–	14
Issued and outstanding, end of the period	10,321,251	\$ 28,251	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 nine months ended June 30, 2015 and 2014, the Corporation purchased and cancelled 57,900 shares (2014 Nil) and 147,830 shares (2014 Nil) at an average price of \$37.83 and \$37.43 per share, respectively.

STOCK OPTIONS

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

Stock option	June 30, 2015		September 30, 2014	
	Number of shares	Weighted Average Exercise price	Number of shares	Weighted Average Exercise price
Outstanding and exercisable, beginning of the 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	3.69		4.44	
Exercise prices	\$ 5.51		\$ 5.51	

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

Shareholder Rights Plan

Effective March 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 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 period of time was too short for companies subject to unsolicited take over bids to respond to ensure 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 value for their common shares.

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

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

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

The acquisition by a person of 20% or more of the common shares of the Corporation is referred to as a "Flip In Event". When a Flip In Event occurs, each Right (except for Rights beneficially owned by an Acquiring Person or certain transferees of an Acquiring Person, which Right will be void pursuant to the Rights Plan) becomes a right to purchase from the Corporation, upon exercise thereof, in accordance with the terms of the Rights Plan, that number of common shares having an aggregate market price on the date of consummation or occurrence of such Flip In Event equal to

twice the Exercise Price for an amount in cash equal to the Exercise Price. The Exercise Price for the Rights provided in the Rights Plan is \$100. As an example, if at the time of the Flip-in Event the common shares have a market price of \$25, the holder of each Right would be entitled to receive \$200 (twice the Exercise Price) in market value of the common shares (8 common shares) for \$100, i.e. at a 50% discount.

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

A complete copy of the Rights Plan, 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 costs in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and
- iv) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

Transactions with Related Parties

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for 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 nine months period ended June 30, 2015 amounted to \$Nil (2014 – \$167,000) and \$237,000 (2014 – \$281,000) 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 nine months ended June 30, 2015 amounting to \$76,000 (2014 – \$57,000) and \$141,000 (2014 – \$275,000) 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 June 30, 2015, the amounts payable to the law firm were \$Nil (September 30, 2014 – \$20,000).

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for the three and nine month periods ended June 30, 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 increase customer satisfaction ;
- diversifying its portfolio across Western Canada, thus lowering its exposure to regional economic swings;
- acquiring properties only in desirable locations, where vacancy rates for properties are higher than city-wide averages but can be reduced by repositioning the properties through better management and selective upgrades;
- holding a balanced portfolio which includes a variety of multi-family building types including high-rise, townhouse, garden and walk-ups, each with its own market niche;
- maintaining a wide variety of suites, including bachelor suites, one, two and three bedroom units;
- building a broad and varied customer base, thereby avoiding economic dependence on larger-scale tenants;
- focusing on affordable multi-family housing, which Management believes is a more 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 interest rates have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

Utilities Risk

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

Risks of Real Estate Property Ownership

Real estate investments and projects are, generally, subject to numerous risks depending on the nature and location of the property that can affect attractiveness and saleability 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 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 financing may be affected by changes in those conditions. The Corporation will be required to make certain significant expenditures in respect of its business including, but not limited to, the payment of property taxes, mortgage payments, property management costs, insurance costs and related charges which must be made regardless of whether real estate assets are producing sufficient income to service such expenses. If the Corporation is unable or unwilling to meet the payment obligations on such loans, losses could be sustained as a result of the exercise by the lenders of their rights of foreclosure or sale. As a result, the Corporation's ability to make interest payments or distributions of cash to Mainstreet could be adversely affected.

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

Renovation Risks

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Certain significant expenditures, including property taxes, maintenance costs, interest payments, insurance costs and related charges must be made throughout the period of ownership of real estate property regardless of whether the property is producing revenue. Delays in the renovation of a building or individual apartment units as a result of labour 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 on the Corporation's ability to mitigate increased 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 June 30, 2015, rents due from individual tenants are partially covered by security deposits of approximately \$500 per each residential apartment unit 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 rental 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 has resulted in an economic slowdown in Western Canada. During any period of economic uncertainty tenants may experience financial difficulty and may default in payment of rent or possibly look for less expensive accommodations. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

Market Risks

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

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

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

Acquisitions Risks

Mainstreet's growth depends in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. It is not possible to manage all risks associated with such acquisitions in the terms and conditions contained in commercial agreements pertaining to such acquisitions. The real estate assets may be subject to unknown, unexpected or undisclosed liabilities that may materially and adversely affect the Corporation's operations 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 or fines 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 also 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, adjusts the program accordingly. Mainstreet also encourages employees' feedback in these areas to ensure existing programs are meeting their personal needs.

Uninsured Losses

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

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

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

Substitutions for Residential Rental Units

Demand for residential rental properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. 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 current 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 of the corporation 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

Though British Columbia is now Canada's strongest economic performer, Mainstreet faces an uncertain economic outlook in the Provinces of Alberta and Saskatchewan, which together account for 71% of the total rental portfolio. Rental markets in these provinces are being impacted by continued weakness in petroleum and natural gas commodity prices, slowing in-migration figures, and weakened Canadian economic performance. Mainstreet has experienced some negative impacts to operations and expects these to last until economic conditions improve. Management is mindful of the unpredictability inherent in the current situation, and is keeping a close watch on costs, operating margins and marketplace conditions. Nevertheless we believe volatility in petroleum and natural gas prices conversely creates a series of opportunities that are discussed at greater length in the Outlook section below. Current challenges are in addition to hurdles inherent to the Mainstreet add-value business model. The renovation and repositioning of properties temporarily raises the overall vacancy rate and hampers NOI performance. Stabilized apartments are previously underperforming properties that Mainstreet has purchased and renovated to Mainstreet standards. However, management believes that Mainstreet's unstabilized portfolio (13% of the rental portfolio) is one of the Corporation's greatest levers for future growth in NOI and FFO.

OUTLOOK

Mainstreet has produced consistent growth by sticking to a strategy of careful operational management while creating new value through opportunistic acquisitions. This two-pronged approach continues to serve Mainstreet well, particular in light of the current economic uncertainty, and Management sees several important reasons to remain cautiously optimistic.

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, Mainstreet 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 for heating and an easing in labour market pressure, both substantial cost areas for Mainstreet;
- 2) An uncertain economy tends to be supportive of the rental market, as consumers tend to 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 56 basis points year-over-year.

Buying in Mainstreet's backyard, enjoying a strong coastal economy

The Provinces of Alberta and Saskatchewan have both felt the impact of lower energy prices, and Mainstreet has as a result become more conservative in its underwriting criteria there. The Corporation nonetheless sees significant opportunity in these regions, which form the heart of the company. This is a chance to buy in its backyard and Mainstreet is moving accordingly, as can be seen with its Lethbridge townhouse acquisition, which boasts metrics that were difficult to match in recent years.

British Columbia, meanwhile, is enjoying the strongest economic performance in Canada, according to Statistics Canada. Buoyant conditions there have lowered vacancy rates, while operating costs have remained low. Mainstreet now enjoys greater than 30% market share in the Abbotsford-Surrey corridor, and conditions continue to support further expansion in the Lower Mainland.

Finally, Mainstreet believes it enjoys a position of strength to capitalize on these opportunities. Management anticipates approximately \$120 million in available liquidity by the end of fiscal year 2016. This includes cash on hand and availability in its line of credit of \$37 million, in addition to an estimated \$83 million that Mainstreet believes it could raise through refinancing of mortgages maturing in the remaining fiscal year 2015 and fiscal year 2016. Based on a 75% leverage level, this large liquidity position equates to roughly \$500 million in buying capacity at a time of low mortgage interest rates, and positions Mainstreet to act decisively when acquisition opportunities arise, while upholding its commitment not to dilute shareholder value.

Plenty of remaining run-way

- 1) Squeezing the NOI gap: At the end of Q3 2015, 13% 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 in renovating and improving properties before releasing them back to the market provides, in its opinion, additional avenues to improve NOI performance. Mainstreet believes its existing portfolio provides for \$7.8 million in further NOI gains if Mainstreet can achieve ideal operating conditions, which Mainstreet defines as fully-stabilized units operating at market rents and 5% vacancy.
- 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 and fiscal 2016, Mainstreet plans to refinance \$90 million of maturing mortgages. With an estimated interest rate of 2.7%, Mainstreet estimates the refinancing will result in a further annual interest expense savings of \$1.6 million while potentially raising additional capital of approximately \$83 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. Management believes that the current share price, at roughly \$37 per share is substantially below the Corporation's Net Asset Value. Mainstreet intends to continue to purchase and cancel 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.