CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

($000s of Canadian dollars)

	Dec. 31, 2016	Sep. 30, 2016
Assets		
Non-current assets		
Investment properties [Note 4]	$ 1,462,665	$ 1,460,080
Property, plant and equipment	4,840	4,822
Intangible assets	437	423
	1,467,942	1,465,325
Current assets		
Prepaid assets	2,576	1,774
Prepaid current income tax	1,261	1,261
Trade and other receivables	1,381	1,614
Restricted cash	2,674	2,858
Inventory	304	338
Mortgage receivable	–	2,500
Cash and cash equivalents	44,707	1,095
	52,903	11,440
Total Assets	$ 1,520,845	$ 1,476,765
Liabilities		
Non-current liabilities		
Mortgages payable [Note 5]	$ 777,802	$ 666,824
Deferred tax liabilities	123,317	123,162
	901,119	789,986
Current liabilities		
Mortgages payable [Note 5]	25,675	47,657
Trade and other payables	5,766	6,898
Refundable security deposits	4,007	4,100
Bank indebtedness [Note 6]	–	40,148
	35,448	98,803
Total Liabilities	936,567	888,789
Equity		
Share capital [Note 7]	24,315	24,315
Contributed surplus	2,404	2,404
Retained earnings	557,559	561,257
Total Equity	584,278	587,976
Total Liabilities and Equity	$ 1,520,845	$ 1,476,765

See accompanying notes to these condensed consolidated financial statements.

[Signed]

"Bob Dhillon"
Director

[Signed]

"Joe Amantea"
Director

February 14, 2017

CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS

Unaudited

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

3 months ended December 31,		2016		2015
Rental revenue	$	25,499	$	25,055
Ancillary rental income		344		337
		25,843		25,392
Property operating expenses		10,153		8,758
Net operating income		15,690		16,634
Interest income		114		34
		15,804		16,668
Mortgage interest		8,305		6,286
Amortization of deferred financing cost		807		562
General and administrative expenses		2,398		2,169
Depreciation		88		82
		11,598		9,099
Profit before other items and income tax		4,206		7,569
Fair value (loss) [Note 4]		(7,748)		(16,053)
Loss before income tax		(3,542)		(8,484)
Deferred income tax expense		156		–
Net loss and total comprehensive loss	$	(3,698)	$	(8,484)
Loss per share [Note 8]				
– Basic	$	(0.42)	$	(0.83)
– Diluted	$	(0.42)	$	(0.83)

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, 2015	$ 28,114	$ 2,404	$ 589,888	$ 620,406
Shares purchased for cancellation	(379)	–	(4,010)	(4,389)
Loss for the period	–	–	(8,484)	(8,484)
Balance, December 31, 2015	$ 27,735	$ 2,404	$ 577,394	$ 607,533
Shares purchased for cancellation	(3,420)	–	(41,792)	(45,212)
Profit for the period	–	–	25,655	25,655
Balance, September 30, 2016	$ 24,315	$ 2,404	$ 561,257	$ 587,976
Balance, October 1, 2016	$ 24,315	$ 2,404	$ 561,257	587,976
Loss for the period	–	–	(3,698)	(3,698)
Balance, December 31, 2016	$ 24,315	$ 2,404	$ 557,559	$ 584,278

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited
($000s of Canadian dollars)

3 months ended December 31,	2016	2015
Cash obtained from (used in) operating activities		
Net profit (loss)	$ (3,698)	$ (8,484)
Adjustments for:		
Amortization of deferred financing cost	807	562
Depreciation	88	82
Fair value loss	7,748	16,053
Deferred income tax expense	156	–
Mortgage interest	8,305	6,286
Interest paid on mortgages payable	(8,305)	(6,284)
	5,101	8,215
Change in working capital		
Prepaid assets	(802)	(1,038)
Trade and other receivables	233	(587)
Inventory	34	(118)
Restricted cash	184	238
Trade and other payables	(875)	(2,660)
Refundable security deposits	(93)	(123)
Cash from operating activities	3,782	3,927
Financing activities		
Bank indebtedness	(40,148)	(36,836)
Financing of investment properties	145,282	55,855
Repayment of mortgages payable	(57,093)	(11,793)
Repurchase of shares	–	(4,388)
Cash from financing activities	48,041	2,838
Investing activities		
Purchase of and additions to investment properties	(10,591)	(4,914)
Purchase of and additions to property, plant and equipment	(106)	(106)
Purchase of and additions to intangible assets	(14)	(62)
Mortgage receivable	2,500	–
Cash used in investing activities	(8,211)	(5,082)
Net increase in cash and cash equivalents	43,612	1,683
Cash and cash equivalents, beginning of period	1,095	1,526
Cash and cash equivalents, end of period	$ 44,707	$ 3,209
Cash and cash equivalents are comprised of:		
Cash	$ 1,524	$ 126
Short-term deposits	43,183	3,083
	$ 44,707	$ 3,209

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 months ended December 31, 2016 and 2015

1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation, incorporated under the Business Corporations Act (Alberta), focused on acquiring and managing mid-market residential rental apartment buildings in major markets primarily in Western Canada. The registered office and head office of the Corporation are located at 1413 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, 2016.

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, 2016.

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 of mortgages for similar loans with similar credit ratings and the same maturities;

iii) Significant estimates used in determining the fair value of share-based compensation include the estimated risk free interest rate, expected life of the stock options, expected volatility rate of and expected dividend rates;

iv) Allocation of purchase cost in the acquisition of property, plant and equipment into different components, estimation of their useful life and impairment on property, plant and equipment; and

v) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

3. NEW ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

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

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

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

The IASB has undertaken a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") with IFRS 9 Financial Instruments ("IFRS 9"). In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until the assessment by the Company is complete.

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

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new Standard on its financial statements.

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

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

4. INVESTMENT PROPERTIES

	Three months ended Dec. 31, 2016	Year ended Sep. 30, 2016
Balance, beginning of period	**$ 1,460,080**	$ 1,386,035
Additions	**6,477**	63,938
Building improvements	**3,856**	13,142
Fair value loss	**(7,748)**	(3,035)
Balance, end of period	**$ 1,462,665**	$ 1,460,080

The fair value of investment properties held by the Corporation as of September 30, 2016, was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The appraisers also reviewed 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 December 31, 2016 except for three properties acquired during the three months ended December 31, 2016 for which the cost of acquisition was used as the best estimate of the fair market value as of December 31, 2016.

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

	Dec. 31, 2016	Sep. 30, 2016
Surrey, BC	**4.56%**	4.56%
Abbotsford, BC	**5.13%**	5.13%
Calgary, AB	**4.86%**	4.86%
Edmonton, AB	**5.92%**	5.92%
Saskatoon, SK	**6.77%**	6.77%
Investment properties	**5.41%**	5.41%

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

As at December 31, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 76,758	$ 78,340	$ 79,132	$ 79,923	$ 81,506
Capitalization rate						
-0.25%	5.16%	$ 24,858	$ 55,529	$ 70,864	$ 86,199	$ 116,870
Cap rate used	5.41%	$ (43,880)	$ (14,627)	$1,462,665	$ 14,627	$ 43,880
+0.25%	5.66%	$ (106,546)	$ (78,585)	$ (64,604)	$ (50,624)	$ (22,662)

As at September 30, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 76,621	$ 78,200	$ 78,990	$ 79,780	$ 81,360
Capitalization rate						
-0.25%	5.16%	$ 24,816	$ 55,432	$ 70,740	$ 86,049	$ 116,665
Cap rate used	5.41%	$ (43,802)	$ (14,601)	$1,460,080	$ 14,601	$ 43,802
+0.25%	5.66%	$ (106,359)	$ (78,447)	$ (64,491)	$ (50,535)	$ (22,624)

5. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 3.10% (September 30, 2016 – 3.39%) per annum and are payable in monthly principal and interest installments totaling $3.4 million (September 30, 2016 – $3.2 million), maturing from 2017 to 2026 and are secured by specific charges against specific investment properties, having a fair value of $1,336 million (September 30, 2016 – $1,282 million).

	Dec. 31, 2016	Sep. 30, 2016
Non-current	$ 777,802	$ 666,824
Current	25,675	47,657
	$ 803,477	$ 714,481

Estimated principal payments required to retire the mortgage obligations as of December 31, 2016 are as follows:

12 months ending December 31,	Amount
2017	$ 28,257
2018	40,666
2019	34,625
2020	74,320
2021	60,004
Subsequent	585,209
	823,081
Deferred financing costs	(19,604)
	$ 803,477

6. BANK INDEBTEDNESS

Effective January 2014, the Corporation was granted a new banking facility to a maximum of $85 million with a syndicate of chartered financial institutions. The facility is secured by a floating charge against the Corporation's assets and carries an interest rate of prime plus 1.25%. The facility requires monthly interest payments and is renewable every three years subject to the mutual agreement of the lenders and the Corporation. The Corporation has extended the maturity date to December 6, 2019. As at December 31, 2016, the Corporation has drawn $Nil (September 30, 2016 – $40.1 million) against this credit facility. The facility contains financial covenants to maintain an overall funded debt to gross book value ratio of not more than 65% and debt service ratio of not less than 1.2. As of December 31, 2016, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 55% and 1.32, respectively.

(000s of dollars)

As at December 31, 2016	
Total funded debt	
Mortgages payable	$ 803,477
Bank indebtedness	–
	$ 803,477
Gross book value of assets	
Investment properties	$ 1,462,665
Property, plant and equipment	4,840
	$ 1,467,505
Overall funded debt to gross book value ratio	55%

Debt service coverage ratio

Earnings before interest, tax, depreciation and amortization

For 12 months ended December 31, 2016	
Net income	$ 21,957
Add (deduct):	
Mortgage interest	28,052
Income tax	5,802
Depreciation	372
Amortization of finance cost	2,624
Fair value gain	(5,270)
	$ 53,537
Principal and interest payments	$ 40,582
Debt service coverage ratio	1.32

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:

	Three months ended December 31, 2016		Year ended September 30, 2016	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	**8,883,333**	**$ 24,315**	10,271,251	$ 28,114
Shares purchased for cancellation	–	–	(1,387,918)	(3,799)
Issued and outstanding,				
– end of the period	**8,883,333**	**$ 24,315**	8,883,333	$ 24,315

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 months ended December 31, 2016 and 2015, the Corporation purchased and cancelled Nil common share and 138,336 common shares, respectively at an average price of $Nil and $31.72 per common share.

On April 22, 2016, Mainstreet purchased for cancellation 1.2 million of its common shares at a purchase price of $36 per common share for an aggregate purchase price of $43.2 million (not including fees and expenses), pursuant to a substantial issuer bid made in accordance with applicable securities laws.

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 December 31,		2016		2015
Numerator				
Net loss	$	**(3,698)**	$	(8,484)
Denominator				
For basic loss per share				
Weighted average shares		**8,883,333**		10,171,744
Dilutive effect		**–**		–
For diluted loss per share		**8,883,333**		10,171,744
Loss per share				
– Basic	$	**(0.42)**	$	(0.83)
– Diluted	$	**(0.42)**	$	(0.83)

Due to reported loss for the three months ended December 31, 2016 and 2015, the dilution calculation does not include outstanding stock options. 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 December 31, 2016 and September 30, 2016 and changes during the periods are presented below:

	December 31, 2016				September 30, 2016			
Stock option		Number of shares		Weighted average exercise price		Number of shares		Weighted average exercise price
Outstanding and exercisable, – beginning of the period		**828,200**	$	**5.51**		828,200	$	5.51
Outstanding and exercisable, – end of the period		**828,200**	$	**5.51**		828,200	$	5.51
Weighted average contractual life-years		**2.19**				2.44		
Prices	$	**5.51**			$	5.51		

During the fiscal quarter ended December 31, 2016, no stock options were granted, exercised or cancelled. No stock options may be granted under the Corporation's stock option plan after March 24, 2017.

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:

		December 31, 2016		September 30, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 1	$ 2,674	$ 2,674	$ 2,858	$ 2,858
Cash and cash equivalents	Level 1	44,707	44,707	1,095	1,095
Trade and other receivables	Level 2	1,381	1,381	1,614	1,614
Mortgage receivable	Level 2	–	–	2,500	2,498
Financial liabilities:					
Bank indebtedness	Level 1	–	–	40,148	40,148
Mortgages payable	Level 2	803,477	822,519	714,481	769,086
Trade and other payables	Level 2	5,766	5,766	6,898	6,898
Refundable security deposits	Level 1	4,007	4,007	4,100	4,100

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

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, 2017. Changes in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by Canada Mortgage and Housing Corporation ("CMHC") under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would not have resulted any change of in interest expense for the three months ended December 31, 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 December 31, 2016, rents due from current tenants amounted to $286,000 (September 30, 2016 – $336,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of $4.0 million (September 30, 2016 – $4.1 million) and provisions for bad debts of $130,000 (September 30, 2016 – $130,000).

In relation to cash, cash equivalents and restricted cash, the Corporation believes that its exposure to credit risk is low. The Corporation places its cash, cash equivalents, and restricted cash only with reputable Canadian 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
Mortgages payable	$ 28,257	40,666	34,625	74,320	645,213	$ 823,081
Mortgage interest payable	$ 25,541	24,425	22,593	21,659	72,359	$ 166,577
Trade and other payables	$ 5,766	–	–	–	–	$ 5,766
Refundable security deposits	$ 4,007	–	–	–	–	$ 4,007

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 consolidated 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 December 31, 2016 and September 30, 2016, 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

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 months ended December 31, 2016 were $51,600 (2016 – $Nil) and form 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 months ended December 31, 2016 amounting to $113,000 (2016 – $29,000) 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 December 31, 2016, the amounts payable to the law firm were $800 (September 30, 2016 – $600).

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

(000s of dollars)

3 months ended December 31,		2016		2015
BRITISH COLUMBIA				
Rental revenue	$	7,206	$	6,592
Ancillary rental income		115		87
Fair value gain or (loss)		(1,065)		(1,095)
Property operating expenses		2,630		2,295
ALBERTA				
Rental revenue	$	15,071	$	16,066
Ancillary rental income		207		232
Fair value gain or (loss)		(5,608)		(14,508)
Property operating expenses		6,237		5,503
SASKATCHEWAN				
Rental revenue	$	3,222	$	2,397
Ancillary rental income		22		18
Fair value gain or (loss)		(1,075)		(450)
Property operating expenses		1,286		960
TOTAL				
Rental revenue	$	25,499	$	25,055
Ancillary rental income		344		337
Fair value loss		(7,748)		(16,053)
Property operating expenses		10,153		8,758
Unallocated revenue*		114		34
Unallocated expenses**		11,754		9,099
Profit (loss) for the period	$	(3,698)	$	(8,484)

* Unallocated revenue represents interest income.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

	Dec. 31, 2016	Sep. 30, 2016
BRITISH COLUMBIA		
Investment properties	$ 400,400	$ 400,400
Property, plant and equipment	18	19
Mortgages payable	223,241	156,543
Refundable security deposits	1,285	1,290
ALBERTA		
Investment properties	$ 895,407	$ 892,480
Property, plant and equipment	4,810	4,794
Mortgages payable	490,334	467,555
Refundable security deposits	2,148	2,218
SASKATCHEWAN		
Investment properties	$ 166,858	$ 167,200
Property, plant and equipment	12	9
Mortgages payable	89,902	90,383
Refundable security deposits	574	592
TOTAL		
Investment properties	$ 1,462,665	$ 1,460,080
Property, plant and equipment	4,840	4,822
Mortgages payable	803,477	714,481
Refundable security deposits	4,007	4,100

IDENTIFIABLE CAPITAL EXPENDITURES

	Three months ended Dec. 31, 2016	Year ended Sep. 30, 2016
BRITISH COLUMBIA	$ 1,065	$ 9,917
ALBERTA	8,651	28,044
SASKATCHEWAN	737	39,736
TOTAL	$ 10,453	$ 77,697

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 December 31, 2016 amounted to $1,388 million (September 30, 2016 – $1,343 million).

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

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

The total managed capital for the Corporation is summarized below:

	Dec. 31, 2016	Sep. 30, 2016
Mortgages payable	$ 803,477	$ 714,481
Bank indebtedness	–	40,148
Total equity	584,278	587,976
Total capital	$ 1,387,755	$ 1,342,605

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 December 31, 2016 is approximately 55% (September 30, 2016 – 52%) 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:

	Dec. 31, 2016	Sep. 30, 2016
Mortgages payable	$ 803,477	$ 714,481
Bank indebtedness	–	40,148
Total debts	$ 803,477	$ 754,629
Investment properties	$ 1,462,665	$ 1,460,080
Debt to fair value ratio	55%	52%

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

16. SUBSEQUENT EVENTS

Subsequent to the quarter ended December 31, 2016, the Corporation acquired 15 residential units in Calgary, Alberta, 199 residential units in Edmonton, Alberta and 31 residential units in Saskatoon, Saskatchewan for a total consideration of $23 million.

Subsequent to the quarter ended December 31, 2016, approval has been obtained from the CMHC to refinance $10 million in pre-maturity mortgage loans with an average interest rate of 4.95% to long-term, 10-year CMHC insured mortgages for $19 million at an average interest rate of 2.78%. Mainstreet also obtained approval of a $21 million 10 years CMHC insured mortgage on eight clear titled assets at an estimated average interest rate of 2.9%.

Mainstreet has accepted an offer to settle the insurance claim on the fire damage of the property in Edmonton for $2.4 million.

17. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on February 9, 2017.