

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 fiscal years ended September 30, 2023 and 2022. 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 audited consolidated financial statements and accompanying notes for the fiscal years ended September 30, 2023 and 2022. The audited consolidated financial statements of the Corporation have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 November 30, 2023. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form ("AIF") is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicated otherwise, reference herein to 2023 and 2022 refers to the fiscal years ended September 30, 2023 and 2022, respectively.

NON-IFRS MEASURES

Mainstreet prepares and releases unaudited interim condensed consolidated financial statements and audited consolidated annual financial statements in accordance with IFRS. In this MD&A and in any earnings releases, as a complement to results provided in accordance with IFRS, Mainstreet also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS. These non-IFRS measures are recommended by the Real Property Association of Canada's ("REALPAC"), a leading national industry association of investment real estate. These include funds from operations ("FFO") and FFO per share. FFO is widely accepted as a supplemental measure of the performance of Canadian real estate entities, and management believes these non-IFRS measures are relevant measures to maintain comparability in operating performance. FFO is defined as profit before change in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items which are not uniquely significant to the real estate industry (for example, computers or vehicles).

These non-IFRS measures may not be comparable to similarly titled measures reported by other issuers. The Non-IFRS measures should not be construed as alternatives to net profit (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of Mainstreet's performance. Reconciliation of FFO to profit, the most directly comparable IFRS measure is provided in the table and the footnotes thereto, under the heading "Review of Financial & Operating Results – Summary of Financial Results".

OPERATIONS OVERVIEW

Rent collection: Mainstreet's rent collection remains strong and are generally in line with the average rent collected by the same day of the previous month. Two months subsequent to year end, Mainstreet has collected 98.7% of total rents for November 2023 and 99.8% of total rents for October 2023.

Leasing and tenant support: Mainstreet has leveraged its technological investment in the Yardi System which enables paperless leasing processes. The Yardi System significantly improved Mainstreet's operational efficiencies and competitive edge. Mainstreet believes in timely, transparent communication and provides regular updates to both its tenants and team members, through various channels.

Team Member Support: The Corporation maintains a high level of personal protective equipment for its team members. Mainstreet continues to utilize virtual showing capabilities and ensures on-going regular communication with its leadership and operational teams to assess and support any needs of its team members.

Acquisitions: Mainstreet continued its acquisition activity in 2023 and has actively taken advantage of opportunities to acquire undervalued assets. In 2023, Mainstreet acquired \$136.0 million (1,145 units including 5 commercial units) in new acquisitions in Alberta, British Columbia, Manitoba and Saskatchewan. Subsequent to year end 2023, Mainstreet acquired an additional \$44.4 million (355 units) in new acquisitions in the Province of Alberta, British Columbia and Saskatchewan.

Refinancing: Mainstreet continues to reposition its unstabilized properties and continues to have access to mortgage debt. In 2023, the Corporation financed 6 maturing and 40 clear title properties for an additional net funding of \$204.9

million at an average interest rate of 4.35%.

Liquidity: Liquidity is an important measure of the availability of sufficient cash to fund ongoing business activities, and capital and liability commitments. Liquidity is defined to include cash and cash equivalents on hand plus estimated new financings of clear title assets and upfinancings of maturing mortgages, assuming current lending criteria remains mainly unchanged and available line of credit granted. Mainstreet estimates it will have access to approximately \$430 million in available liquidity in FY2024, which management believes is sufficient for its operations, including to address any remaining inherent uncertainty surrounding disruption from the pandemic, supply chain disruptions, inflation, interest rate increases and rent control measures, all while continuing to support its stakeholders.

EFFECT OF MARKET FORCES ON MAINSTREET

The Corporation saw substantial improvement in its overall occupancy in 2023, mainly as a result of an increase in rentals in all markets and is cautiously optimistic that this trend will continue for following periods. There is a risk that the Corporation could be adversely affected due to market changes particularly in supply, inflation, labour force, interest rates and regional rent controls. Canada saw significant inflation in the latter part of 2022, effects of which have continued to be felt in 2023. In addition, sustained higher housing process, substantial supply constraints and geopolitical conflicts, have increased prices for energy and agricultural markets and there has also been significant disruption to the global supply chain in recent years, including as a result of Russia's ongoing invasion of Ukraine. Further, as labour and material shortages persist, the expected onset of new supply of rental housing may take longer as construction completion times are extended. All of this increases the supply risk to the Corporation.

Please refer to the section titled "Risk Assessment and Management" in this MD&A.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITY

Sustainability and social responsibility have been an important part of Mainstreet's culture and values for many years. Mainstreet continues to take steps to: (i) ensure it is a responsible steward of the environment by improving the energy efficiency of its properties and reducing its environmental footprint, (ii) attract and retain the best employees, (iii) create a safe and healthy environment for all of its employees and residents, (iv) build strong relationships with its tenants and the communities in which they live, and (v) maintain transparent and open communication with its employees, tenants and investors.

The following sets forth some of the programs and practices that Mainstreet already has in place to foster a positive impact in its business.

ENVIRONMENTAL

The Corporation is continuously looking for ways to make its operations more sustainable and has taken positive steps in furtherance of this goal, including:

- Adopting a policy to obtain a Phase 1 environmental report conducted by independent environmental consultants for newly acquired and financed buildings and committing to implement the recommendations wherever possible to improve its environmental practices;
- Decreasing energy and water consumption by utilizing LED lights, as well as low flush toilets and water conserving shower heads;
- Replacing windows, roofs, sidings, old appliances and boilers with new energy efficient alternatives whenever possible, to further reduce water and energy consumption;
- Utilizing sub-metering to encourage residents to be more efficient in utility usage;
- Currently conducting a review in respect of installing charging stations for electric vehicles on Mainstreet's properties; and
- Continuously looking for, and participating in, new energy saving programs, including utilizing new energy saving devices wherever possible and working towards further quantifying the results with certain applied metrics.



Bird e-Scooters parked on a branded parking pad outside an inner-city Calgary Mainstreet building.

Mainstreet's partnership with Bird drives home our commitment to sustainability.



Mainstreet purchases buildings along bike paths and retrofit the properties with bike racks and scooter parking pads to empower our tenants to live sustainably without sacrificing convenience, and demonstrate that we understand what they're looking for.

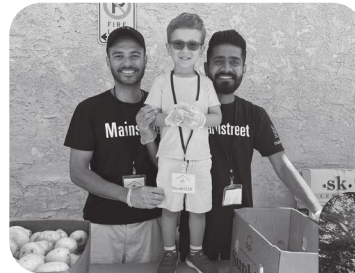
SOCIAL COMMUNITY INVESTMENT

The Corporation strives to give back in a number of meaningful ways, including the following initiatives:

- Participating in various housing assistance programs designed to assist those who have lost their homes due to natural disasters, such as wildfires or through conflicts, such as Syrian, Afghan and Ukrainian refugees;
- Partnering with various social organizations such as Calgary Housing, the Mustard Seed and the Homeless Society, to provide affordable housing for those members of the community who may not otherwise be able to access affordable and secure housing; and
- Working with various social assistant program such as, Calgary's Love with Humanity Association, to make food donations and install food banks in Mainstreet's buildings to provide supports to residents and communities experiencing financial challenges;



July 2023, Mainstreet partnerships with *Telus* and volunteered in giving back to our community program.



In July 2023, Mainstreet partnership with *Love with Humanity* Association to distribute free fresh produce for low-income families to strengthen our community and make Calgary a better place for everyone.



TEAM ENGAGEMENT

The Corporation creates a positive experience for team members through numerous programs, including:

- Prioritizing training and development, by offering learning opportunities to team members both internally, through on the job training, and in academic settings, to facilitating internal advancement and promotions wherever possible;
- Providing annual evaluations of its team member's performance, for the purpose of identifying and supporting career growth and development

opportunities for such team members;

- Offering a healthy and safe work environment by providing all team members with competitive medical benefits, short and long-term disability plans, and life insurance plans. The Corporation has set up occupational health and safety committees with representatives in all cities where the Corporation's team members are located that meet regularly to

assist in safety trainings and inspections;

- Working to ensure that all human resource policies and practices are non-discriminatory and actively promote a diverse workforce, as evidenced by the diversity of the Corporation's management team; and
- Adopting a whistle-blower policy, the details of which can be found in each employee's handbook, to empower and encourage its team members to report their concerns and complaints regarding the accuracy and integrity of the Corporation's accounting, auditing and financial reporting or any violations or possible violations of applicable laws,

rules or regulations or the Corporation's Code of Business Conduct and Ethics, in a confidential manner without fear of reprisal;

GOVERNANCE

The Corporation is committed to maintaining the highest ethical standards through a strong governance framework and an experienced Board of Directors. The Corporation has a diverse and gender-balanced executive leadership team and a well-rounded and experienced Board of Directors, which adheres to the highest standards of governance.

The Corporation has developed a clear business strategy and organizational structure, which sets out clearly the roles and accountabilities of each team member of the organization. The Corporation has ensured that it has the proper resources for its members to succeed in implementing its business strategy, including in respect of human resources, specialized skills, organizational infrastructure, technology and financial resources.

The Board of Directors has constituted a number of committees to assist it in achieving the highest standards of governance, including an audit committee, executive committee, a human resources committee, a risk management committee, a safety committee and a cyber security committee.

In addition, the Corporation has set up internal health and safety committees in each location it operates out of to ensure the healthiest environment possible in all of the properties owned by the Corporation.

BUSINESS OVERVIEW

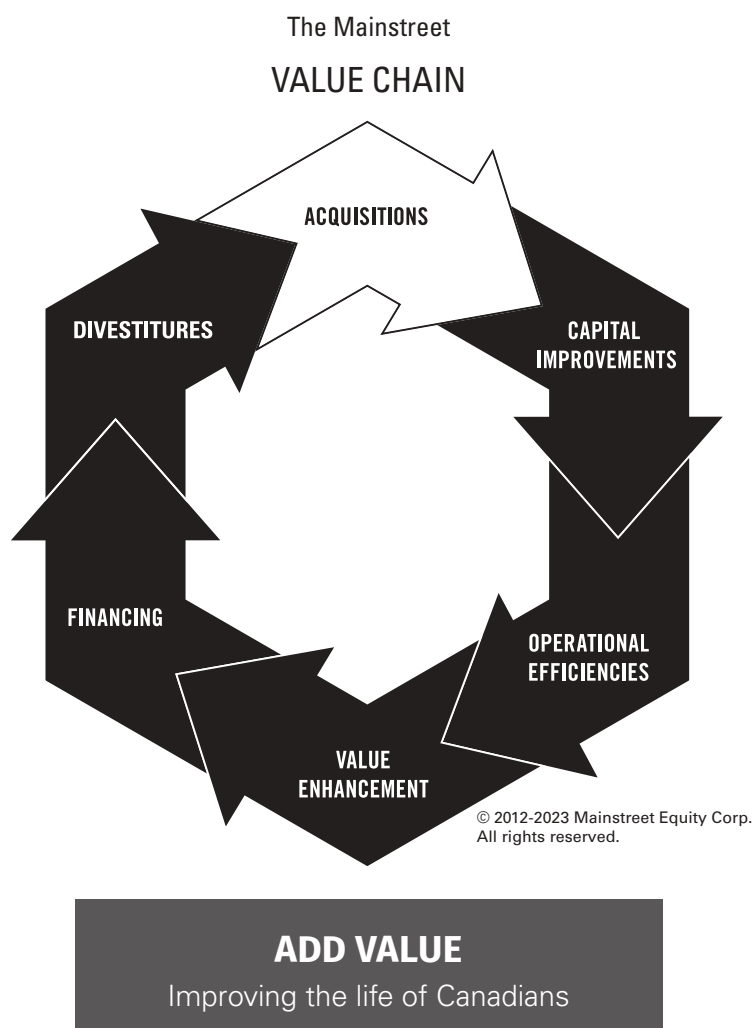
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in six major Canadian markets: British Columbia (including Vancouver Lower Mainland, Vancouver Island, Okanagan, and Northern BC), Calgary (including the City of Airdrie, the City of Lethbridge, and the Town of Cochrane), Edmonton (including the City of Fort Saskatchewan), Saskatoon, Regina and Winnipeg.

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; and
- **Divestitures:** Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties.



INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

Fair value is determined based on a combination of internal and external valuation processes. Gains and losses arising from differences between current period fair value and the sum of previous measured fair value and capitalized costs as described above are recorded in profit and loss in the period in which they arise.

For the Corporation's financial reporting, external valuations are obtained from 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 the relevant locations. In addition, the Corporation has established an internal valuation model, which is based on the same assumptions and valuation techniques used by the external valuation professionals. The Corporation groups its investment properties in each city by their types and geographic locations. Samples are selected in each group for independent appraisal. The appraised values of the samples selected are compared with their carrying values. The percentage changes in values of those samples selected were reviewed and applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of September 30, 2023 and September 30, 2022. Properties are selected on a rotational basis and approximately 40% of the Corporation's portfolio is externally valued annually.

The fair values are most sensitive to changes in net operating income and capitalization rates. Mainstreet's total portfolio is valued at \$3.0 billion as of September 30, 2023 (\$2.8 billion as of September 30, 2022). The following is the breakdown of market value by city and average capitalization rates used in determining the fair value of investment properties at September 30, 2023 and September 30, 2022, respectively.

As at September 30, 2023	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2023
Lower Mainland, British Columbia (Note 1)	30	2,944	\$ 885	\$ 301	3.77%
British Columbia excluding Lower Mainland (Note 2)	15	732	96	131	4.87%
Calgary, Alberta (Note 3)	112	3,837	761	198	5.94%
Edmonton, Alberta (Note 4)	166	5,799	822	142	5.71%
Saskatoon, Saskatchewan	59	2,334	315	135	5.82%
Regina, Saskatchewan	62	991	138	139	6.01%
Winnipeg, Manitoba	4	405	35	86	5.81%
Total investment properties	448	17,042	\$ 3,052	\$ 179	5.20%

Note (1) – includes the City of Abbotsford, the City of Chilliwack, the City of New Westminster and the City of Surrey

Note (2) – includes the City of Courtenay, the City of Kamloops, the City of Penticton, the City of Prince George, the City of Vernon and the City of Nelson.

Note (3) – includes the City of Lethbridge, the Town of Cochrane and the City of Airdrie

Note (4) – includes the City of Fort Saskatchewan

As at September 30, 2022	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2022
Lower Mainland, British Columbia (Note 1)	30	2,944	\$ 863	\$ 293	3.68%
British Columbia excluding Lower Mainland (Note 2)	9	480	63	131	4.35%
Calgary, Alberta (Note 3)	101	3,537	686	194	5.07%
Edmonton, Alberta (Note 4)	157	5,496	752	137	5.42%
Saskatoon, Saskatchewan	59	2,333	318	136	5.47%
Regina, Saskatchewan	62	991	126	127	5.48%
Winnipeg, Manitoba	3	114	10	88	5.79%
Total investment properties	421	15,895	\$ 2,818	\$ 177	4.79%

Note (1) – includes the City of Abbotsford, the City of Chilliwack, the City of New Westminister and the City of Surrey

Note (2) – includes the City of Courtenay, the City of Kamloops, the City of Penticton, the City of Prince George and the City of Vernon

Note (3) – includes the City of Lethbridge, the Town of Cochrane and the City of Airdrie

Note (4) – includes the City of Fort Saskatchewan

Acquisitions & Growth

(000s of dollars)

	Sep. 30, 2023	Sep. 30, 2022
	Calgary, Edmonton, Penticton, Prince George, Nelson, Saskatoon and Winnipeg	Calgary, Edmonton Fort Saskatchewan, Lethbridge, Prince George, Regina, Saskatoon and Winnipeg
Number of rental units	1,145	815
Total costs	\$ 136,042	\$ 90,573
Average price per apartment unit	\$ 119	\$ 111

Employing a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties in major residential centres in Western Canada that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In 2023, Mainstreet acquired 1,145 investment property units in the Provinces of Alberta, British Columbia, Manitoba, and Saskatchewan for a total consideration of \$136.0 million. Since Mainstreet's previous financial year-end (September 30, 2022), the Corporation has grown its portfolio of investment properties by 7%.

As of September 30, 2023, Mainstreet's portfolio included 17,033 units in its investment properties, 9 units in freestanding commercial properties and 65 units in a property being held for sale. The portfolio excludes two regional office buildings and two warehouses which are classified as property and equipment. Mainstreet's investment properties include townhouses, garden-style apartments, concrete mid-rise and high-rise apartments and condo suites. As of September 30, 2023, a total of 97% of Mainstreet's units in its investment properties were rented, while 1% were being renovated and the remaining 2% were left vacant, primarily in the Province of Saskatchewan.

Since 1997, the Corporation's investment property portfolio has increased from 10 to 448 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$3.0 billion as of September 30, 2023.

The following table demonstrates the growth of the Corporation by region since the end of the previous financial year ended September 30, 2022.

	Number of units as at Oct. 1, 2022	Acquisitions/ disposition 12 months ended Sep. 30, 2023	units created 12 months ended Sep. 30, 2023	Additional Number of units as at Sep. 30, 2023	% Growth
Lower Mainland, British Columbia (Note 1)	2,944	159	–	3,103	5%
British Columbia excluding Lower Mainland (Note 2)	480	93	–	573	19%
Calgary, Alberta (Note 3)	3,537	298	2	3,837	8%
Edmonton, Alberta (Note 4)	5,496	303	–	5,799	6%
Saskatoon, Saskatchewan	2,333	1	–	2,334	–
Regina, Saskatchewan	991	–	–	991	–
Winnipeg, Manitoba	114	291	–	405	255%
Investment properties	15,895	1,145	2	17,042	7%
Property held for sale – Calgary, Alberta	69	(4)	–	65	-6%

Note (1) – includes the City of Abbotsford, the City of Chilliwack, the City of New Westminster and the City of Surrey

Note (2) – includes the City of Courtenay, the City of Kamloops, the City of Penticton, the City of Prince George, the City of Vernon and the City of Nelson

Note (3) – includes the City of Lethbridge, the Town of Cochrane and the City of Airdrie

Note (4) – includes the City of Fort Saskatchewan

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 brand 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 2023, the Corporation spent \$25.5 million (2022 - \$23.9 million) on capital improvements, of which \$22.2 million (2022 - \$18.4 million) was for upgrading stabilized properties and improving other holdings – specifically for exterior upgrades such as new roofs, windows, balconies, siding and insulation. These expenditures also covered mechanical and interior upgrades such as new boilers, flooring and paint to address the balance of non-renovated units and to maintain the condition of properties in the current portfolio. Mainstreet currently plans to spend an estimated total of \$28 million on capital improvement during the 2024 fiscal year, however these plans may be revised depending upon economic conditions during fiscal year 2024. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of the renovations of its existing properties within the next 6 to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at anticipated higher rental rates.

Uncertainties affecting future revenue and income include the rate of turnover of existing tenants, supply chain disruptions, increased inflation, the availability of renovation workers and building materials, increases in labour and material costs, and increases in interest rates. All of these uncertainties could have a material impact on the timing and cost of completing these capital improvements.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

For the year ended	2023	2022	2021	% change 2023	% change 2022
Gross revenue	\$ 212,461	\$ 181,349	\$ 160,351	17%	13%
Net profit and total comprehensive income	109,413	120,536	225,534	-9%	-47%
Change in fair value	69,512	86,890	212,003	-20%	-59%
Gain from disposal of assets	443	4,166	113	-89%	3587%
Depreciation	806	714	712	13%	0%
Deferred income tax expense	28,457	22,630	33,368	26%	-32%
Funds from operations					
– Non IFRS Measurement (Note 1)	\$ 68,721	\$ 52,824	\$ 47,498	30%	11%
Interest income	(2,433)	(776)	(426)	214%	82%
General and administrative expenses	17,230	14,937	12,240	15%	22%
Financing costs	47,600	42,475	38,343	12%	11%
Depreciation (computer and vehicle)	189	205	193	-8%	6%
Net operating income	\$ 131,307	\$ 109,665	\$ 97,848	20%	12%
Operating margin from operations	63%	61%	61%		
Profit per share					
Basic and fully diluted	\$ 11.74	\$ 12.90	\$ 24.13	-9%	-47%
Funds from operations per share					
Basic and fully diluted	\$ 7.37	\$ 5.65	\$ 5.08	30%	11%
Weighted average number of shares					
Basic and fully diluted	9,320,447	9,341,683	9,345,350		
Total Assets	\$3,164,992	\$2,893,492	\$2,674,569		
Total Long term liabilities	\$1,680,799	\$1,554,631	\$1,485,691		

1. FFO is calculated as profit before change in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items which are not uniquely significant to the real estate industry (such as computers or vehicles). 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. Management believes FFO is useful for readers to determine the operating performance. This information is critical for the Corporation to maintain comparability in operating performance.

REVENUE

In 2023, revenue primarily consisted of rental and ancillary revenue totalling \$210.0 million (2022 - \$180.6 million) and interest income. Overall, rental revenue increased 16% as compared to 2022, which is discussed and analysed in the session entitled "Rental Operations" below.

NET PROFIT

For the year ended September 30, 2023, Mainstreet reported a net profit of \$109.4 million (\$11.74 per basic share) as compared to a net profit of \$120.5 million (\$12.90 per basic share) in 2022, including a fair value gain of \$69.5 million in 2023 compared to a fair value gain of \$86.9 million in 2022, which will be further discussed and analysed below.

Net profit is further analysed as follows:

(000s of dollars)

	Sep. 30, 2023	Sep. 30, 2022	% change
Funds from operations			
– Non IFRS measurement (see Note 1 previous table)	\$ 68,721	\$ 52,824	30%
Change in fair value	69,512	86,890	-20%
Gain from disposal of assets	443	4,166	-89%
Depreciation	(806)	(714)	13%
Deferred income tax expense	(28,457)	(22,630)	26%
Net profit and total comprehensive income			
– IFRS measurement	\$ 109,413	\$ 120,536	-9%

Funds from operations in 2023 are further discussed and analysed below.

In 2023, Mainstreet realized a fair value gain of \$69.5 million, compared with a fair value gain of \$86.9 million in 2022. This was mainly due to changes as identified below:

(000s of dollars)

Change in Fair value	2023	2022
Lower Mainland, BC (Note 1)	\$ 21,730	\$ 46,040
BC excluding Lower Mainland (Note 2)	5,383	(81)
Calgary (Note 3)	25,192	12,131
Edmonton (Note 4)	33,835	31,567
Saskatoon	(3,731)	17,895
Regina	12,780	2,638
Winnipeg	(212)	(7)
	94,977	110,183
Reclass to property and equipment	-	580
Capital expenditure	(25,465)	(23,873)
Change in fair value	\$ 69,512	\$ 86,890

Note (1) – includes the City of Abbotsford, the City of Chilliwack, the City of New Westminister and the City of Surrey

Note (2) – includes the City of Courtenay, the City of Kamloops, the City of Penticton, the City of Prince George, the City of Vernon and the City of Nelson

Note (3) – includes the City of Lethbridge, the Town of Cochrane and the City of Airdrie

Note (4) – includes the City of Fort Saskatchewan

The fair value gain represented the change in the market value of the Corporation's investment properties over the fiscal periods ended September 30, 2023 and 2022. The amount of change was determined by the market value of Mainstreet's investment properties at the year-end dates of September 30, 2023 and 2022, which was regarded as a non-operating expense.

FUNDS FROM OPERATIONS – NON IFRS MEASUREMENT

Management believes that FFO is also a meaningful performance measurement for a real estate company's operating performance. FFO excludes changes in fair value, deferred income taxes and depreciation of property and equipment excluding depreciation of items which are not uniquely significant to the real estate industry (for example, computers and vehicles). Mainstreet generates FFO from three sources: rental and ancillary revenue 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.

Mainstreet's FFO increased by 30% to \$68.7 million in 2023, compared with \$52.8 million in 2022. The increase in FFO for 2023 was mainly attributable to increased rental revenue, which will be discussed and analysed in the following section entitled "Rental Operations".

See “Non-IFRS Measures” and Note (1) to the table titled “Summary of Financial Results” for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

GENERAL & ADMINISTRATIVE (“G&A”) EXPENSES

G&A expenses mainly include corporate costs such as office overhead, legal and professional fees and salaries. G&A expenses increased by 15% to \$17.2 million in 2023 as compared to \$14.9 million in 2022, mainly due to increased professional and personnel expenses. The Corporation continues to build up its management team in anticipation of continued growth in its core operating regions.

FINANCING COSTS

(000s of dollars)

	Sep. 30, 2023	Sep. 30, 2022	% Change
Mortgage interest	\$ 40,954	\$ 36,566	12%
Amortization of deferred financing cost	6,646	5,909	12%
Financing costs	\$ 47,600	\$ 42,475	12%

Mortgage interest expenses increased by 12% to \$41.0 million in 2023 from \$36.6 million in 2022.

The rise was mainly attributable to an increase in mortgage loans from refinancing of maturing and new clear title mortgages after the completion of stabilization process. In 2023, the Corporation financed 6 maturing and 40 clear title properties for an additional net funding of \$204.9 million at an average interest rate of 4.35%.

The mortgage rate for a 5-year fixed CHMC mortgage has increased by almost 150 basis points since the end of the prior financial year.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	Total Portfolio			Same Asset			Acquisition		
For the year ended September 30,	2023	2022	% Change	2023	2022	% Change	2023	2022	% Change
Rental and ancillary revenue	\$210,028	\$180,573	16%	\$191,230	\$175,165	9%	\$ 18,798	\$ 5,408	248%
Operating expenses	78,721	70,908	11%	70,551	67,869	4%	8,170	3,039	169%
Net operating income	\$131,307	\$109,665	20%	\$120,679	\$107,296	12%	\$ 10,628	\$ 2,369	349%
Operating margin	63%	61%		63%	61%		57%	44%	
Average vacancy rate	4.5%	7.2%	-38%	4.2%	6.8%	-38%	7.3%	23.1%	-68%
Weighted average number of units	16,584	15,551	7%	15,081	15,081	–	1,503	470	220%
Average rental rate per unit per month	\$ 1,055	\$ 968	9%	\$ 1,057	\$ 968	9%	\$ 1,042	\$ 959	9%
Average operating expense per unit per month	\$ 396	\$ 380	4%	\$ 390	\$ 375	4%	\$ 453	\$ 539	-16%

The vacancy rate decreased to 4.5% in 2023, from 7.2% in 2022, mainly due to strong rental demand in the Corporation’s operating markets. In 2023, the Corporation had seen strong rental housing demand throughout its overall portfolio, as a result of a significant increase in inter-provincial migration, immigration, and foreign and domestic students, especially in the provinces of Alberta and Saskatchewan. As of September 30, 2023, overall vacancy in Mainstreet’s portfolio was at 3.4%, which was composed of 1.5% in Calgary, 5.8% in Edmonton, 3.6% in Saskatoon, 1.1% in Regina and 1.4% in British Columbia.

As an overall result, the average monthly rental rate increased 9% to \$1,055 per unit in 2023, compared with \$968 per unit in 2022. Overall rental and ancillary revenue increased 16% to \$210.0 million in 2023 as compared to \$180.6 million in 2022. This was mainly due to the decrease in vacancy rate, the rental rate increase, reduced tenant concessions and the continued growth of the Corporation’s portfolio as the average number of units owned by the Corporation increased 7% over the year.

For same asset properties, which refer to properties owned by the Corporation for the entire twelve-month periods

ended September 30, 2023 and 2022, rental and ancillary revenue increased 9% to \$191.2 million in 2023 from \$175.2 million in 2022. The average monthly rental rate increased by 9% to \$1,057 per unit in 2023, from \$968 per unit in 2022. The vacancy rate decreased to 4.2% in 2023, from 6.8% in 2022, mainly due to strong demand in the provinces of Alberta and Saskatchewan.

Mainstreet's overall operating expenses increased 11% to \$78.7 million in 2023, from \$70.9 million in 2022, due mainly to the increased number of apartment units.

Both the overall and same asset operating expenses on a per unit basis increased by 4%, mainly as a result of higher utilities and repair and maintenance expenses in 2023.

As a result, overall net operating income increased 20% to \$131.3 million in 2023, from \$109.7 million in 2022, and net operating margins increased to 63% in 2023, from 61% in 2022.

For same asset properties, net operating income increased 12% to \$120.7 million in 2023, from \$107.3 million in 2022. The net operating margins increased to 63% in 2023, from 61% in 2022.

RENTAL OPERATIONS BY PROVINCE

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

BRITISH COLUMBIA

Mainstreet achieved an 11% increase in rental revenue in its British Columbia portfolio in 2023 primarily due to the Corporation's diversification strategy and an increase in monthly rents on turnovers of units. The Corporation continued its expansion into British Columbia's market in 2022 and 2023, and achieved 7% growth of average unit count in its BC portfolio in 2023. The average vacancy rate increased to 1.4% in 2023 from 0.9% in 2022 due mainly to acquisition of unstabilized assets in 2023. This is still an above-average occupancy rate, which can be largely attributed to the overall economic performance of British Columbia, which is among the strongest in the country, according to data published by Statistics Canada. As a result, due to this high occupancy rate, rental revenue per unit increased to \$1,190 per month in 2023 from \$1,141 per month in 2022.

Operating expenses per unit increased 4% to \$314 per month in 2023 compared with \$303 per month in 2022, due mainly to increased repair and maintenance expenses of newly acquired unstabilized properties and higher property tax and utility expense. As a result, net operating income increased 11%, and net operating margins increased to 74% in 2023 from 73% in 2022.

(000s of dollars except per unit data)

	Sep. 30, 2023	Sep. 30, 2022	% change
Rental and ancillary revenue	\$ 50,833	\$ 45,751	11%
Operating expenses	13,436	12,167	10%
Net operating income	\$ 37,397	\$ 33,584	11%
Weighted average number of units	3,561	3,342	7%
Average rent per unit per month	\$ 1,190	\$ 1,141	4%
Operating cost per unit per month	\$ 314	\$ 303	4%
Average vacancy rate	1.4%	0.9%	
Operating margin	74%	73%	

ALBERTA

Mainstreet achieved 6% growth in its Alberta portfolio in 2023, with the weighted average number of rental units growing to 9,403 units, compared with 8,830 units in 2022. The rental income increased by 18% to \$119.3 million in 2023 from \$100.8 million in 2022. The average vacancy rate decreased to 4.6% in 2023 from 8.9% in 2022, mainly due to strong demand for apartment rentals in the province. Rental revenue per unit increased 11% to \$1,057 per month in 2023 from \$951 per month in 2022 mainly due to improved occupancy rates and increased rental rates in 2023.

Operating expenses per unit increased 3% to \$422 per month in 2023 compared to \$410 per month in 2022 due mainly to increased utility expenses in 2023. As a result, net operating income increased by 25% to \$71.7 million in 2023 from \$57.4 million in 2022, and net operating margin increased to 60% in 2023 from 57% in 2022.

(000s of dollars except per unit data)

	Sep. 30, 2023	Sep. 30, 2022	% change
Rental and ancillary revenue	\$ 119,311	\$ 100,779	18%
Operating expenses	47,635	43,404	10%
Net operating income	\$ 71,676	\$ 57,375	25%
Weighted average number of units	9,403	8,830	6%
Average rent per unit per month	\$ 1,057	\$ 951	11%
Operating cost per unit per month	\$ 422	\$ 410	3%
Average vacancy rate	4.6%	8.9%	
Operating margin	60%	57%	

SASKATCHEWAN

Mainstreet achieved an 11% increase in its rental revenues in its Saskatchewan portfolio in 2023. The average vacancy rate was 6.5% in 2023 compared to 8.9% in 2022. As a result, rental revenue per unit increased 10% to \$925 per month in 2023 from \$844 per month in 2022.

Operating expenses per unit increased 7% to \$408 per month in 2023, from \$380 per month in 2022 due mainly to increased utility and repair and maintenance expenses in 2023. As a result, net operating income increased 13% and net operating margins increased to 56% in 2023 from 55% in 2022.

(000s of dollars except per unit data)

	Sep. 30, 2023	Sep. 30, 2022	% change
Rental and ancillary revenue	\$ 36,908	\$ 33,248	11%
Operating expenses	16,263	14,980	9%
Net operating income	\$ 20,645	\$ 18,268	13%
Weighted average number of units	3,324	3,281	1%
Average rent per unit per month	\$ 925	\$ 844	10%
Operating cost per unit per month	\$ 408	\$ 380	7%
Average vacancy rate	6.5%	8.9%	
Operating margin	56%	55%	

MANITOBA

In 2023, Mainstreet successfully expanded further into the Manitoba market with the acquisition of a 291 unit complex building in downtown Winnipeg. The Corporation has subsequently reduced the vacancy rate of this property from 23.4% to 1.4% as of September 2023. The overall average vacancy rate in Manitoba decreased to 13.6% in 2023 from 15.4% in 2022. The rental revenue per unit was \$838 per month in 2023 compared to \$676 per month in 2022.

Operating expenses per unit increased to \$390 per month in 2023 compared to \$304 in 2022 due to stabilization of the unstabilized properties, and as a result net operating income increased by 263% to \$1.6 million in 2023 from \$0.4 million in 2022 and net operating margin decreased to 53% in 2023 from 55% in 2022.

(000s of dollars except per unit data)

	Sep. 30, 2023	Sep. 30, 2022	% change
Rental and ancillary revenue	\$ 2,976	\$ 795	274%
Operating expenses	1,387	357	289%
Net operating income	\$ 1,589	\$ 438	263%
Weighted average number of units	296	98	202%
Average rent per unit per month	\$ 838	\$ 676	24%
Operating cost per unit per month	\$ 390	\$ 304	28%
Average vacancy rate	13.6%	15.4%	
Operating margin	53%	55%	

SUMMARY OF QUARTERLY RESULTS¹

(000s of dollars except per share amounts)

	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021
Rental revenue								
British Columbia	\$ 13,033	\$ 12,762	\$ 12,258	\$ 11,865	\$ 11,666	\$ 11,498	\$ 11,015	\$ 10,698
Alberta	31,150	30,096	29,064	27,472	26,357	25,117	24,338	23,774
Saskatchewan	9,690	9,236	8,857	8,680	8,380	8,116	8,157	8,123
Manitoba	941	897	549	253	254	228	160	133
Total rental revenue	\$ 54,814	\$ 52,991	\$ 50,728	\$ 48,270	\$ 46,657	\$ 44,959	\$ 43,670	\$ 42,728
Ancillary revenue	901	907	825	592	746	538	753	522
Interest income	905	876	117	535	425	220	75	56
Total revenue from operations	\$ 56,620	\$ 54,774	\$ 51,670	\$ 49,397	\$ 47,828	\$ 45,717	\$ 44,498	\$ 43,306
Change in fair value	\$ 30,782	\$ 23,821	\$ 11,986	\$ 2,923	\$ 50,710	\$ 10,896	\$ 24,191	\$ 1,093
Profit (loss) from operations	\$ 39,495	\$ 34,196	\$ 20,720	\$ 15,002	\$ 56,315	\$ 21,835	\$ 29,982	\$ 12,404
Net profit (loss) per share								
– Basic & Diluted	\$ 4.24	\$ 3.67	\$ 2.22	\$ 1.61	\$ 6.03	\$ 2.34	\$ 3.21	\$ 1.33
Same assets rental and ancillary revenue								
British Columbia	\$ 12,184	\$ 12,015	\$ 11,893	\$ 11,596	\$ 11,503	\$ 11,258	\$ 11,174	\$ 10,881
Alberta	27,647	26,840	26,262	25,748	25,182	24,181	23,674	23,463
Saskatchewan	9,685	9,189	8,825	8,650	8,469	8,190	8,306	8,198
Manitoba	134	177	193	192	198	192	163	133
Total same assets rental and ancillary revenue	\$ 49,650	\$ 48,221	\$ 47,173	\$ 46,186	\$ 45,352	\$ 43,821	\$ 43,317	\$ 42,675
Same assets vacancy rate	4.1%	4.3%	4.2%	4.2%	4.9%	6.7%	7.8%	7.6%
Same assets net operating income								
British Columbia	\$ 9,565	\$ 9,043	\$ 8,484	\$ 8,639	\$ 8,720	\$ 8,488	\$ 8,000	\$ 7,766
Alberta	17,723	16,242	15,050	15,270	15,097	14,045	12,891	13,657
Saskatchewan	5,866	5,288	4,508	4,718	5,095	4,559	4,376	4,243
Manitoba	74	74	41	94	141	125	52	41
Total same assets net operating income	\$ 33,228	\$ 30,647	\$ 28,083	\$ 28,721	\$ 29,053	\$ 27,217	\$ 25,319	\$ 25,707
Net operating income	\$ 36,848	\$ 33,999	\$ 30,357	\$ 30,103	\$ 30,109	\$ 27,912	\$ 25,728	\$ 25,916
Funds from operations of stabilized properties - Non-IFRS measurement (Note 1)	\$ 18,045	\$ 15,382	\$ 11,838	\$ 12,868	\$ 13,085	\$ 11,521	\$ 9,730	\$ 11,016
Funds from operations - Non-IFRS measurement	\$ 21,062	\$ 17,845	\$ 14,144	\$ 15,670	\$ 15,538	\$ 13,474	\$ 11,342	\$ 12,470
Funds from operations of stabilized properties per share - Non-IFRS measurement								
– Basic & Diluted	\$ 1.94	\$ 1.65	\$ 1.27	\$ 1.38	\$ 1.40	\$ 1.23	\$ 1.04	\$ 1.18
Funds from operations per share - Non-IFRS measurement (Note 1)								
– Basic & Diluted	\$ 2.26	\$ 1.91	\$ 1.52	\$ 1.68	\$ 1.66	\$ 1.44	\$ 1.21	\$ 1.33
Average vacancy rate								
British Columbia	1.7%	1.8%	1.3%	0.8%	1.1%	0.8%	0.7%	0.8%
Alberta	4.8%	4.6%	4.4%	4.4%	5.6%	8.8%	11.0%	10.3%
Saskatchewan	4.5%	6.3%	7.3%	7.8%	9.6%	9.9%	8.3%	7.8%
Manitoba	12.0%	17.3%	14.8%	10.2%	10.2%	9.5%	17.2%	24.5%
Total average vacancy rate	4.3%	4.7%	4.5%	4.4%	5.5%	7.3%	8.3%	7.8%

¹ See “Non-IFRS Measures” and Note (1) to the table titled “Summary of Financial Results” for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2023:

- Rental and ancillary revenue increased to \$55.7 million, compared to \$53.9 million in Q3 2023 and \$47.4 million in Q4 2022.
- Average vacancy rate for the quarter was 4.3%, compared with 4.7% in Q3 2023 and 5.5% in Q4 2022.
- Change in fair value for the quarter was a gain of \$30.8 million, compared with a gain of \$23.8 million in Q3 2023 and a gain of \$50.7 million in Q4 2022.
- Funds from operations for the quarter were \$21.1 million, an 18% increase from \$17.8 million in Q3 2023 and a 36% increase from \$15.5 million in Q4 2022. See "Non-IFRS Measures".
- Net operating income for the quarter was \$36.8 million, an 8% increase from \$34.0 million in Q3 2023 and a 22% increase from \$30.1 million in Q4 2022.
- Mainstreet's same asset vacancy rate was 4.1% in Q4 2023, a decrease from 4.3% in Q3 2023 and 4.9% in Q4 2022. Same asset revenues were \$49.7 million in Q4 2023, an increase from \$48.2 million in Q3 2023 and \$45.4 million in Q4 2022.
- Net operating income on a same asset basis for the quarter was \$33.2 million, an 8% increase from \$30.6 million in Q3 2023 and a 4% increase from \$29.1 million in Q4 2022.
- Funds from operations related to stabilized properties were \$18.0 million in Q4 2023, a 17% increase from \$15.4 million in Q3 2023 and a 38% increase from \$13.1 million in Q4 2022. See "Non-IFRS Measures".

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 rent increases to current market levels). For this reason, past experience suggests the average stabilization process in British Columbia is approximately three years.

As of September 30, 2023, 392 properties (14,880 units) out of 448 properties (17,042 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2023.

	Oct. 1, 2022	%	Acquisition/ Creation	Number of units stabilized	Sep. 30, 2023	%
Stabilized Units	13,618	86%	–	1,262	14,880	87%
Unstabilized Units	2,277	14%	1,147	(1,262)	2,162	13%
Total Investment Properties Units	15,895	100%	1,147	–	17,042	100%

The following table summarizes the Corporation's stabilization progress since the beginning of fiscal year 2023.

	Oct. 1, 2022	No. of units stabilized during the period	No. of unstabilized units acquired/ created during the period	Sep. 30, 2023
Numbers of unstabilized units held for renovation	2,277	(1,262)	1,147	2,162
Number of months				
Average time spent on stabilization	13	23	7	16
Estimated remaining time for stabilization	15	–	22	16

During the year ended September 30, 2023, the Corporation acquired 298 and completed and added 2 additional units in previously unstabilized space in Calgary, Alberta; acquired 303 unstabilized units in Edmonton, Alberta; acquired 15 unstabilized units in Penticton, British Columbia; acquired 176 unstabilized units in Prince George, British Columbia; acquired 61 unstabilized units in Nelson, British Columbia; acquired 1 unstabilized unit in Saskatoon, Saskatchewan; and acquired 291 unstabilized units in Winnipeg, Manitoba. Some acquired assets require substantial renovation and had rental rates that are considered well below the market for stabilized units. The Corporation has stabilized 1,262 units in 2023, meaning that renovation work is substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2023, FFO of Mainstreet's stabilized property portfolio amounted to \$61.5 million (\$6.59 per basic share and per fully diluted share). See "Non-IFRS Measures".

(000s of dollars except per share amounts)

For the year ended September 30, 2023	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 189,271	\$ 20,757	\$ 210,028
Property operating expenses	69,379	9,342	78,721
Net operating income	\$ 119,892	\$ 11,415	\$ 131,307
Operating margin	63%	55%	63%
Vacancy rate	4.2%	5.8%	4.5%
Interest income	\$ (2,100)	\$ (333)	\$ (2,433)
General & administrative expenses	15,039	2,191	17,230
Financing cost	45,337	2,263	47,600
Depreciation (computer and vehicle)	162	27	189
Funds from operations – Non-IFRS measurement	\$ 61,454	\$ 7,267	\$ 68,721
Depreciation			\$ 806
Fair value gain			69,512
Gain on disposal			443
Deferred income tax expense			28,457
Net profit and total comprehensive income			\$ 109,413
Funds from operations per share – Non-IFRS measurement			
Funds from operations per share			
– basic & diluted	\$ 6.59	\$ 0.78	\$ 7.37
Weighted average number of shares			
– basic & diluted			9,320,447

(000s of dollars except per share amounts)

For the year ended September 30, 2022	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 159,745	\$ 20,828	\$ 180,573
Property operating expenses	60,842	10,066	70,908
Net operating income	\$ 98,903	\$ 10,762	\$ 109,665
Operating margin	62%	52%	61%
Vacancy rate	6.6%	11.7%	7.2%
Interest income	\$ (677)	\$ (99)	\$ (776)
General & administrative expenses	13,167	1,770	14,937
Financing cost	40,527	1,948	42,475
Depreciation (computer and vehicle)	176	29	205
Funds from operations – Non-IFRS measurement	\$ 45,710	\$ 7,114	\$ 52,824
Depreciation			\$ 714
Fair value gain			86,890
Gain on disposal			4,166
Deferred income tax expense			22,630
Net profit and total comprehensive income			\$ 120,536
Funds from operations per share – Non-IFRS measurement			
Funds from operations per share			
– basic & diluted	\$ 4.89	\$ 0.76	\$ 5.65
Weighted average number of shares			
– basic & diluted			9,341,683

In 2023, FFO of the stabilized property portfolio increased 34% to \$61.5 million as compared to \$45.7 million in 2022, while the number of stabilized units increased 9% to 14,880 units as of September 30, 2023 compared to 13,618 units as of September 30, 2022. The increase in FFO for stabilized properties was due to the improved vacancy rates during the quarter.

(000s of dollars)

	Sep. 30, 2023	Sep. 30, 2022	% change
FFO of stabilized properties (Note 2)	\$ 61,454	\$ 45,710	34%
Number of stabilized units	14,880	13,618	9%

² See “Non-IFRS Measures” and Note (1) to the table titled “Summary of Financial Results” for additional information regarding FFO and a reconciliation of FFO to net profit, the most directly comparable IFRS measurement.

LIQUIDITY & CAPITAL RESOURCES

Access to liquidity is important as it allows the Corporation to implement its overall strategy. Liquidity is an important measure of the availability of sufficient cash to fund ongoing business activities and capital and liability commitments. Liquidity is defined to include cash and cash equivalents on hand plus estimated new financings of clear title assets and up-financings of maturing mortgages, assuming current lending criteria remains mainly unchanged and available line of credit granted. With the current inflation and the increase in interest rates, the importance of liquidity has been magnified even more.

The mortgage rate for a 10-year fixed CHMC mortgage has increased by almost 150 basis points since the end of the prior financial year. The Corporation will continue to cautiously monitor this trend in interest rates and will need to consider the same in making decisions when its mortgages mature and need to be renewed.

Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In 2023, after payments of all required expenses, the Corporation generated funds from operations of \$68.7 million.

Management expects funds generated from operations will continue to grow in the long term 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. As of September 30, 2023, potential working capital deficiency is being managed through the available liquidity under banking facilities as well as the ongoing financing of mortgages payable, which is discussed and analysed in the session entitled "Financing" below.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In 2023, the Corporation spent approximately \$165.2 million on acquisitions and capital improvements. 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 debt, primarily CMHC insured mortgages.

In 2023, the Corporation financed 6 maturing and 40 clear title properties for an additional net funding of \$204.9 million at an average interest rate of 4.35%.

The mortgage rate for a 10-year fixed CMHC mortgage has increased by almost 150 basis points since the end of the prior financial year. The Corporation will continue to cautiously monitor this trend in interest rates and will need to consider the same in making decisions when its mortgages mature and need to be renewed.

As of September 30, 2023, the Corporation owned title to 82 clear title properties and five development lots having an aggregate fair value of approximately \$468 million.

High commodity prices and global supply chain constraints have pushed inflation up, with the consumer price index (CPI) being 3.1% in October 2023. In response the Bank of Canada has significantly increased interest rates during the current financial year. It remains unclear if further increases in the interest rates will occur and for how long higher interest rates will continue for. Mainstreet has attempted to deal with the risk of inflation and the correlated increase in interest rates by locking its debt into long-term maturities.

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 under 70%. The current ratio is approximately 49%, which Management believes will leave considerable room to raise additional funds from refinancing if the need arises.

Banking Facility

Effective January 2014, the Corporation was granted a 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 1.15%. 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 2, 2025. As at September 30, 2023, the Corporation has drawn \$Nil (September 30, 2022 - \$Nil) against this credit facility.

Additionally, the Corporation entered into a \$45 million revolving credit facility with a third-party financial institution, which carries an interest rate equal to the prime rate. As at September 30, 2023, the Corporation has drawn \$Nil million (September 30, 2022 - \$Nil) against this credit facility.

Both facilities contain 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 September 30, 2023, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 48% and 1.69, respectively.

CONTRACTUAL OBLIGATIONS

As of September 30, 2023, 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 September 30, 2023 are as follows:

(000s of dollars)

12 months ending September 30,	Amount
2024	\$ 154,097
2025	161,320
2026	266,548
2027	88,329
2028	122,357
Subsequent	811,729
	1,604,380
Deferred financing cost	(38,567)
	<u>\$ 1,565,813</u>

LONG-TERM DEBT

(000s of dollars)

	Amount	% of Debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 1,589,273	99%	2.79%
– non-CMHC-insured	15,107	1%	3.47%
Total debt	1,604,380	100%	2.79%
Deferred financing costs	(38,567)		
	<u>\$ 1,565,813</u>		

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

As of September 30, 2023, total mortgages payable were \$1,565 million compared to \$1,433 million on September 30, 2022, an increase resulting from financing and acquisition activity during the year ended September 30, 2023.

As of September 30, 2023, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 49% of the fair value of investment properties. About 99% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with what management believes are 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 (%)
2023	128,874	8%	3.36%
2024	140,067	9%	3.63%
2025	261,439	16%	2.37%
2026	75,584	5%	3.13%
2027	112,181	7%	3.61%
Subsequent	886,235	55%	2.57%
	\$ 1,604,380	100%	2.79%

The average maturing term of mortgage loans is 5.37 years as of September 30, 2023, compared to 6.15 years as of September 30, 2022.

INTERNAL CONTROLS

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed by the Corporation in its 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. DC&P are also designed to include controls and procedures designed to ensure that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Corporation's Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

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".

As at September 30, 2023, Mainstreet determined that there were no material weaknesses in the design of its ICFR or DC&P.

Mainstreet's Management evaluated, or caused to be evaluated under its supervision, the effectiveness of its ICFR and DC&P as at September 30, 2023. Based on this evaluation, Management has concluded that the Corporation's ICFR and DC&P were effective as at September 30, 2023.

As at September 30, 2023, Mainstreet has confirmed that it has designed DC&P to provide reasonable assurance that information required to be disclosed by Mainstreet in its 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 and includes controls and procedures designed to ensure that information required to be disclosed by Mainstreet in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to Mainstreet's management, including its certifying officer, as appropriate to allow timely decisions regarding required disclosure. No changes were made to the Corporation's DC&P during the year ended September 30, 2023.

As at September 30, 2023, Mainstreet confirmed it had designed its 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 year ended September 30, 2023, which 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 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, 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)

			Sep. 30, 2023		Sep. 30, 2022	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Restricted cash	Level 2	\$ 4,982	\$ 4,982	\$ 3,901	\$ 3,901	
Cash and cash equivalents	Level 2	81,762	81,762	44,560	44,560	
Trade and other receivables	Level 2	1,640	1,640	1,547	1,547	
Financial liabilities:						
Mortgages payable	Level 2	1,565,813	1,457,667	1,433,453	1,359,828	
Trade and other payables	Level 2	10,873	10,873	9,909	9,909	
Refundable security deposits	Level 1	\$ 7,046	\$ 7,046	\$ 5,821	\$ 5,821	

* Refundable security deposits for Alberta, Manitoba and Saskatchewan are considered as restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties.

See also the Notes to the Corporation's audited consolidated financial statements for the fiscal years ended September 30, 2023 and 2022 (the "Annual Financial Statements") for additional information regarding financial assets and the risks associated therewith.

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".

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:

	Sep. 30, 2023		Sep. 30, 2022	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding				
– beginning of the period	9,326,718	\$ 26,441	9,345,218	\$ 26,494
Shares purchased for cancellation	(7,900)	(22)	(18,500)	(53)
Issued and outstanding,				
– end of the period	9,318,818	\$ 26,419	9,326,718	\$ 26,441

All common shares share an equal right to dividends.

On June 1, 2023, Mainstreet announced that it had obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 474,499 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 3, 2023. The current NCIB expires on June 2, 2024. The Corporation's previous NCIB expired on May 31, 2023.

During 2023 and 2022, the Corporation purchased and cancelled 7,900 (2022 – 18,500) common shares at an average price of \$116.33 (2022 – \$113.24) respectively, per common share under its NCIB.

From time to time the market price of the common shares may not reflect their underlying value, and in such circumstances, Management believes that the acquisition of its common shares for cancellation is in the best interest of Mainstreet. The acquisition returns capital to shareholders in a tax-efficient manner that is accretive to net asset value. Mainstreet will continue to assess on an ongoing basis whether purchases of its common shares under the NCIB are warranted.

STOCK OPTIONS

The Corporation has no issued and outstanding stock options. Since March 24, 2017, the Corporation was unable to grant any further options under the Corporation's prior stock option plan. Upon the expiration or exercise of all remaining issued and outstanding stock options under the Corporation's prior stock option plan, the plan expired in accordance with the terms thereof. The Corporation has not adopted a new stock option plan at this time.

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 renewed by the shareholders of the Corporation on March 18, 2016, March 29, 2019 and March 11, 2022. The Rights Plan was most recently amended to amend the definition of "Expiration Time" from 2022 to 2025. The Rights Plan will expire at the termination of the annual general meeting of shareholders of the Corporation scheduled for the 2025 fiscal year unless otherwise renewed at or prior to that time.

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

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

The acquisition by a person of 20% or more of the common shares of the Corporation is referred to as a "Flip In Event". When a Flip In Event occurs, each Right (except for Rights beneficially owned by an Acquiring Person or certain transferees of an Acquiring Person, which Right will be void pursuant to the Rights Plan) becomes a right to purchase

from the Corporation, upon exercise thereof, in accordance with the terms of the Rights Plan, that number of common shares having an aggregate market price on the date of consummation or occurrence of such Flip In Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price. The Exercise Price for the Rights provided in the Rights Plan is \$100. As an example, if at the time of the Flip-in Event the Common Shares have a market price of \$25, the holder of each Right would be entitled to receive \$200 (twice the Exercise Price) in market value of the Common Shares (8 Common Shares) for \$100, i.e.: at a 50% discount.

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

A complete copy of the Rights Plan 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, net operating income 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 3 to the annual financial statements for a 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. Please refer to Note 21 of the annual financial statements;
- iii) Allocation of purchase cost in the acquisition of investment properties is based on information from industry practice and entity specific history;
- iv) Allocation of purchase cost in the acquisition of property and equipment into different components, estimation of useful life and impairment, are based on information from industry practice and entity specific history; 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. Please refer to Note 12 of the annual financial statements for a detailed analysis.

Actual results could differ from estimates.

Transactions with Related Parties

- a) The President and Chief Executive Officer is paid a commission at commercial rates in his capacity as a licensed broker for certain property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. Except in very limited circumstances, these commissions are paid by the selling third party or third parties to the transaction. The commissions received by the President and Chief Executive Officer during the year ended September 30, 2023, amounted to \$356,027 (2022 – \$343,893).

These commissions form part of the CEO's annual compensation. Each year the Chief Executive Officer is entitled to receive an annual performance bonus based upon pre-determined performance goals and discretionary bonus amounts determined by the board of directors. In making such determination, the board of directors takes in consideration the amount of commissions paid to the Chief Executive Officer during each year, such that once determined, that portion of the annual performance bonus paid in cash to the CEO by the Corporation amounts to the difference between the amount of the CEO's annual performance bonus determined by the board of directors, if any, less the amount of commissions paid to the Chief Executive Officer during that year.

As a result, the actual portion of the discretionary bonus, if any, paid by the Corporation each year to the Chief Executive Officer will be reduced by the amount of third party paid commissions to the Chief Executive Officer during that year.

- b) The Corporation paid legal and professional fees and reimbursements for the year ended September 30, 2023, amounting to \$457,831 (2022 - \$473,096) to a law firm of which a director and officer of the Corporation is a Senior Associate. As at September 30, 2023, the amounts payable to the law firm were \$Nil (September 30, 2022 – \$315). These fees were incurred at amounts which in management's opinion approximate fair market value that would be incurred by a third-party law firm.

Off Balance Sheet Arrangements

No off balance sheet arrangements were made by the Corporation for 2023.

Subsequent Events

Subsequent to year-ended September 30, 2023, the Corporation acquired an additional 355 residential units in the Province of Alberta, British Columbia and Saskatchewan for a total consideration of \$44.4 million.

Subsequent to year-ended September 30, 2023, the Corporation financed 21 clear title properties for an additional net funding of \$76.7 million at an average rate of 4.53%.

Risk Assessment and 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. Please also see the risks which are summarized in the Corporation's Annual Information Form for the year ended September 30, 2023 ("AIF").

Inflation, Labour Shortages and Supply Chain Risk

There is a risk that the Corporation could be adversely affected due to market changes particularly in supply, inflation, interest rates and regional rent controls. Canada saw significant inflation in the latter part of 2022, effects of which have continued to be felt in 2023. In addition, sustained higher housing process, substantial supply constraints and geopolitical conflicts, have increased prices for energy and agricultural markets, and there has also been significant disruption to the global supply chain in recent years, including as a result of Russia's ongoing invasion of Ukraine. Further, as labour and material shortages persist, the expected onset of new supply of rental housing may take longer as construction completion times are extended. All of this increases the supply risk to the Corporation.

Interest Rate Risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Increases in the interest rate, such as those seen throughout 2022 and 2023, have the potential to adversely affect the profitability of the Corporation. The Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages and fixed-rate mortgage financings 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.

Previously, the Corporation had seen the mortgage interest rate for a 10-year fixed CHMC mortgage remain at a low level which has provided an opportunity for the Corporation to obtain financing at lower interest rates when mortgages matured and needed to be renewed. The Corporation took advantage of this opportunity and fixed 100% of its long-term debt into fixed rate debts, of which 99% are fixed as CMHC insured mortgages at an average interest rate of 2.79%. However, the mortgage rate for a 10-year fixed CHMC mortgage has increased by almost 150 basis points since the beginning of the financial year. The Corporation will continue to cautiously monitor this trend in interest rates, and will need to consider the same in making decisions when its mortgages mature and need to be renewed.

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 or regional economic slowdown, capital market uncertainty and international political credit crisis or uncertainty could adversely impact the business and the future profitability of the Corporation. 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 thereby having a corresponding longer-term impact on rental and vacancy rates. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected.

In addition, various geopolitical conflicts have contributed to global economic uncertainty, including further disruptions to the global supply chain and increased prices for energy and agricultural markets, further disputing global recovery and increasing inflation.

While it appears that Western Canada's economic growth rate is starting to recover, it is uncertain how strong this recovery will be in the short term, which may result in a tempering of housing and rental demand and a decline in net migration with a corresponding impact on the Corporation's rental and occupancy levels. Another unknown is the impact of various recently enacted or pending government initiatives, including increases to operating costs resulting from carbon tax legislation and the implementation of new climate change plans at both the provincial and federal government levels. However, the prairie provinces have seen some economic growth in recent months, with increased oil prices and a diversification of their economy.

Utilities and Tax Risk

Mainstreet's business is exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices as well as exposure to significant increases in property taxes. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. In recent years, water and sewer costs have increased significantly, as have other forms of direct and indirect "taxes" imposed by various municipalities. Any significant increase in these costs that cannot be passed on to the tenant / customer may have a significant impact on the operations of the Corporation.

Management continues to monitor all these costs very closely. In order to mitigate these risks, the Corporation has implemented the following steps:

- where possible, electrical sub-metering devices have been installed, passing on the responsibility for electrical charges to the end tenant / customer;
- where possible, direct metering conversion programs have been implemented which effectively introduced a

- volume-based consumption system rather than a flat rate, in turn lowering operating costs for the Corporation;
- in other cases, rents have been, or will be adjusted upward to cover increased costs; and
- where possible, the Corporation enters into long term supply contracts at a fixed price.

For example, Mainstreet has entered into a fixed rate natural gas contract at \$2.66 per GJ in Alberta with a maturity date of February 1, 2024, and in Surrey, British Columbia, Mainstreet has completed a water meter conversion program for all its properties.

In addition, over the past few years, municipal property taxes have increased as a result of revaluations of municipal properties and their inherent tax rates. These revaluations may result in significant increases in some property assessments due to enhancements, which often are not represented on the Corporation's balance sheet as such representations are contrary to existing IFRS reporting standards. To address these risks, the Corporation has a team of property reviewers who, with the assistance of outside consultants, constantly review property tax assessments and, if warranted, appeal them. While it is not unusual for the Corporation to receive property tax refunds and / or adjustments, due to uncertainty of the timing and the amount of the refunds or adjustments, these amounts are only reported when they are actually received.

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 and material 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 delays, 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.

In addition, high commodity prices and global supply chain constraints have pushed inflation up, with the consumer price index (CPI) being 3.1% in October 2023, and it is unclear how long this upward pressure will continue. This may result in higher costs in respect of renovations.

Pandemic and Other Diseases Risk

The COVID-19 pandemic has illustrated the substantial impact a pandemic can have on the economy. Uncertain economic conditions resulting from this or any pandemic may, in the short or long term, have a materially adverse impact on the Corporation's tenants and/or capital markets, both of which could materially adversely affect the Corporation's operations and financial performance. It remains difficult to reliably estimate the impact of pandemics or other diseases on the financial results and condition of the Corporation in future periods.

In particular: (i) in the event that new travel bans or limitations on in person post-secondary classes are implemented in the future as a result of pandemics, similar decreases in the operations and financial performance of the Corporation may occur; (ii) in the event of any requirements to defer the eviction of tenants who do not pay their rent, or an inability by the Corporation to increase rent in certain of its markets, imposed by government authorities in response to future pandemics or other health emergencies, there may result in an increase in its bad debt expense and the Corporation be exposed to an increased credit risk; (iii) future pandemics may result in uncertainty and impact valuations of the Corporation's properties; and (iv) should the Corporation be required to take actions as a result of a future pandemic, such actions may cause interruption to the Corporation's business; these actions may include increased administration, maintenance and repair expenses, increased cleaning and maintenance of the property, increased communication and technology costs and increased costs related to obtaining personal protection equipment for team members, temporary closures of the Corporation's administrative offices and moves to remote working, temporary or long-term adverse impacts on the Corporation's supply chain and labour and the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Corporation's facilities.

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 in the current economic environment. 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 September 30, 2023, rents due from current tenants amounted to \$665,000 (September 30, 2022 - \$1,080,000). As of September 30, 2023, the possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$7.0 million (September 30, 2022 - \$5.8 million) and provisions for bad debts of \$160,000 (September 30, 2022 - \$160,000).

The aging bands of rents due from current tenants as at September 30, 2023 and September 30, 2022 are outlined in the table below:

(000s of dollars)

	Sep. 30, 2023	Sep. 30, 2022
0-30 days	\$ 468	\$ 699
31-60 days	105	171
61-90 days	21	24
Over 90 days	71	186
Total rents due from current tenants	\$ 665	\$ 1,080

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 Schedule 1 and provincial crown corporation Canadian financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial obligations. The Corporation manages its liquidity risk by monitoring forecast cash flows on a regular basis to meet expected operating expenses, by maintaining adequate banking facilities, by managing mortgage debt secured by its investment properties and by matching the maturity profiles of assets and liabilities. Please see "Liquidity and Capital Resources" above.

An investment in real estate is relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the Corporation's ability to divest itself of certain of its properties promptly in response to changing economic, investment or other conditions. If the Corporation was to be required to quickly liquidate its real property, the proceeds to the Corporation might be significantly less than the aggregate carrying or net asset value of its properties or less than what would be expected to be received under normal circumstances, which could have an adverse effect on the Corporation's financial condition and financial performance. Illiquidity may also result from legal or contractual restrictions on the resale of properties. In addition, in recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and, during an economic recession, the Corporation may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for the Corporation to dispose of properties at lower prices in order to generate sufficient cash for operations. There can be no assurance that the fair market value of any properties held by the Corporation will not decrease in the future.

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.

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.

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 Professional 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.

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, Saskatchewan and Manitoba. 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 guideline amount effective January 1, 2023 was 2% and effective January 1, 2024 is 3.5%. When a unit is vacant, however, the landlord is entitled to lease the unit to a new tenant at market 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.

Under Manitoba's rent control legislation, a landlord is entitled to increase the rent for existing and new tenants once every twelve months at the set anniversary date of the particular unit, by no more than the "guideline limit" established by the provincial government. During COVID-pandemic, the rent amounts were frozen with the rent increase guideline limit set at 0% until December 31, 2023. Effective January 1, 2024 the guideline limit will increase to 3%.

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.

Cyber Security Risk

Cyber security has become an increasingly important issue for corporations and businesses. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the Corporation's information resources. More specifically, a cyber incident is an intentional attack or an unintentional event which can include gaining unauthorized access to information systems to disrupt business operations, corrupt data or steal confidential information. As Mainstreet's reliance on technology has increased, so have the risks posed to its systems. Such an attack could compromise Mainstreet, its employees and tenants' confidential information, and third parties with whom Mainstreet interacts and may result in negative consequences, including remediation costs, loss of revenue, data corruption, additional regulatory scrutiny, litigation and reputational damages. As a result, Mainstreet has implemented processes, procedures and controls to help mitigate these cyber-security risks, but these measures do not guarantee that cyber incident can be totally avoided and that the Corporation's business and financial condition will not be negatively impacted by such an incident. The significance of any event is difficult to quantify, but may in certain circumstances be material.

Environmental, Health and Safety Risks

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. In addition, third parties may seek recovery from the Corporation in the event of an outbreak of COVID-19 or other illness in a property owned by the Corporation. 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 advisable.

Climate Change Risk

There is growing risk that an increase in global average temperatures due to emissions of greenhouse gases and other human activities have or will cause significant changes in weather patterns and increase the frequency and severity of climate stress events. Climate change, including the impact of global warming, creates physical and financial risk. Physical risks from climate change include an increase in sea level and changes in weather conditions, such as an increase in intense precipitation and extreme heat events, as well as tropical and non-tropical storms.

Mainstreet owns buildings in locations that may be susceptible to climate stress events or adverse localized effects of climate change, such as sea-level rise and increased storm frequency or intensity. The occurrence of one or more natural disasters, such as hurricanes, fires, floods, and earthquakes (whether or not caused by climate change), could cause considerable damage to its properties, disrupt operations and negatively impact Mainstreet's financial performance. In recent years, certain areas of British Columbia, Alberta and Saskatchewan have been negatively impacted by wildfires, and in certain areas flooding. To the extent these events result in significant damage to or closure of one or more of Mainstreet's buildings, its operations and financial performance could be adversely affected through lost tenants and an inability to lease or re-lease the space. In addition, these events could result in significant expenses to restore or remediate a property, increases in fuel (or other energy) prices or a fuel shortage, increases in the costs of insurance if they result in significant loss of property or other insurable damage, and the introduction of or increases in climate change taxes such as provincial or federal carbon taxes or cap and trade taxes.

Aging Portfolio Risk

Aging portfolio risk is the risk that there is decreased demand for Mainstreet's assets as a result of the age of its assets, as well as an increase in capital expenditures to maintain or enhance these assets in order to remain competitive. This risk is partially mitigated due to the fact that older assets tend to be in more desirable locations and may have larger suite sizes. In addition, this is mitigated through Mainstreet's stabilization process.

Disclosure Controls & Procedures on Internal Control over Financial Reporting Risk

Mainstreet's business could be adversely impacted if it has deficiencies in its disclosure controls and procedures or

internal control over financial reporting. The design and effectiveness of Mainstreet's disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While Management continues to review the design and effectiveness of Mainstreet's disclosure controls and procedures and internal control over financial reporting, Mainstreet provides no assurance that its disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of Mainstreet's results of operations, restatements of its financial statements, a decline in the share price, or otherwise materially adversely affect Mainstreet's business, reputation, results of operation, financial condition or liquidity.

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.

No History of Dividends

To date, Mainstreet has not declared or paid any dividends on its common shares since its incorporation. Mainstreet anticipates that it will commence paying a small quarterly dividend (currently expected to be approximately \$0.11 per share) in the 2024 fiscal year, with the first dividend being paid at the end of Q1 2024. However, there is no guarantee that this dividend will be paid at all, or that it will continue to be paid at any specific future times, and any decision to pay dividends on the shares will be made by the board of directors on the basis of the Mainstreet's earnings, financial requirements and other conditions existing at such future time. The dividend policy of Mainstreet is established by the directors and is subject to change at the discretion of the directors. The recourse of shareholders who disagree with the dividend policy or any change in policy is limited and could require such shareholders to seek to replace the directors. Other than pursuant to corporate law and compliance with the provisions of its banking facility, there is no restriction that could prevent Mainstreet from paying dividends or another form of distribution in respect of the common shares.

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 the Corporation'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.

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 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 or illness, 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.

Regulatory Risks and Adverse Changes in Law

The Corporation is subject to laws and regulations governing the ownership and leasing of real property, zoning, building standards, landlord/tenant relationships, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, municipal or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the Corporation (including with retroactive effect). Any changes in the laws to which the Corporation is subject could materially affect its rights and title to its assets. It is not possible to predict whether there will be any further changes in the regulatory regimes to which the Corporation is subject or the effect of any such changes on its business.

Increases in real estate taxes and income, service and transfer taxes, or introductions of new taxes such as previously or to be enacted carbon taxes, cannot always be passed through to residents or users in the form of higher rents, and may adversely affect the Corporation's operating expenses and to pay amounts due on its debt. Similarly, changes or interpretations of existing laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which could have a material adverse effect on the Corporation. Further, residential landlord/tenant laws in certain provinces may provide tenants with the right to bring certain claims to the applicable judicial or administrative body seeking an order to, among other things, compel landlords to comply with health, safety, housing and maintenance standards. As a result, the Corporation may, in the future, incur capital expenditures, which may not be fully recoverable from tenants.

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 "Transactions with Related Parties" above and "Interests of Management and Others in Material Transaction" in Mainstreet's AIF.

CHALLENGES

Inflation and cost pressures

Despite promising macroeconomic tailwinds, rising costs continue to pose a challenge to Mainstreet. Primarily, inflation and associated higher interest rates increase the cost of Mainstreet debt, the Corporation's single-largest expense. (Mainstreet has locked in 99% of its debt into CMHC-insured mortgages with an average interest rate of 2.79%, maturing in 5.37 years, to proactively protect against any eventual rate increases—see Outlook section below). Smaller line items including everything from labour to materials are also impacted by inflation, elevating operating costs.

Combatting higher expenses

Mainstreet works tirelessly on multiple fronts to counteract rising expenses. By securing longer-term natural gas contracts, the Corporation substantially reduced energy costs across a large portion of Mainstreet buildings. The Corporation also managed to reduce its insurance costs—a sizable Mainstreet expense—by more than 13% for fiscal 2023 by obtaining improved premium rates and coverage. Still, major fixed expenses like maintenance and utilities, property taxes and apartment repairs remain high. Carbon taxes, which place the financial burden on property owners, are scheduled to rise annually, from \$65 per tonne today to \$170 by 2030. Despite management's best efforts to control costs where possible, inflationary pressures nonetheless introduce added financial burdens that will, in some cases, be passed onto tenants through soft rent increases. Mainstreet has reignited our supply chain, aiming to further reduce capital costs in 2024.

Improving capital market exposure

Due to the success of Mainstreet's non-dilutive growth model, Mainstreet stock has always attracted high levels of interest on public markets. While this is an unmitigated achievement, management believes that high investor appetite combined with Mainstreet's relatively narrow equity shareholder base has at times restricted MEQ trading volume, in turn limiting the Corporation's market value (see next section).

OUTLOOK

Mainstreet introduces new nominal dividend policy

Backed by its enviable liquidity position (\$430 million) and strong cashflow position (per-share FFO of \$7.37), Mainstreet continues to see an abundant pipeline of acquisitions for generating organic, non-dilutive growth. Management plans to introduce a nominal dividend—\$0.11 per share starting in Q1 2024—for the sole purpose of widening Mainstreet's shareholder base and increasing trading volume. This decision comes after significant numbers of fund managers expressed interest in investing in Mainstreet, but said they were prohibited from taking positions in non-dividend paying corporations. By offering a small dividend, Mainstreet believes it can satisfy the requirements of more investors while also leaving ample capital available for countercyclical growth opportunities.³

A shift toward shorter-term debt

As debt markets shift due to rising interest rates, Mainstreet continues to take an adaptive approach to its mortgage positions. In the past, when interest rates were lower, Mainstreet locked in its mortgages at longer-term, 10-year maturities to maximize savings. Now that rates are higher, Mainstreet has shifted toward shorter-term debt obligations, which will yield more cost reduction should interest rates eventually fall.

Turning intangibles to tangibles

To combat the ongoing housing shortage, Canadian municipalities are increasingly increasing density through rezoning efforts. Mainstreet, with an extensive portfolio of more than 800 low density buildings, is well placed to similarly extract more value out of existing assets and land titles at no cost. To that end, Management is in the early stages of developing a three-point plan to 1) turn unused or residual space within existing buildings into new units 2) explore zoning and density relaxations to potentially build new capacity within existing land footprints and 3) subdivide residual lands to maximize useable space. While the plan is currently conceptual in nature, Mainstreet views this as a major driver of future growth in the longer-term, and further evidence of Mainstreet's inherent intangible value.

BC remains a standout

Mainstreet expects Vancouver/Lower Mainland will continue to provide growth and performance. British Columbia has become central to Mainstreet's portfolio, accounting for approximately 45% of its estimated net asset value ("NAV") based on IFRS value. With an average monthly mark-to-market gap of \$621 per suite per month, 98% of Mainstreet's customers in the region are below the average market rent. According to estimates, that translates into approximately \$25 million in same-store NOI growth potential after accounting for tenancy turnover and mark-to-market gaps.

Alberta and Saskatchewan prosper

Management believes Edmonton, which makes up the largest portion of Mainstreet's portfolio, could be a major performer in 2024. Concession rates in the city continue to fall as vacancy rates hit an all-time low. Rental rates are beginning to grow as Edmonton's economy and population rises.

A similar trend is taking shape across Mainstreet's entire prairie portfolio. In the year ended July 1, 2023, Alberta's population expanded by about 184,000 people, or 4.1%. This represents the highest annual growth rate since 1981 and is also significantly higher than the national rate of 2.98%. Over the same period, 56,245 more people moved to the province than left it, the highest annual net inter-provincial gains in Alberta's history and the highest ever recorded in any single province or territory since comparable data are available (1971/1972). Meanwhile, Saskatchewan's population increased by 30,685 over the past year representing a 2.6% rise, compared with 10,711 (0.92%) in the previous 12 months. Management believes high in-migration numbers in Alberta, combined with robust economic activity, could continue to nudge rental rates upward.

3. The Corporation notes that any decision to pay dividends, and the amount of any such dividends on the shares, will be made by the Board of Directors at the relevant time, on the basis of Mainstreet's earnings, financial requirements and other conditions existing at such future time. The dividend policy of Mainstreet is established by the Directors and is subject to change at the discretion of the Directors.

RUNWAY ON EXISTING PORTFOLIO

1. Pursuing its 100% organic, non-dilutive growth model: Using Mainstreet's strong liquidity position, estimated at \$430 million, management believes there is significant opportunity to continue acquiring underperforming assets at attractive valuations. As such, Mainstreet will solidify its position as the leader in the add-value, mid-market rental space in Western Canada.
2. Closing the NOI gap: As of Q4 2023, 13% of Mainstreet's portfolio was going through the stabilization process (recent acquisitions). Once stabilized, management remains confident same-asset revenue, vacancy rates, NOI and FFO will be meaningfully improved. The Corporation is cautiously optimistic that it can increase cash flow in coming quarters. The Alberta market in particular also has substantial room for mark-to-market catch up.
3. Buying back shares at a discount: The Corporation believes MEQ shares continue to trade below its true NAV, and that ongoing macroeconomic volatility could intensify that trend.

ADDITIONAL INFORMATION

Additional information about Mainstreet, including its AIF, is available on the Corporation's website at www.mainst.biz and on SEDAR at www.sedar.com.