

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, 2016 and 2015. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the three and nine months ended June 30, 2016 and 2015, and the MD&A and audited consolidated financial statements and accompanying notes for the years ended September 30, 2015 and 2014. 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 19, 2016. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicate otherwise, reference herein to 2016 and 2015 refers to the three and nine month periods ended June 30, 2016 and 2015, respectively.

BUSINESS OVERVIEW

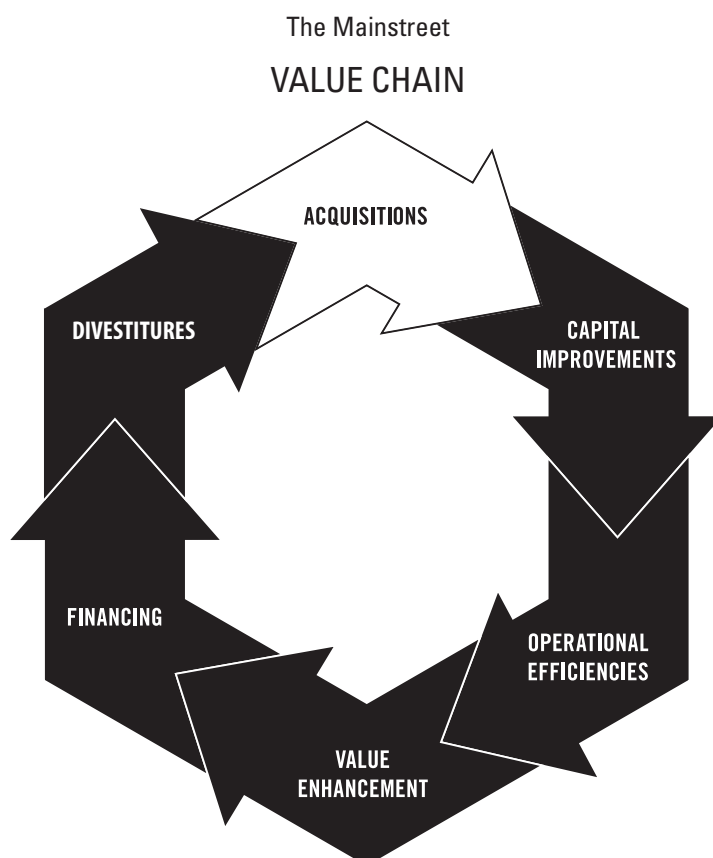
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in four major Canadian markets: Vancouver/Lower Mainland, Calgary (including the City of Lethbridge and the Town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

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

BUSINESS STRATEGY

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

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



INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Investment properties

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

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

Method used in determining the Fair Value of investment properties

The fair value of investment properties held by the Corporation as of September 30, 2015, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and 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 estimated income (net operating income) 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. Management estimated the financial effects of the changes in the market conditions in determining the fair value of the investment properties at June 30, 2016.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$1,348 million at June 30, 2016 (\$1,386 million at September 30, 2015). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at June 30, 2016 and September 30, 2015, respectively.

As of June 30, 2016	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at June 30, 2016
Surrey, BC	10	1,775	\$ 258	\$ 145	4.60%
Abbotsford, BC	15	968	\$ 119	\$ 123	5.19%
Calgary, Alberta (Note 1)	34	1,813	\$ 392	\$ 216	4.86%
Edmonton, Alberta (Note 2)	119	3,705	\$ 449	\$ 121	5.71%
Saskatoon, Saskatchewan	40	1,084	\$ 130	\$ 120	6.75%
Total investment properties	218	9,345	\$ 1,348	\$ 144	5.35%

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

Note (2) – includes the City of Fort Saskatchewan

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

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

Note (2) – includes the City of Fort Saskatchewan

ACQUISITIONS & GROWTH

(000s of dollars)

	Three months ended June 30		Nine months ended June 30	
	2016	2015	2016	2015
		Calgary	Abbotsford, Calgary, Saskatoon,	Surrey, Calgary, Saskatoon
Number of rental units	–	156	50	535
Total costs	– \$	13,400	\$ 6,159	\$ 51,650
Average price per unit	– \$	86	\$ 123	\$ 97

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. Due to current economic conditions in the Provinces of Alberta and Saskatchewan, management has adopted a very conservative approach in evaluation of all potential acquisitions in anticipation of a possible drop in real estate value. Mainstreet did not acquire any apartment units in Q3 2016. Subsequent to Q3 2016, the Corporation acquired 6 additional apartment units in one of its existing condo property in Abbotsford, British Columbia and 472 units in Edmonton, Alberta and Saskatoon, Saskatchewan for a total consideration of \$46 million (\$96,000 per door).

As of Q3 2016, Mainstreet's portfolio included 9,345 residential units, including townhouses, garden-style apartments and concrete mid-rise and high-rise apartments. 91% of these residential units were rented, while 3% were being renovated and the remainder left vacant because of current unfavourable rental market conditions, primarily in the Province of Alberta.

Since 1997, the Corporation's portfolio has increased from 10 to 218 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$1,348 million as of June 30, 2016.

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

	Number of units as at Oct. 1, 2015	Acquisitions /disposition nine months ended June 30, 2016	Number of units as at June 30, 2016
Surrey, British Columbia	1,775	–	1,775
Abbotsford, British Columbia	937	31	968
Calgary and Southern Alberta, Alberta (Note 1)	1,812	1	1,813
Edmonton, Alberta (Note 2)	3,729	(24)	3,705
Saskatoon, Saskatchewan	1,066	18	1,084
Investment properties	9,319	26	9,345

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

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

CAPITAL IMPROVEMENTS

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

In Q3 2016, the Corporation spent \$5.3 million (Q3 2015 – \$5.0 million), of which \$4.6 million was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, new window, new siding and insulation. These expenditures also covered mechanical interior upgrades such as new boilers, new flooring and paint, to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio, Mainstreet plans to spend an estimated \$4 million on renovations in the remaining three months of fiscal year 2016. These improvements are expected to be financed through existing cash balances, funds from operations and on-going refinancing of existing properties. Mainstreet expects to complete most of these renovations of existing properties within the next 3 to 18 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

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

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

	Three months ended June 30,			Nine months ended June 30,		
	2016	2015	% change	2016	2015	% change
Gross revenue	\$ 24,556	\$ 25,125	(2%)	\$ 75,360	\$ 74,879	1%
Loss and comprehensive loss from operations	\$ (259)	\$ (9,325)	(97%)	\$ (35,842)	\$ (7,520)	377%
Fair value loss	5,273	10,993	(52%)	57,758	21,120	173%
Depreciation	93	110	(15%)	264	287	(8%)
Income tax – current and deferred	1,184	6,130	(81%)	(1,372)	8,504	(116%)
Funds from operations	\$ 6,291	\$ 7,908	(20%)	\$ 20,808	\$ 22,391	(7%)
Current income tax	84	359	(77%)	204	1,090	(81%)
Funds from operations after current income tax (Note 1)	\$ 6,207	\$ 7,549	(18%)	\$ 20,604	\$ 21,301	(3%)
Interest income	\$ (40)	\$ (35)	14%	\$ (174)	\$ (122)	43%
General and administrative expenses	2,327	2,125	10%	6,549	6,934	(6%)
Mortgage interest	6,369	6,347	0%	19,227	18,784	2%
Financing cost	599	498	20%	1,745	1,440	21%
Current income tax	84	359	(77%)	204	1,090	(81%)
Net operating income (Note 2)	\$ 15,546	\$ 16,843	(8%)	\$ 48,155	\$ 49,427	(3%)
Operating margin from operations	63%	67%		64%	66%	
Loss per share						
Basic	\$ (0.03)	\$ (0.90)	(97%)	\$ (3.66)	\$ (0.72)	408%
Fully diluted	\$ (0.03)	\$ (0.90)	(97%)	\$ (3.66)	\$ (0.72)	408%
Funds from operations per share						
Basic	\$ 0.68	\$ 0.73	(7%)	\$ 2.10	\$ 2.04	3%
Fully diluted	\$ 0.63	\$ 0.68	(7%)	\$ 1.96	\$ 1.91	3%
Weighted average number of shares						
Basic	9,086,815	10,345,517		9,798,525	10,418,847	
Fully diluted	9,787,960	11,051,951		10,488,655	11,126,464	

June 30	2016
Total Assets	\$1,366,294
Total Long term liabilities	\$ 768,549

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

REVENUE

In Q3 2016, revenue was primarily comprised of rental and ancillary rental income totalling \$24.5 million (Q3 2015 – \$25.1 million) and interest income. The 2% decrease in revenue over Q3 2015 is due to decreases in the rental and ancillary rental income, which is discussed and analyzed in the session entitled “Rental Operations” below.

LOSS

For the three and nine months ended June 30, 2016, Mainstreet reported a loss from operations of \$259,000 (\$0.03 per basic share) and \$35.8 million (\$3.66 per basic share), respectively, as compared to a loss of \$9.3 million (\$0.90 per basic share) and \$7.5 million (\$0.72 per basic share), respectively, in 2015. The loss from operations in Q3 2016 included fair value loss of \$5.3 million (Q3 2015 – \$11.0 million). The fair value loss represented the capital expenditures incurred in the quarter written off against the fair value of the properties in accordance with the IFRS.

The losses in Q3 2016 and Q3 2015 will be further discussed and analyzed in the following session entitled “Funds From Operations”.

FUNDS FROM OPERATIONS

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

In Q3 2016, Mainstreet's FFO from operations decreased by 18% to \$6.2 million as compared to \$7.5 million in Q3 2015. The decrease in FFO was mainly attributable to the decreased net operating income of \$1.3 million which will be discussed and analyzed in the following session entitled “Rental Operations”.

FFO in Q3 2016 was further affected by increased G&A expenses of \$202,000 from Q3 2015, which will be discussed and analyzed in the section entitled “General & Administrative (G&A) Expenses below.

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

G&A expenses mainly include corporate costs such as office overheads, professional fees and salaries. In Q3 2016, G&A expenses increased by 10% to \$2.3 million as compared to \$2.1 million in Q3 2015, resulting from an increase of professional fees and one-time expenses of \$75,000 incurred in disposing of all waste of a property destroyed by fire in Q1 2016.

MORTGAGE INTEREST

The mortgage loans balance including line of credit has increased significantly by \$35 million in Q3 2016 as compared to the same period last year but the interest expense only increased marginally by \$12,000. This was a result of the Corporation's strategy of refinancing its pre-maturity debts, which achieved a substantial savings in interest expense and raised very low cost capital for further growth.

To take advantage of current low interest rates, management will continue to refinance its pre-maturity debts in the remainder of 2016 and in 2017.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
Three months ended June 30	2016	2015	% change	2016	2015	% change	2016	2015	% change
Rental revenue and ancillary rental income	\$ 24,516	\$ 25,090	(2%)	\$ 23,012	\$ 24,412	(6%)	\$ 1,504	\$ 678	122%
Operating expenses	8,970	8,247	9%	8,329	7,842	6%	641	405	58%
Net operating income	\$ 15,546	\$ 16,843	(8%)	\$ 14,683	\$ 16,570	(11%)	\$ 863	\$ 273	216%
Operating margin	63%	67%		64%	68%		57%	40%	
Average vacancy rate	9.2%	8.0%	15%	9.5%	6.7%	42%	4.2%	19.0%	(78%)
Weighted average number of units	9,345	9,167	2%	8,762	8,762	–	583	405	44%
Average rental rate per unit per month	\$ 874	\$ 912	(4%)	\$ 875	\$ 929	(6%)	\$ 860	\$ 558	54%
Average operating expense per unit per month	\$ 320	\$ 300	7%	\$ 317	\$ 298	6%	\$ 366	\$ 333	10%

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
Nine months ended June 30	2016	2015	% change	2016	2015	% change	2016	2015	% change
Rental revenue and ancillary rental income	\$ 75,186	\$ 74,757	1%	\$ 70,840	\$ 73,520	(4%)	\$ 4,346	\$ 1,237	251%
Operating expenses	27,031	25,330	7%	25,353	24,781	2%	1,678	549	206%
Net operating income	\$ 48,155	\$ 49,427	(3%)	\$ 45,487	\$ 48,739	(7%)	\$ 2,668	\$ 688	288%
Operating margin	64%	66%		64%	66%		61%	56%	
Average vacancy rate	8.4%	7.4%	14%	8.7%	6.3%	38%	4.6%	18.9%	(76%)
Weighted average number of units	9,325	9,020	3%	8,762	8,762	–	563	258	118%
Average rental rate per unit per month	\$ 896	\$ 921	(3%)	\$ 898	\$ 932	(4%)	\$ 858	\$ 533	61%
Average operating expense per unit per month	\$ 322	\$ 312	3%	\$ 322	\$ 314	2%	\$ 331	\$ 236	40%

The overall rental revenue and ancillary rental income decreased by 2% to \$24.5 million in Q3 2016 from \$25.1 million in Q3 2015. Rental revenues and ancillary rental income from “same assets” properties decreased by 6% to \$23.0 million in Q3 2016 compared to \$24.4 million in Q3 2015.

The average rental rate per unit per month decreased by 4% to \$874 in Q3 2016 from \$912 per unit in Q3 2015.

The decrease in both overall and same assets rental revenue was mainly due to increased vacancy rates, rental incentives and bad debt due to continued weakening economic conditions in the Provinces of Alberta and Saskatchewan.

The economy of these provinces continued to be affected by low commodity prices, the management does not expect their economies to improve until prices return to a higher levels.

Overall, operating costs increased by 9% to \$9.0 million in Q3 2016, compared to \$8.2 million in Q3 2015. Operating costs for “same assets” properties increased by 6% to \$8.3 million in Q3 2016, compared to \$7.8 million in Q3 2015. The increase was mainly attributable to increases in property tax, security, advertising and promotion and repairs and maintenance expenses.

During the period of recent economic slowdown in Western Canada, management has increased advertising and promotion expenses as well as increased security, maintenance expenses on vacant suites and up-keeping the conditions of properties in an attempt to remain competitive in the market.

In addition, substantial amounts of building improvement expenses have been incurred on improving the conditions of the properties which are ready for refinancing. Management intends to attempt to refinance all remaining outstanding mortgage loans maturing in 2016 and 2017 at anticipated lower interest rates by the end of this financial year. The estimated amount of refinancing is \$190 million.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet achieved growth of 1% in its British Columbia portfolio in Q3 2016; the average number of rental units growing to 2,743 units compared to 2,712 units in Q3 2015. The average vacancy rate also improved significantly from 7.4% in Q3 2015 to 1.0% in Q3 2016 mainly due to an improved occupancy rate in both the Surrey and Abbotsford market and stabilization of certain properties acquired in 2015 in Surrey. A better than average vacancy rate could also be attributed to overall economic performance in British Columbia, which is among the strongest in economic performance among all provinces, according to information published by Statistics Canada. As a result, rental revenue per unit increased by 12% to \$858 per month in Q3 2016 from \$764 per month in Q3 2015.

The operating expense per unit was fairly level at \$296 per month compared to \$290 per month in Q3 2015. As a result, the net operating income increased by 20% and the net operating margin increased to 65% as compared to 62% Q3 2015.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2016	2015	% change	2016	2015	% change
Rental revenue and ancillary rental income	\$ 7,063	\$ 6,216	14%	\$ 20,614	\$ 17,583	17%
Operating expenses	2,435	2,359	3%	7,223	6,569	10%
Net operating income	\$ 4,626	\$ 3,857	20%	\$ 13,389	\$ 11,014	22%
Weighted average number of units	2,743	2,712	1%	2,729	2,574	6%
Average rent per unit per month	\$ 858	\$ 764	12%	\$ 839	\$ 759	11%
Operating cost per unit per month	\$ 296	\$ 290	2%	\$ 294	\$ 284	4%
Average vacancy rate	1.0%	7.4%		1.8%	7.8%	
Operating margin	65%	62%		65%	63%	

Alberta

Mainstreet achieved a marginal growth of 2% in its Alberta portfolio in Q3 2016; the average number of rental units growing to 5,518 units, compared to 5,389 units in Q3 2015. The average vacancy rate increased to 12.1% in Q3 2016 from 5.6% in Q3 2015. The increase of vacancy rate was mainly due to the weakening economic conditions in the province.

Rental revenue per unit also decreased by 11% to \$910 per month in Q3 2016 from \$1,023 per month in Q3 2015 as a result of the increased vacancy rate, rental incentives and bad debts during the period.

The operating expense per unit increased by 8% to \$339 per month in Q3 2016 from \$314 per month in Q3 2015.

The increase in operating expense was mainly due to increased repairs and maintenance, security and property tax expenses in the quarter. As a result, the net operating income dropped by 18% and the net operating margin decreased to 63% as compared to 69% in Q3 2015.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2016	2015	% change	2016	2015	% change
Rental revenue and ancillary rental income	\$ 15,068	\$ 16,536	(9%)	\$ 47,348	\$ 49,561	(4%)
Operating expenses	\$ 5,615	\$ 5,074	11%	\$ 16,905	\$ 16,161	5%
Net operating income	\$ 9,453	\$ 11,462	(18%)	\$ 30,443	\$ 33,400	(9%)
Weighted average number of units	5,518	5,389	2%	5,518	5,384	2%
Average rent per unit per month	\$ 910	\$ 1,023	(11%)	\$ 953	\$ 1,023	(7%)
Operating cost per unit per month	\$ 339	\$ 314	8%	\$ 340	\$ 334	2%
Average vacancy rate	12.1%	5.6%		10.1%	5.5%	
Operating margin	63%	69%		64%	67%	

Saskatchewan

Mainstreet achieved a 2% growth in the Saskatchewan portfolio in Q3 2016; the average number of rental units growing to 1,084 units, compared to 1,066 units in Q3 2015. The average vacancy rate decreased to 15.3% in Q3 2016 from 21.6% in Q3 2015.

As a result of the improved vacancy rate, which was partially offset by increased rental incentives, the rental revenue per unit increased slightly to \$733 per month in Q3 2016 from \$731 per month in Q3 2015.

The operating expense per unit increased to \$283 per month in Q3 2016 from \$255 per month in Q3 2015 due to increased security and repair and maintenance expenses. As a result, the net operating income decreased by 4% and the net operating margin decreased to 61% from 65% in Q3 2015.

(000s of dollars except per unit data)

	Three months ended June 30			Nine months ended June 30		
	2016	2015	% change	2016	2015	% change
Rental revenue and ancillary rental income	\$ 2,385	\$ 2,338	2%	\$ 7,224	\$ 7,613	(5%)
Operating expenses	\$ 920	\$ 814	13%	\$ 2,903	\$ 2,600	12%
Net operating income	\$ 1,465	\$ 1,524	(4%)	\$ 4,321	\$ 5,013	(14%)
Weighted average number of units	1,084	1,066	2%	1,078	1,062	2%
Average rent per unit per month	\$ 733	\$ 731	0%	\$ 745	\$ 797	(7%)
Operating cost per unit per month	\$ 283	\$ 255	11%	\$ 299	\$ 272	10%
Average vacancy rate	15.3%	21.6%		16.5%	16.3%	
Operating margin	61%	65%		60%	66%	

POTENTIAL GROWTH IN RENTAL REVENUE UNDER OPTIMUM OPERATIONS

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

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

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

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	968	731	\$ 798	0.55%	\$ 831	237	\$ 781	0.42%	\$ 859	\$ 507
Surrey, BC	1,775	1,444	\$ 889	0.90%	\$ 959	331	\$ 855	1.81%	\$ 939	\$ 1,526
Calgary, AB	1,813	1,656	\$ 1,132	12.02%	\$ 1,235	157	\$ 1,044	5.73%	\$ 1,043	\$ 3,535
Edmonton, AB	3,705	3,646	\$ 971	13.52%	\$ 1,033	59	\$ 1,239	16.95%	\$ 965	\$ 6,107
Saskatoon, SK	1,084	1,009	\$ 861	15.76%	\$ 985	75	\$ 916	20.00%	\$ 1,062	\$ 2,798
	9,345	8,486	\$ 960	10.23%	\$ 1,037	859	\$ 901	4.77%	\$ 948	\$14,473

SUMMARY OF QUARTERLY RESULTS

	Jun. 30 2016	Mar. 31 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014
Rental revenue	\$ 24,225	\$ 24,828	\$ 25,055	\$ 25,295	\$ 24,700	\$ 24,631	\$ 24,307	\$ 23,538
Ancillary rental income	\$ 291	\$ 450	\$ 337	\$ 340	\$ 390	\$ 360	\$ 369	\$ 397
Interest income	\$ 40	\$ 100	\$ 34	\$ 39	\$ 35	\$ 48	\$ 39	\$ 46
Total revenue from operations	\$ 24,556	\$ 25,378	\$ 25,426	\$ 25,674	\$ 25,125	\$ 25,039	\$ 24,715	\$ 23,981
Fair value (loss) gain	\$ (5,273)	\$ (36,432)	\$ (16,053)	\$ 76,329	\$ (10,993)	\$ (5,910)	\$ (4,217)	\$ 41,747
(Loss) profit from operations	\$ (259)	\$ (27,098)	\$ (8,484)	\$ 72,228	\$ (9,325)	\$ (2,792)	\$ 4,597	\$ 39,607
Net (loss) profit per share								
– Basic	\$ (0.03)	\$ (2.67)	\$ (0.83)	\$ 7.19	\$ (0.90)	\$ (0.27)	\$ 0.44	\$ 3.78
– Diluted	\$ (0.03)	\$ (2.67)	\$ (0.83)	\$ 6.74	\$ (0.90)	\$ (0.27)	\$ 0.41	\$ 3.54
Average vacancy rate	9.20%	8.34%	7.77%	7.47%	8.00%	7.50%	6.88%	6.60%
Net operating income	\$ 15,546	\$ 15,975	\$ 16,634	\$ 17,894	\$ 16,843	\$ 16,232	\$ 16,353	\$ 16,859
Same assets rent and ancillary rental income	\$ 23,012	\$ 23,800	\$ 24,026	\$ 23,066	\$ 23,125	\$ 23,268	\$ 23,401	\$ 22,832
Same assets net operating income	\$ 14,683	\$ 15,082	\$ 15,722	\$ 16,200	\$ 15,805	\$ 15,163	\$ 15,591	\$ 16,104
Stabilized FFO	\$ 5,774	\$ 5,973	\$ 6,807	\$ 8,739	\$ 7,234	\$ 5,885	\$ 7,097	\$ 7,554
Funds from continuing operations	\$ 6,207	\$ 6,746	\$ 7,651	\$ 8,741	\$ 7,549	\$ 6,129	\$ 7,623	\$ 8,068
Funds from operations per share								
– Basic	\$ 0.68	\$ 0.67	\$ 0.75	\$ 0.85	\$ 0.73	\$ 0.59	\$ 0.73	\$ 0.77
– Diluted	\$ 0.63	\$ 0.62	\$ 0.71	\$ 0.80	\$ 0.68	\$ 0.55	\$ 0.68	\$ 0.72

Highlights of the Corporation's financial results for the third quarter ended June 30, 2016:

- In Q3 2016, rental income was \$24.2 million compared to \$24.8 million in Q2 2016 and \$24.7 million in Q3 2015.
- In Q3 2016, the average vacancy rate for the quarter was 9.2% compared to 8.3% in Q2 2016 and 8.0% in Q3 2015.
- Fair value loss for the quarter was \$5.3 million compared to a loss of \$36.4 million in Q2 2016 and a loss of \$11.0 million in Q3 2015.

STABILIZED PROPERTIES

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

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

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

As of June 30, 2016, 205 properties (8,486 units) out of 218 properties (9,345 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2016.

	October 1, 2015	Up to current period		Number of units stabilized	June 30, 2016
		Acquisition	Disposition		
Stabilized units	8,214	–	–	272	8,486
Unstabilized units	1,105	50	(24)	(272)	859
Total units	9,319	50	(24)	–	9,345

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

	Oct. 1, 2015	No. of units stabilized during the period	No. of unstabilized units acquired/ disposed during the period	June 30, 2016
Numbers of unstabilized units held for renovation	1,063	(254)	50	859
Numbers of unstabilized units held for redevelopment	42	(18)	(24)	–
Total no. of unstabilized units	1,105	(272)	26	859

Number of months

Average time spent on stabilization	12	26	5	19
Estimated remaining time for stabilization	4	–	26	8

During the nine month period ended June 30, 2016, the Corporation acquired 18 unstabilized units in Saskatoon, Saskatchewan, 1 unstabilized unit in Calgary, Alberta and 31 unstabilized units in Abbotsford, British Columbia that required substantial renovation and with rents considered well below the market for stabilized units. The Corporation has stabilized 272 units with renovation work substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For Q3 2016, FFO from operations of Mainstreet's stabilized property portfolio amounted to \$5.8 million (\$0.64 per basic share and \$0.59 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended June 30, 2016			Nine months ended June 30, 2016		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 22,304	\$ 2,212	\$ 24,516	\$ 68,672	\$ 6,514	\$ 75,186
Property operating expenses	8,018	952	8,970	24,338	2,693	27,031
Net operating income	\$ 14,286	\$ 1,260	\$ 15,546	\$ 44,334	\$ 3,821	\$ 48,155
Operating margin	64%	57%	63%	65%	59%	64%
Vacancy rate	9.6%	4.9%	9.2%	8.5%	7.6%	8.4%
Interest income	\$ 36	\$ 4	\$ 40	\$ 156	\$ 18	\$ 174
General & administrative expenses	1,982	345	2,327	5,736	813	6,549
Mortgage interest	5,959	410	6,369	18,043	1,184	19,227
Financing cost	523	76	599	1,516	229	1,745
Funds from operations before current income tax	\$ 5,858	\$ 433	\$ 6,291	\$ 19,195	\$ 1,613	\$ 20,808
Current income tax	84	–	84	204	–	204
Funds from operations	\$ 5,774	\$ 433	\$ 6,207	\$ 18,991	\$ 1,613	\$ 20,604
Funds from operations per share						
– basic	\$ 0.64	\$ 0.05	\$ 0.68	\$ 2.09	\$ 0.18	\$ 2.27
– diluted	\$ 0.59	\$ 0.04	\$ 0.63	\$ 1.94	\$ 0.16	\$ 2.11
Weighted average number of shares						
– basic	9,086,815			9,798,525		
– diluted	9,787,960			10,488,655		

In Q3 2016, FFO of the stabilized property portfolio decreased 20% to \$5.8 million as compared to \$7.2 million in Q3 2015, while the number of stabilized units increased by 4% to 8,486 units as of June 30, 2016 compared to 8,130 units as of June 30, 2015.

(000s of dollars)

	Three months ended March June 30			Nine months ended June 30		
	2016	2015	% change	2016	2015	% change
Stabilized FFO	\$ 5,774	\$ 7,234	(20%)	\$ 18,991	\$ 20,509	(7%)
Number of stabilized units	8,486	8,130	4%	8,354	8,065	4%

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 2016, after payments of all required expenses, the Corporation generated funds from operations of \$6.2 million.

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

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In Q3 2016, the Corporation spent approximately \$5.3 million on capital improvement. Management expects the following capital resources to be sufficient to meet the capital requirements on a year to year basis.

Financing

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

In Q3 2016, Mainstreet refinanced a clear title asset with a 10-year long-term CMHC-insured mortgage loans for \$1.2 million at an interest rate of 2.33%. Mainstreet also proposes to take advantage of current low interest rates by continuing to evaluate the financial viability of early refinancing on the remaining mortgages maturing in 2016 and 2017 taking into consideration pay-out penalties, should savings opportunities arise.

Subsequent to the quarter ended June 30 2016, approval has been obtained from the CMHC to refinance \$7.1 million in pre-maturity mortgage loans with an average interest rate of 4.92% to long-term, 10-year CMHC insured mortgages for \$11 million at an average interest rate of 2.26%. These refinancings will raise \$3 million in additional funds after payment penalties of \$ 318,000, resulting in an annualized savings in interest expenses of approximately \$ 197,000.

Mainstreet also obtained approval for a \$17.5 million 10 years CMHC insured mortgage on two clear titled assets at an average interest rate of 2.24%.

As of June 30, 2016, the Corporation owned the following 26 clear title properties and a development lot having an aggregate fair value of approximately \$148 million:

Clear Title Asset List as of June 30, 2016

(000s of dollars except unit information)

Property	Number of units		Cost of Acquisition	Fair Value
821 – 20 Street North, Lethbridge, AB	156	\$	13,400	\$ 19,500
12269 – 131 Street, Edmonton, AB	132	\$	6,220	\$ 25,503
2929-2959 Tims St., Abbotsford, BC	108	\$	10,300	\$ 12,500
3147 – 151 Avenue, Edmonton, AB	99	\$	10,000	\$ 10,906
525 / 529 / 601 / 605 AVE X S & 2309 – 17 Street W, Saskatoon, SK	65	\$	4,763	\$ 8,300
3065 Clearbrook Road, Abbotsford, BC	56	\$	5,550	\$ 6,750
1122 – 8 Avenue SW, Calgary, AB	50	\$	1,975	\$ 12,300
32120 Peardonville Road, Abbotsford, BC	42	\$	4,400	\$ 5,950
10625 & 10635 – 115 Street, Edmonton, AB	42	\$	4,568	\$ 4,414
33361 Old Yale Road, Abbotsford, BC	31	\$	3,125	\$ 3,125
1335 & 1339 – 10 Ave SE, Calgary, AB	29	\$	3,000	\$ 5,950
14224 McQueen Road, Edmonton, AB	27	\$	950	\$ 3,827
115 Avenue V N, Saskatoon, SK	27	\$	2,268	\$ 3,150
11343 – 124 Street, Edmonton, AB	25	\$	624	\$ 2,607
10125 – 114 Street, Edmonton, AB	24	\$	1,103	\$ 1,010
10633 – 116 Street, Edmonton, AB	21	\$	2,352	\$ 2,297
318 – 14 Avenue SW, Calgary, AB	18	\$	2,250	\$ 4,200
10203 – 156 Street, Edmonton, AB	18	\$	1,925	\$ 2,086
13608 – 109A Avenue, Edmonton, AB	17	\$	574	\$ 1,923
322 – 6 Avenue North, Saskatoon, SK	16	\$	1,644	\$ 1,644
11940 – 82 Street, Edmonton, AB	15	\$	1,500	\$ 1,377
1901 – 7 Street E, Saskatoon, SK	12	\$	1,140	\$ 1,750
1906 – 22 Street W, Saskatoon, SK	11	\$	902	\$ 1,250
11624 – 124 Street, Edmonton, AB	9	\$	1,010	\$ 896
336-338 – 18 Avenue SW, Calgary, AB	7	\$	–	\$ 3,275
322 – 18 Avenue SW, Calgary, AB	1	\$	1,275	\$ 1,275
Multi-family development lot, 33283 Bourquin Cr E, Abbotsford, BC	–	\$	306	\$ 450
Total as of June 30, 2016	1,058	\$	87,123	\$ 148,215

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

The Corporation's policy for capital risk management is to keep a debt-to-fair value of investment properties ratio of below 70%. The current ratio is approximately 52%, which management believes will leave considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

The Corporation has a revolving banking facility for a maximum of \$85 million with a syndicate of Canadian chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and matures on December 6, 2019. The facility is renewable every three year subject to the mutual agreement of the lenders and the Corporation. As at June 30, 2016, the Corporation has drawn \$17.5 million (September 30, 2015 – \$36.9 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of June 30, 2016, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 52% and 1.48 respectively, which were calculated as follows:

Overall funded debt to gross book value ratio

(000s of dollars)

As at June 30, 2016

Total funded debt	
Mortgages payable	\$ 688,342
Bank indebtedness	17,498
	\$ 705,840
Gross book value of assets	
Investment properties	\$ 1,347,917
Property, plant and equipment	4,756
	\$ 1,352,673
Overall funded debt to gross book value ratio	52%

Debt service coverage ratio

Earning before interest, tax, depreciation and amortization

For 12 months ended June 30, 2016

Net income	\$ 36,386
Add (deduct):	
Mortgage interest	25,467
Income tax	11,571
Depreciation	367
Amortization of finance cost	2,247
Fair value gain	(18,103)
	\$ 57,935
Principal and interest payments	\$ 39,205
Debt service coverage ratio	1.48

CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY PERIOD

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

12 months ending June 30,	Amount
2017	\$ 38,104
2018	67,876
2019	36,397
2020	38,275
2021	81,609
Subsequent	441,979
	704,240
Deferred financing costs	(15,898)
	\$ 688,342

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 637,406	91 %	3.44 %
– non-CMHC-insured	\$ 66,834	9 %	3.97 %
Total fixed rate debt	\$ 704,240	100 %	3.49 %
Deferred financing cost	\$ (15,898)		
	\$ 688,342		

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, 2016, total mortgages payable was \$688 million compared to \$614 million on September 30, 2015 – an increase of 12% due to financing during the nine months ended June 30, 2016.

At June 30, 2016, management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 52% of fair value of investment properties. About 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 (%)
2016	\$ 12,682	2 %	4.07 %
2017	\$ 42,548	6 %	5.16 %
2018	\$ 28,046	4 %	5.15 %
2019	\$ 26,456	4 %	5.39 %
2020	\$ 31,243	4 %	4.38 %
Subsequent	\$ 563,265	80 %	3.13 %
	\$ 704,240	100 %	3.49 %

The average maturing term of mortgage loans is 7.7 years as of June 30, 2016.

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

INTERNAL CONTROL

Disclosure controls and procedures ("DC & P") are designed to provide reasonable assurances that all material information is gathered and reported to senior management of the Corporation, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") on a timely basis and that all information required to be disclosed in Mainstreet's annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The preparation of this information is supported by an internal control and procedure framework designed by management to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control and procedure framework related to

the Corporation's Internal Control over Financial Reporting ("ICFR") and DC&P were designed in accordance with Risk Management and Governance – Guidance on Control, published by the Canadian Institute of Chartered Accountants and the requirements of National Instrument 52-109 of the Canadian Securities Administrators entitled, "Certification of Disclosure in Issuer's Annual and Interim Filings".

In Q3 2016, the CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P and ICFR as at June 30, 2016. This evaluation confirmed that the Corporation's DC&P and ICFR were effective as at June 30, 2016.

No changes were made to the Corporation's DC & P during the quarter ended June 30, 2016.

As at June 30, 2016, Mainstreet confirmed the design of ICFR to provide reasonable assurances regarding the reliability of the financial reporting and the preparation of financial statements and information for external purposes in accordance with IFRS and that the ICFR operated effectively throughout the reported period. The Corporation may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that these systems evolve with the Corporation's business. There were no changes in the Corporation's ICFR during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

Financial Instruments & Risk Management

Fair value of financial assets and liabilities

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

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

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

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

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

(000s of dollars)

		June 30, 2016		September 30, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	\$ 2,604	\$ 2,604	\$ 3,052	\$ 3,052
Cash and cash equivalents	Level 1	1,384	1,384	1,526	1,526
Trade and other receivables	Level 2	1,268	2,823	844	844
Mortgage receivable	Level 2	2,500	2,493	2,500	2,468
Financial liabilities:					
Bank indebtedness	Level 1	17,498	17,498	36,909	36,909
Mortgages payable	Level 2	688,342	738,726	614,390	654,686
Trade and other payables	Level 2	4,884	4,884	6,131	6,131
Refundable security deposits	Level 1	\$ 3,937	\$ 3,937	\$ 4,217	\$ 4,217

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

(000s of dollars)

			June 30, 2016		September 30, 2015	
			Carrying amount	Fair value	Carrying amount	Fair value
Non-financial assets:						
Investment properties	Level 3	\$ 1,347,917	\$ 1,347,917	\$1,386,035	\$1,386,035	

Risk Associated with Financial Assets & Liabilities

The Corporation is exposed to risks arising from its financial assets and liabilities. These include market risk related to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled "Risk Assessment and Management" on page 21.

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, 2016		Year ended September 30, 2015	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	10,271,251	\$ 28,114	10,469,081	\$ 28,656
Shares purchased for cancellation	(1,370,128)	(3,750)	(197,830)	(542)
Issued and outstanding,				
– end of the period	8,901,123	\$ 24,364	10,271,251	\$ 28,114

All common shares share an equal right to dividends.

On May 30, 2016, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 487,890 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2016. The Corporation's previous NCIB expired on April 20, 2016.

During the three and nine months ended June 30, 2016 and 2015, the Corporation purchased and cancelled 31,792 shares (2015 – 57,900) and 170,128 (2015 – 147,830) common shares under NCIB at an average price of \$35.72 per common share (2015 – \$37.83) and \$32.47 per common share (2015 – \$37.83), respectively.

In addition, during the three months ended June 30, 2016, Mainstreet purchased and cancelled 1.2 million of its common shares at a purchase price of \$36 per common share for an aggregate amount of \$43.2 million (not including fees and expenses), pursuant to a substantial issuer bid in accordance with applicable securities laws and the rules and regulations of the TSX.

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

STOCK OPTION

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

Stock option	June 30, 2016		September 30, 2015	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, – beginning and end of the period	828,200	\$ 5.51	828,200	\$ 5.51
Weighted average contractual life-years	2.69		3.44	
Prices	\$ 5.51		\$ 5.51	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 26, 2010, March 21, 2013 and March 18, 2016, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of the issued and outstanding common shares. The exercise price of the option shall equal the market-trading price of the Corporation's common share on the date of grant. The stock options are fully vested at the time of issue. The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate and expected dividend rate. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration received by the Corporation on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost. The stock option plan will remain in place until the termination of the annual general meeting of the Corporation in 2019 unless renewed and approved by the shareholders of the Corporation on or before that date.

Shareholder Rights Plan

Effective February 21, 2013, the Board of Directors of the Corporation approved the adoption of a shareholder rights plan agreement (the "Rights Plan") dated February 21, 2013 between the Corporation and Computershare Trust Company of Canada. The Rights Plan was ratified and approved by shareholders of the Corporation on March 21, 2013 and subsequently amended and renewal by the shareholders of the Corporation on March 18, 2016.

Until recently securities legislation in Canada required a take over bid to be open for at least 35 days, resulting in the Board of Directors of the Corporation being concerned that this was too short a period of time for companies that are subject to unsolicited take over bids to be able to respond to ensure that shareholders are offered full and fair value for their shares. The Rights Plan is designed to give the Corporation's shareholders sufficient time to properly assess a take over bid without undue pressure and to give the Board of Directors time to consider alternatives designed to allow the Corporation's shareholders to receive full and fair for their common shares. The Rights Plan is not intended to prevent a take over bid or deter offers for the common shares of the Corporation. It is designed to encourage any bidder to provide shareholders with equal treatment and full and fair value for their common shares.

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

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

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

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

Key accounting estimates and assumptions

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

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

Actual results could differ from estimates.

Transactions with Related Parties

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for 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 ended June 30, 2016 were \$Nil (2015 – \$Nil) and \$53,000 (2015 – \$237,500) and formed part of the President and Chief Executive Officer's total remuneration for the year.
- b) The Corporation paid legal and professional fees and reimbursements for the transactions conducted by the Corporation in its normal course of business for the three and nine months ended June 30, 2016 amounting to \$18,000 (2015 – \$76,000) and \$147,000 (2015 – \$141,000) 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, 2016, the amounts payable to the law firm were \$Nil (September 30, 2015 – \$580).

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for Q3 2016.

Subsequent Events

Subsequent to the quarter ended June 30, 2016, the Corporation acquired 6 residential units in one of its existing condo property in Abbotsford, BC and 472 residential units in Edmonton, AB and Saskatoon, SK for a total consideration of \$46 million (\$96,000 per door).

Subsequent to the quarter ended June 30 2016, approval has been obtained from the CMHC to refinance \$7.1 million in pre-maturity mortgage loans with an average interest rate of 4.92% to long-term, 10-year CMHC insured mortgages for \$11 million at an average interest rate of 2.26%. Mainstreet also obtained approval of a \$17.5 million 10 years CMHC insured mortgage on two clear titled assets at an average interest rate of 2.24%.

Risk Assessment & Management

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

Vacancy Risk

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

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

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

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

Economic Uncertainty

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

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling approximately \$25 million are subject to renewal in the next 12 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the possibility of a lender calling a loan prematurely.

Utilities Risk

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

Risks of Real Estate Property Ownership

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

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

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

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

Renovation Risks

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

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of June 30, 2016, rents due from current tenants amounted to \$292,000 (September 30, 2015 – \$240,000). The possibility of not receiving payment of rent due from current tenants was covered

by security deposits of \$3.9 million (September 30, 2015 – \$4.2 million) and provisions for bad debts of \$100,000 (September 30, 2015 – \$100,000).

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

Liquidity Risk

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

Financing Risk

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

Reliance on Key Employees

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

Income Tax Risk

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

Market Risks

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

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

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

Acquisitions Risks

Mainstreet's growth depends in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. It is not possible to manage all risks associated with such acquisitions in the terms and

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

Environmental, Health and Safety Matters

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

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

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

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

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

Workforce Availability

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

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

Uninsured Losses

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

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

Substitutions for Residential Rental Units

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

Litigation Risks

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

Rent Control

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

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

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

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

Operational Risks

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed infrastructure, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal or

regulatory proceedings. Mainstreet endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and, if deemed necessary, improvements are implemented.

Public Market Risk

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

Potential Conflicts of Interest

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

Appraisals of Properties

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

CHALLENGES

Ongoing volatility in commodity prices continues to create economic uncertainty in the Prairies, particularly Alberta. This economic slowdown is further compounded by the overbuilding of condominiums during recent years of higher economic growth. As a result, a large number of investor-owned condominiums are now entering the rental pool. This has also resulted in the re-negotiation of rental rates, increased vacancies, and concessions to tenants. However, economic slowdown also creates a series of opportunities that are discussed at greater length in the Outlook section below.

OUTLOOK

Mainstreet is pushing the reset button on its approach to acquisitions. Management believes the current environment of slower GDP growth makes this an ideal time to begin to expand Mainstreet's portfolio on an opportunistic basis in Mainstreet's geographic platforms.

Mainstreet sees this potential surfacing in Alberta in particular. Despite slower in-migration numbers, migration into Alberta is forecasted to remain positive at 37,200 in 2016 and 38,200 in 2017 (Statistics Canada). Commodities markets are gradually showing signs of improvement, with mid-July oil prices rising 57% from their February lows. Moreover, Mainstreet sees the rental market edging closer to equilibrium as plans to construct new condominiums are put on hold. Its acquisition criteria in the province remains conservative, but Mainstreet nonetheless sees significant potential for future acquisitions in the region.

In Saskatchewan, management expects economic activity to gradually improve. The Saskatoon market remains stable, and Mainstreet experienced a 6% net gain in occupancy over the same quarter last year. Vacancy rates in the east side of the city were 5%. Vancouver/Lower Mainland remains our highest-performing market, where 30% of its portfolio is focused. Vacancy rates remained below 2% due to the robust economic activity in the region, which management expects will continue to place upward pressure on rental rates.

Costs are likely to remain relatively low in Mainstreet's Saskatchewan and Alberta markets. With the easing of labour market pressure, management believes there is an opportunity to bulk up on senior and middle management personnel at a cost that would have been impossible when economic activity was at its peak. Management also expects to see substantial reductions in heating costs due to low natural gas prices. In addition to cost cutting, Mainstreet believes its position in the middle rental market (the price point average rental rate is \$1,000) will allow Mainstreet to take advantage of ongoing economic uncertainty, which tends to be supportive of the rental market as consumers delay major purchases like new homes.

Runway on existing portfolio

- 1) Closing the NOI gap: At the end of Q3 2016, 9% of the Mainstreet portfolio remained unstabilized, and while this is a normal part of the Mainstreet business model, its continued work in renovating and improving properties before releasing them back to the market provides, in Mainstreet's opinion, will create additional avenues to improve NOI performance. Mainstreet believes that its unstabilized portfolio is one of our greatest levers for future growth in NOI and FFO.
- 2) Renegotiating long-term debt: Interest rates are among the lowest Mainstreet has ever experienced and they account for its single largest expense. Management expects to cut these expenses by refinancing its remaining mortgage loans maturing in 2016 and 2017 at a significantly lower interest rate for 10-year, CMHC-insured mortgages.
- 3) Leveraging Mainstreet's ample liquidity: Finally, management believes Mainstreet enjoys a position of strength to capitalize on opportunities for acquisitions and share buy backs while avoiding dilution. Management anticipates the availability of approximately \$150 million in liquidity by the end of fiscal year 2016 from the refinancing of existing debt, financing of existing clear title assets and its \$85 million revolving line of credit. Mainstreet believes this substantial liquidity position will provide the opportunity to make acquisitions of up to \$600 million based on a leverage level of 75%.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available on the Corporation's website at www.mainst.biz and on Sedar at www.sedar.com.