

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(\$000s of Canadian dollars)

	June 30, 2016	Sep. 30, 2015
Assets		
Non-current assets		
Investment properties [Note 4]	\$ 1,347,917	\$ 1,386,035
Property, plant and equipment	4,756	4,721
Intangible assets	381	272
	1,353,054	1,391,028
Current assets		
Prepaid assets	4,015	1,921
Current income tax receivable	1,149	–
Trade and other receivables	1,268	844
Restricted cash	2,604	3,052
Inventory	320	461
Mortgage receivable	2,500	2,500
Cash and cash equivalents	1,384	1,526
	13,240	10,304
Total Assets	\$ 1,366,294	\$ 1,401,332
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	\$ 652,610	\$ 558,539
Deferred tax liabilities	115,939	117,516
	768,549	676,055
Current liabilities		
Mortgages payable [Note 5]	35,732	55,851
Trade and other payables	4,884	6,131
Current income tax payable	92	1,763
Refundable security deposits	3,937	4,217
Bank indebtedness [Note 6]	17,498	36,909
	62,143	104,871
Total Liabilities	830,692	780,926
Equity		
Share capital [Note 7]	24,364	28,114
Contributed surplus	2,404	2,404
Retained earnings	508,834	589,888
Total Equity	535,602	620,406
Total Liabilities and Equity	\$ 1,366,294	\$ 1,401,332

See accompanying notes to these condensed consolidated financial statements.

(Signed)

“Bob Dhillon”
Director
July 19, 2016

(Signed)

“Joe Amantea”
Director

CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS

Unaudited

(\$000s of Canadian dollars, except per share amounts)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Nine months ended June 30, 2016	Nine months ended June 30, 2015
Rental revenue	\$ 24,225	\$ 24,700	\$ 74,108	\$ 73,638
Ancillary rental income	291	390	1,078	1,119
	24,516	25,090	75,186	74,757
Property operating expenses	8,970	8,247	27,031	25,330
Net operating income	15,546	16,843	48,155	49,427
Interest income	40	35	174	122
	15,586	16,878	48,329	49,549
Mortgage interest	6,369	6,347	19,227	18,784
Amortization of financing cost	599	498	1,745	1,440
General and administrative expenses	2,327	2,125	6,549	6,934
Depreciation	93	110	264	287
	9,388	9,080	27,785	27,445
Profit before other items and income tax	6,198	7,798	20,544	22,104
Fair value loss [Note 4]	(5,273)	(10,993)	(57,758)	(21,120)
Profit (loss) before income tax	925	(3,195)	(37,214)	984
Current income tax	84	359	204	1,090
Future income tax expense (recovery)	1,100	5,771	(1,576)	7,414
Net loss and total comprehensive loss	\$ (259)	\$ (9,325)	\$ (35,842)	\$ (7,520)
Net loss per share				
– basic [Note 8]	\$ (0.03)	\$ (0.90)	\$ (3.66)	\$ (0.72)
– diluted [Note 8]	\$ (0.03)	\$ (0.90)	\$ (3.66)	\$ (0.72)

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(\$000s of Canadian dollars)

		Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance, October 1, 2014	\$	28,656	\$ 2,404	\$ 531,987	\$ 563,047
Shares purchased for cancellation		(405)	—	(5,130)	(5,535)
Loss for the period		—	—	(7,520)	(7,520)
Balance, June 30, 2015	\$	28,251	\$ 2,404	\$ 519,337	\$ 549,992
Shares purchased for cancellation		(137)	—	(1,677)	(1,814)
Profit for the period		—	—	72,228	72,228
Balance, September 30, 2015	\$	28,114	\$ 2,404	\$ 589,888	\$ 620,406
Balance, October 1, 2015	\$	28,114	\$ 2,404	\$ 589,888	\$ 620,406
Shares purchased for cancellation [Note 7]		(3,750)	—	(45,212)	(48,962)
Loss for the period		—	—	(35,842)	(35,842)
Balance, June 30, 2016	\$	24,364	\$ 2,404	\$ 508,834	\$ 535,602

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASHFLOWS

Unaudited

(\$000s of Canadian dollars)

9 months ended June 30,

	2016	2015
Operating activities		
Net loss	\$ (35,842)	\$ (7,520)
Adjustments for:		
Amortization of financing cost	1,745	1,440
Depreciation	264	287
Fair value loss	57,758	21,120
Deferred income tax recovery (expense)	(1,576)	7,414
Mortgage interest	19,227	18,784
Interest paid on mortgages payable	(19,220)	(18,767)
	22,356	22,758
Change in working capital		
Prepaid assets	(2,094)	(1,338)
Current income tax receivable	(1,149)	–
Trade and other receivables	(424)	(13)
Inventory	140	36
Restricted cash	448	(78)
Trade and other payables	(1,128)	(145)
Current income tax payable	(1,671)	–
Refundable security deposits	(280)	239
Cash from operating activities	16,198	21,459
Financing activities		
Bank indebtedness	(19,411)	30,061
Financing of investment properties	119,620	54,913
Repayment of mortgages payable	(47,420)	(33,586)
Repurchase of shares	(48,962)	(5,535)
Cash from financing activities	3,827	45,853
Investing activities		
Purchase of and additions to investment properties	(19,759)	(50,254)
Purchase of and additions to property, plant and equipment	(299)	(397)
Purchase of and additions to intangible assets	(109)	–
Cash used in investing activities	(20,167)	(50,651)
Net (decrease) increase in cash and cash equivalents	(142)	16,661
Cash and cash equivalents, beginning of period	1,526	1,041
Cash and cash equivalents, end of period	\$ 1,384	\$ 17,702
Cash and cash equivalents are comprised:		
(Bank indebtedness) Cash	\$ (164)	\$ 16,153
Short-term deposits	1,548	1,549
	\$ 1,384	\$ 17,702

See accompanying notes to these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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

For the 3 and 9 months ended June 30, 2016 and 2015

1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation, incorporated under the Canadian Business Corporations Act, focused on acquiring and managing mid-market residential rental apartment buildings in major markets primarily in Western Canada. The registered office and head office of the Corporation are located at 1413 – 2nd Street SW Calgary, Alberta T2R 0W7 and 305 – 10th Avenue SE Calgary, Alberta T2G 0W2, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The condensed consolidated financial statements of the Corporation have been prepared in compliance with International Accounting Standards ("IAS") 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and adopted by the Chartered Professional Accountants of Canada ("CPA"). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed and, therefore, should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended September 30, 2015.

b) Basis of presentation

These condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended September 30, 2015.

These condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value. The condensed consolidated financial statements are prepared on a going concern basis and have been prepared in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects.

c) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned controlled subsidiary, Mainstreet Equity USA Corp. All inter-company transactions, balances, revenue and expenses have been eliminated on consolidation.

d) Key accounting estimates and assumptions

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

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates, market rent, vacancy rate and operating expenses. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 4 for sensitivity analysis;
- ii) Significant estimates used in determining the fair value of financial instruments include the discount rate used to discount the future cash flows 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.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

The new IFRS policies which are effective for annual periods beginning on or after January 1, 2016 are discussed below:

IFRS 16 – Leases – Effective for annual periods starting January 1, 2019

IFRS 16 eliminates the classification of leases as either operating leases or finance lease. Instead all leases are treated in a similar way to finance leases applying IAS 17, Leases. Leases are capitalized by recognizing the present value of the lease payments and showing them either as lease assets or with property, plant and equipment. If lease payments are made over time, a corporation is also required to recognize a financial liability representing its obligation to make future lease payments. IFRS 16 requires no recognition of assets and liabilities for short-term leases of 12 months or less. The Corporation is currently evaluating the impact of the new accounting policies on its financial reporting.

4. INVESTMENT PROPERTIES

	Nine months ended June 30, 2016	Year ended Sept. 30, 2015
Balance, beginning of period	\$ 1,386,035	\$ 1,259,010
Additions	10,628	59,061
Building improvements	9,012	13,222
Fair value (loss) gain	(57,758)	54,742
Balance, end of period	\$ 1,347,917	\$ 1,386,035

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 changes in market conditions affecting the underlying assumptions used for the fair value assessment during the period and management estimated the fair value of the investment properties based on the current market conditions at June 30, 2016.

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

	June 30, 2016	Sept. 30, 2015
Surrey, BC	4.60%	4.85%
Abbotsford, BC	5.19%	5.19%
Calgary, AB	4.86%	4.86%
Edmonton, AB	5.71%	5.71%
Saskatoon, SK	6.75%	6.75%
Investment properties	5.35%	5.37%

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

As at June 30, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	69,950	\$ 71,392	\$ 72,114	\$ 72,835	\$ 74,277
Capitalization rate						
-0.25%	5.10%	\$ 23,655	\$ 51,934	\$ 66,074	\$ 80,214	\$ 108,494
Cap rate used	5.35%	\$ (40,438)	\$ (13,479)	\$ 1,347,917	\$ 13,479	\$ 40,438
+0.25%	5.60%	\$ (98,807)	\$ (73,052)	\$ (60,175)	\$ (47,297)	\$ (21,543)

As at September 30, 2015

Net operating income		-3%	-1%	As estimated	+1%	+3%
	\$	72,235	\$ 73,724	\$ 74,469	\$ 75,214	\$ 76,703
Capitalization rate						
-0.25%	5.12%	\$ 24,803	\$ 53,893	\$ 68,438	\$ 82,982	\$ 112,072
Cap rate used	5.37%	\$ (40,878)	\$ (13,143)	\$ 1,386,035	\$ 14,592	\$ 42,328
+0.25%	5.62%	\$ (100,716)	\$ (74,215)	\$ (60,964)	\$ (47,713)	\$ (21,212)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.49% (September 30, 2015 – 3.75%) per annum and are payable in monthly principal and interest installments totaling \$3.2 million (September 30, 2015 – \$3.0 million), maturing from 2016 to 2026 and are secured by specific charges against specific investment properties, having a fair value of \$1,203 million (September 30, 2015 – \$1,149 million).

	June 30, 2016	Sept. 30, 2015
Non-current	\$ 652,610	\$ 558,539
Current	35,732	55,851
	\$ 688,342	\$ 614,390

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

6. BANK INDEBTEDNESS

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 years 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

7. 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 have 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 the 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.

8. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period.

The treasury stock method of calculating the diluted loss per share is used.

The following table sets forth the computation of basic and diluted loss per share:

	Three months ended June 30		Nine months ended June 30	
	2016	2015	2016	2015
Numerator				
Net loss	\$ (259)	\$ (9,325)	\$ (35,842)	\$ (7,520)
Denominator				
For basic loss per share				
Weighted average shares	9,086,815	10,345,517	9,798,525	10,418,847
Dilutive effect	–	–	–	–
For diluted (loss) profit per share	9,086,815	10,345,517	9,798,525	10,418,847
Loss per share				
– basic	\$ (0.03)	\$ (0.90)	\$ (3.66)	\$ (0.72)
– diluted	\$ (0.03)	\$ (0.90)	\$ (3.66)	\$ (0.72)

Due to reported losses, the dilution calculation does not include outstanding stock options to purchase up to 828,200 common shares for the three and nine months ended June 30, 2016. If included, these items would be anti-dilutive and therefore are not included in the computation of diluted loss per share.

9. STOCK OPTION PLAN

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	

10. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Fair value of financial assets and liabilities

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

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

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

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

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

(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

11. RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. Most of the Corporation's financial assets and liabilities are short term in nature and, accordingly, the fluctuation in the fair value is therefore minimal.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totaling approximately \$13 million are subject to renewal during the financial year ending September 30, 2016. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$131,000 in interest expense for the nine months ended June 30, 2016.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of 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 chartered financial institutions.

Liquidity Risk

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

The timing of cash outflows relating to financial liabilities are outlined in the table below:

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgage payable	\$ 38,104	67,876	36,397	38,275	523,588	\$ 704,240
Mortgage interest payable	\$ 24,625	23,074	19,715	17,997	60,522	\$ 145,933
Bank indebtedness	\$ 17,498	–	–	–	–	\$ 17,498
Trade and other payables	\$ 4,884	–	–	–	–	\$ 4,884
Refundable security deposits	\$ 3,937	–	–	–	–	\$ 3,937

12. GUARANTEES, CONTINGENCIES, COMMITMENTS

In the normal course of business, the Corporation may enter into various agreements that may contain features that meet the definition of guarantees, contingencies or commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") that contingently require the Corporation to make payments to the guaranteed party based on: (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of a third party to pay its indebtedness when due.

In the ordinary course of business, the Corporation provides indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements require the Corporation to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Corporation has not made any significant payments under such indemnifications and no amount has been accrued in these condensed financial statements with respect to these indemnification commitments.

In the normal course of operations, the Corporation will become subject to a variety of legal and other claims against the Corporation. Management and the Corporation's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Corporation will not be material.

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

13. RELATED PARTY TRANSACTIONS

- The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the 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.
- 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).

14. SEGMENTED INFORMATION

The Corporation specializes in multi-family residential housing and operates primarily within one business segment in three provinces located in Canada. The following summary presents segmented financial information for the Corporation's continuing operations by geographic location:

RENTAL OPERATIONS

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
BRITISH COLUMBIA				
Rental revenue	\$ 6,987	\$ 6,125	\$ 20,358	\$ 17,327
Ancillary rental income	76	91	256	256
Fair value (loss) or gain	(2,074)	(1,422)	9,044	(4,904)
Property operating expenses	(2,435)	(2,359)	(7,223)	(6,569)
ALBERTA				
Rental revenue	\$ 14,867	\$ 16,256	\$ 46,569	\$ 48,770
Ancillary rental income	201	280	779	791
Fair value (loss) or gain	(2,695)	(10,924)	(65,551)	(16,631)
Property operating expenses	(5,615)	(5,074)	(16,905)	(16,161)
SASKATCHEWAN				
Rental revenue	\$ 2,371	\$ 2,319	\$ 7,181	\$ 7,541
Ancillary rental income	14	19	43	72
Fair value (loss) or gain	(504)	1,353	(1,251)	415
Property operating expenses	(920)	(814)	(2,903)	(2,600)
TOTAL				
Rental revenue	\$ 24,225	\$ 24,700	\$ 74,108	\$ 73,638
Ancillary rental income	291	390	1,078	1,119
Fair value loss	(5,273)	(10,993)	(57,758)	(21,120)
Property operating expenses	(8,970)	(8,247)	(27,031)	(25,330)
Unallocated revenue*	40	35	174	122
Unallocated expenses**	(10,572)	(15,210)	(26,413)	(35,949)
Loss for the period	\$ (259)	\$ (9,325)	\$ (35,842)	\$ (7,520)

* Unallocated revenue represents interest income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

	June 30, 2016	Sept. 30, 2015
BRITISH COLUMBIA		
Investment properties	\$ 377,495	\$ 361,050
Property, plant and equipment	22	21
Mortgages payable	170,000	118,878
Refundable security deposits	1,285	1,213
ALBERTA		
Investment properties	\$ 839,978	\$ 896,185
Property, plant and equipment	4,726	4,693
Mortgages payable	448,326	424,678
Refundable security deposits	2,247	2,579
SASKATCHEWAN		
Investment properties	\$ 130,444	\$ 128,800
Property, plant and equipment	8	7
Mortgages payable	70,016	70,834
Refundable security deposits	405	425
TOTAL		
Investment properties	\$ 1,347,917	\$ 1,386,035
Property, plant and equipment	4,756	4,721
Mortgages payable	688,342	614,390
Refundable security deposits	3,937	4,217

IDENTIFIABLE CAPITAL EXPENDITURES

	Nine months ended June 30, 2016	Year ended Sept. 30, 2015
BRITISH COLUMBIA	\$ 7,407	\$ 40,228
ALBERTA	9,692	26,308
SASKATCHEWAN	2,898	6,373
TOTAL	\$ 19,997	\$ 72,909

15. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and, on occasion, bank loans or lines of credit when drawn on. The Corporation's total capital resources as at June 30, 2016 amounted to \$1,241 million (September 30, 2015 – \$1,272 million).

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

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

The total managed capital for the Corporation is summarized below:

	June 30, 2016	Sept. 30, 2015
Mortgages payable	\$ 688,342	\$ 614,390
Bank indebtedness	17,498	36,909
Total equity	535,602	620,406
Total capital	\$ 1,241,442	\$ 1,271,705

The Corporation's policy for capital risk management is to keep a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at June 30, 2016 is approximately 52% (September 30, 2015 – 47%) which management believes leaves a sufficient capacity to raise additional funds from refinancing before the Corporation reaches its internal policy target ratio of 70%.

As at the dates set forth below, the debt to market value ratios were as follows:

	June 30, 2016	Sept. 30, 2015
Mortgages payable	\$ 688,342	\$ 614,390
Bank indebtedness	17,498	36,909
Total debts	\$ 705,840	\$ 651,299
Investment properties	\$ 1,347,917	\$ 1,386,035
Debt to fair value ratio	52%	47%

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

16. 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%.

17. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on July 19, 2016.