

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 year ended September 30, 2021 and 2020. 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 Corporations' audited consolidated financial statements and the accompanying notes for the fiscal years ended September 30, 2021 and 2020. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been reviewed and approved by the Audit Committee and Board of Directors of the Corporation and is effective as of December 6, 2021. 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 2021 and 2020 refers to the fiscal years ended September 30, 2021 and 2020, 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*".

COVID-19 OVERVIEW

Beginning in 2020, the COVID-19 pandemic has resulted in all levels of governments worldwide enacting emergency measures to combat the spread of the virus, whose measures has had a substantial impact on the economy. Although these impacts appear to be slowly lessening over time, there still remains uncertainty associated with the unprecedented nature of the pandemic and until the pandemic is contained, a substantial portion of economic activity will continue to be adversely affected. Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, have a materially adverse impact on the Corporation's tenants and/or bad debt and equity markets, both of which could materially adversely affect the Corporation's operations and financial performance. Although significant progress has been made in vaccinating the Canadian population and while restrictions have started to relax in some provinces where the Corporation operates, it remains unclear as to when the pandemic will be under control, and when public health measures will be fully lifted. Barriers to travel still remain and it remains difficult to reliably estimate the impact on the financial results and condition of the Corporation in future periods.

Notwithstanding the operational and financial impact of the COVID-19 pandemic on the Corporation, the health and safety of Mainstreet's residents and team members are its top priority. As an essential service provider, the Corporation has made important changes in its operations in response to COVID-19 pandemic to support residents and team members. The following update is a brief summary of certain of those changes.

COVID-19 Operational Update

Cleaning: Mainstreet has increased its cleaning and maintenance with more frequent cleaning and sanitization of common areas and commonly touched objects.

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. As of December 6, 2021, Mainstreet has collected 99.7% of total rents for November 2021 and 99.6% of total rents for October 2021. Mainstreet has made a commitment to defer rent for its tenants who have been affected by COVID-19 on a case-by-case basis and has entered into rent deferral agreements with such tenants.

Leasing and tenant support: During the COVID-19 pandemic period, 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, while also protecting the health and safety of Mainstreet's residents and team members.

Mainstreet believes in timely, transparent communication and has provided regular updates to both its tenants and team members, through various channels, both in respect of its COVID-19 guidelines and in respect of current health recommendations from both federal and provincial governments, and timely information about government financial support programs that provide support to tenants and their families.

Team Member Support: The Corporation maintains a high level of personal protective equipment and implemented recommended physical distancing in the workplace. Mainstreet has utilized virtual showing capabilities, while ensuring on-going regular communication with its leadership and operational teams to assess and support any needs of its team members. Additionally, the Corporation has assisted its team members to transition to working from home where it is appropriate to do so.

Acquisitions: Mainstreet resumed its acquisition activity in 2021 and has actively taken opportunities to acquire undervalued assets. Current market conditions have created favourable conditions to expand Mainstreet's portfolio. In 2021, Mainstreet acquired \$216 million (1,625 units)¹ in new acquisitions in Alberta, British Columbia, Saskatchewan, and Manitoba. Subsequent to year end 2021, Mainstreet has acquired an additional \$23 million (259 units including 2 vacant lands and 2 commercial buildings) in new acquisitions in the province of Alberta resulting in year-to-date acquisitions in the amount of \$239 million (1,844 units).

Refinancing: Throughout the current COVID-19 pandemic, Mainstreet has continued to reposition its unstabilized properties and continues to have access to mortgage debt. Subsequent to year end 2021, Mainstreet's most recent financing raised \$39.5 million in additional funds through the financing of 2 clear title properties at an interest rate of 2.58%.

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. Mainstreet estimates it will have access to approximately \$223 million in available liquidity in the next 12 months, which management believes is sufficient to address the inherent uncertainty surrounding disruption from the COVID-19 pandemic and continue to support its stakeholders.

Effect of COVID-19 on Mainstreet

The Corporation saw a material decrease in new rentals during the fourth quarter of its 2020 fiscal year, a period that usually is one of the Corporation's busiest rental seasons. This decrease continued into the Corporation's 2021 fiscal year, and has resulted in a decrease in the Corporation's operations and financial performance as fewer new tenants are moving into the Corporation's properties resulting in an increase in vacancy rates. The Corporation believes that this decrease has resulted from the government's implementation of travel bans in response to the pandemic, and post-secondary institutions limiting in person classes, which vastly decreased the number of foreign students and other immigrants arriving in Canada. Historically, such foreign students and immigrants have comprised a material portion of the Corporation's renters. Although certain travel bans have been lifted in recent months, there still remain significant impediments to international travel and limitations on class rooms. In the event that these impediments and limitations remain in effect through the Corporation's 2021 fourth quarter, the Corporation anticipates that it will suffer continued material decreases in its operations and financial performance.

1. Including 136 units held for sale

To date the Corporation has not suffered a material increase in bad debt expense and higher credit risk as a result of difficulties in the collection of rent, a requirement to defer the eviction of tenants who do not pay their rent, and an inability by the Corporation to increase rent in certain of its markets. However, as government financial supports, which have assisted the Corporation's tenants with their essential needs such as rental payments throughout the pandemic, begin to be reduced or eliminated, the Corporation anticipates that it may see an increase in its bad debt expense and be exposed to an increased credit risk.

The Corporation's properties are measured at fair value based on assumptions influenced by market conditions. Given the uncertainty which has existed, some of which still remains, the full long term impact of COVID-19 on the valuation of the Corporation's properties, may not be completely known at this time. Further, due to the previous high uncertainty associated with the pandemic, lower weight can be applied to previous market evidence to inform fairness of opinions.

There is also continuing risk that the Corporation could be adversely affected due to market changes particularly in supply, interest rates and regional rent controls. Further, as social distancing practices are maintained, and labour and material shortages persist, the expected onset of new supply of rental housing may take longer as construction completion times are extended. There has also been significant disruption to the global supply chain in recent months. All of this increases the supply risk to the Corporation.

To date, the Corporation has 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 mature and need to be renewed. To date, governments have responded quickly to ensure capital remains available, and currently, Mainstreet still remains able to access capital.

The Corporation, in coordination with its Board of Directors, continues to monitor the situation and has taken and may take additional actions that alter its business operations as may be required by federal, provincial or local authorities or that the Corporation determines are in the best interests of its tenants, employees, suppliers, shareholders and other stakeholders. Such alterations or modifications have caused and may continue to cause interruption to the Corporation's business and include increased administration, maintenance and repair expenses, related to property modifications, 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. Management of the Company enacted its COVID-19 business continuity plan in March 2020 and to date has experienced only minimal disruptions to its business operations as a result.

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, and Mainstreet's commitment to corporate social responsibility continued during the pandemic with a focus on protecting and supporting residents and staff. 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 Company is continuously looking for ways to make its operations more sustainable and has already taken positive steps in furtherance of this goal, including:

- Adopting a policy to obtain a Phase 1 environmental report conducted by independent environmental consultants 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 customers to live sustainably without sacrificing convenience, and demonstrate that we understand what they're looking for.

Social Community Investment

The Company 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 the Slave Lake and Fort McMurray wildfires, or through conflicts, such as the Syrian and Afghan 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;
- Installing food banks with various social assistant program, such as the Love with Humanity Association, to provide supports to residents and communities experiencing financial challenges; and
- In response to the COVID-19 pandemic, implementing a number of programs for its residents including rent deferrals, waivers of late and non-sufficient funds fees, the provision of financial assistance and deferring any rent increases.



Mainstreet proudly worked with the Love With Humanity Association in Calgary to open and maintain community resource hubs (containing food resources) in several of our communities where economic challenges are more pronounced. Giving back to our communities is important to demonstrating good corporate citizenship, something Mainstreet is known for.



Her Honour, the Honourable Salma Lakhani, Lieutenant Governor of Alberta joined the Mainstreet Team to officially open one of our community resource hubs at our Trevella property in Calgary. We were proud to receive recognition for these important efforts for the community.

Employee Engagement



Programs like our Guided Yoga sessions at Head Office drive employee engagement, promote a culture of health and wellness, and set the cooperative, peaceful tone that Mainstreet's teamwork thrives upon.

The Company creates a positive experience for employees through numerous programs, including:

- Prioritizing training and development, by offering learning opportunities to employees 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 employees with competitive medical benefits, short and long-term disability plans, and life insurance plans. The Company has set up occupational health and safety committees with representatives in all cities where the Company's employees 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 Company's management team; and
- Ensuring that employees can take paid leave or work from home to ensure the health and safety of employees and their families during the pandemic, as well as enabling them to be at home for their children during school closures. In addition, the Corporation has invested in additional PPE for all of its employees, and has implemented social distancing and enhanced cleaning protocols to ensure that its residents and employees are able to remain safe.

Governance

The Company is committed to maintaining the highest ethical standards through a strong governance framework and an experienced Board of Directors. The Company 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 Company 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 Company 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 (which has adopted a whistle blower policy), executive committee, a human resources committee, a risk management committee, a safety committee and a cyber security committee.

In addition, the Company 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 Company.

BUSINESS OVERVIEW

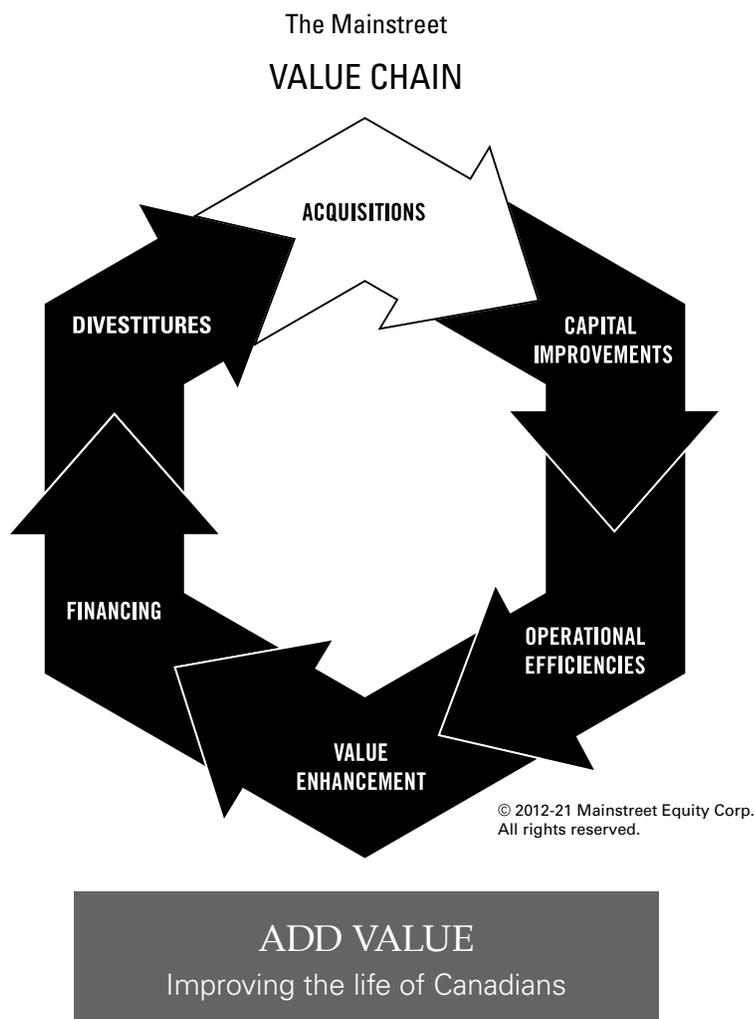
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in six major Canadian markets: British Columbia (including Vancouver Lower Mainland, Vancouver Island, and Okanagan), 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.
- **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, in conjunction with this MD&A, have been prepared in accordance with IFRS as issued by the International Accounting Standard Board (“IASB”).

Investment properties

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

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

Method used in determining the Fair Value of investment properties

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 applied to the whole population of each group in determination of the fair value of investment properties of the Corporation as of September 30, 2021 and September 30, 2020. 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 \$2.6 billion as of September 30, 2021 (\$2.2 billion as of September 30, 2020). 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, 2021 and September 30, 2020, respectively.

As at September 30, 2021	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2021
Surrey, British Columbia (Note 1)	12	1,939	\$ 579	\$ 299	3.29%
Abbotsford, British Columbia (Note 2)	24	1,311	280	214	3.68%
Calgary, Alberta (Note 3)	93	3,388	651	192	4.87%
Edmonton, Alberta (Note 4)	137	5,081	679	134	5.46%
Saskatoon, Saskatchewan	59	2,330	301	129	5.84%
Regina, Saskatchewan	60	938	119	127	5.57%
Winnipeg, Manitoba	1	87	7	80	5.79%
Total investment properties	386	15,074	\$ 2,616	\$ 174	4.69%

Note (1) – includes the City of New Westminster and the City of Courtenay

Note (2) – includes the City of Chilliwack, the City of Kamloops, the City of Penticton 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

As at September 30, 2020	Number of properties	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average capitalization rate as at Sep. 30, 2020
Surrey, British Columbia (Note 1)	10	1,775	\$ 411	\$ 232	4.39%
Abbotsford, British Columbia (Note 2)	16	1,024	180	176	4.80%
Calgary, Alberta (Note 3)	72	3,028	608	201	5.09%
Edmonton, Alberta (Note 4)	132	4,562	619	136	5.67%
Saskatoon, Saskatchewan	59	2,328	263	113	6.62%
Regina, Saskatchewan	59	866	102	118	6.33%
Total investment properties	348	13,583	\$ 2,183	\$ 161	5.34%

Note (1) – includes the City of New Westminster

Note (2) – includes the City of Kamloops

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)

For the year ended September 30,	2021	2020
	Calgary, Chilliwack, Courtenay, Edmonton, Kamloops, Penticton, Regina, Saskatoon, Vernon and Winnipeg	Calgary, Edmonton, Saskatoon and Kamloops
Number of rental units (Note 1)	1,489	681
Total costs	\$ 193,620	\$ 89,644
Average price per apartment unit	\$ 130	\$ 132

Note (1) – Excludes 136 units held for sale acquired in Q3 2021.

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 2021, Mainstreet acquired 1,489 investment property units in the provinces of Alberta, British Columbia, Manitoba and Saskatchewan for a total consideration of \$193.6 million. The Corporation also acquired a property with 136 Condo title units classified as property held for sale, and has sold two units of such property in 2021. The Corporation expects to dispose of the remaining units within the next 12 months. Since Mainstreet's previous financial year-end (September 30, 2020), the Corporation has grown its portfolio of investment properties by 11%.

As of September 30, 2021, Mainstreet's portfolio included 15,072 investment properties units, two freestanding commercial buildings and 134 units held for sale. It also excluded two regional office buildings and two warehouses which were classified as property and equipment. Mainstreet's investment properties units include including townhouses, garden-style apartments, concrete mid-rise and high-rise apartments and condo suites. As of September 30, 2021, a total of 93% of Mainstreet's residential units were rented, while 5% were being renovated and the remaining 2% were left vacant, primarily in the provinces of Alberta and Saskatchewan.

Since 1997, the Corporation's investment property portfolio has increased from 10 to 386 buildings, while the fair value of the investment properties within this portfolio has grown from approximately \$17 million to \$2.6 billion as of September 30, 2021.

The following table demonstrates the growth of the Corporation by region since the end of the previous financial year ended September 30, 2020.

	Number of units as at Oct. 1, 2020	Acquisitions/ disposition 12 months ended Sept. 30, 2021	Additional units created 12 months ended Sept. 30, 2021	Number of units as at Sept. 30, 2021	% Growth
Surrey, British Columbia (Note 1)	1,775	164	–	1,939	9%
Abbotsford, British Columbia (Note 2)	1,024	287	–	1,311	28%
Calgary, Alberta (Note 3)	3,028	358	2	3,388	12%
Edmonton, Alberta (Note 4)	4,562	519	–	5,081	11%
Saskatoon, Saskatchewan	2,328	2	–	2,330	0%
Regina, Saskatchewan	866	72	–	938	8%
Winnipeg, Manitoba	–	87	–	87	100%
Investment properties	13,583	1,489	2	15,074	11%
Property held for sale – Calgary, Alberta	–	134	–	134	100%

Note (1) – includes the City of New Westminster and the City of Courtenay

Note (2) – includes the City of Chilliwack, the City of Kamloops, the City of Penticton 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

CAPITAL IMPROVEMENTS

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

In 2021, the Corporation spent \$24.4 million (2020 – \$16.7 million) on capital improvements, of which \$20.7 million (2020 – \$14.8 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 \$24 million on capital improvement in fiscal year 2022, however these plans may be revised depending upon the economic conditions during 2022. 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 ongoing effect of the COVID-19 pandemic, changes or reductions in governmental financial support measures in response to the COVID-19 pandemic, the rate of turnover of existing tenants, availability of renovation workers and building materials, as well as increases in labour and material costs. 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 September 30,	2021	2020	2019	% change 2021	% change 2020
Gross revenue	\$ 160,351	\$ 149,976	\$ 138,052	7%	9%
Net profit and total comprehensive income	225,534	68,550	58,685	229%	17%
Change in fair value	212,003	37,211	26,908	470%	38%
Gain from disposal of assets	113	–	–	100%	N/A
Depreciation	712	651	250	9%	160%
Deferred income tax expense	33,368	11,691	7,231	185%	62%
Funds from operations					
– Non IFRS Measurement (Note 1)	\$ 47,498	\$ 43,681	\$ 39,258	9%	11%
Interest income	(426)	(206)	(179)	107%	15%
Other income	–	–	(260)	N/A	(100%)
General and administrative expenses	12,240	12,477	12,463	(2%)	0%
Financing costs	38,343	36,861	34,771	4%	6%
Depreciation (computer and vehicle)	193	220	255	(12%)	(14%)
Net operating income	\$ 97,848	\$ 93,033	\$ 86,308	5%	8%
Operating margin from operations	61%	62%	63%		
Profit per share					
Basic and fully diluted	\$ 24.13	\$ 7.32	\$ 6.41	230%	14%
Fully diluted	\$ 24.13	\$ 7.32	\$ 6.23	230%	17%
Funds from operations per share					
Basic and fully diluted	\$ 5.08	\$ 4.66	\$ 4.29	9%	9%
Fully diluted	\$ 5.08	\$ 4.66	\$ 4.17	9%	12%
Weighted average number of shares					
Basic and fully diluted	9,345,350	9,367,358	9,154,434		
Fully diluted	–	–	9,424,680		
Total Assets	\$ 2,674,569	\$ 2,238,311	\$ 2,056,025		
Total Long term liabilities	\$ 1,485,691	\$ 1,259,967	\$ 1,064,515		

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 2021, revenue primarily consisted of rental and ancillary revenue totalling \$159.9 million (2020 – \$149.8 million) and interest income. Overall, rental revenue increased 7% as compared to 2020, which is discussed and analysed in the session entitled "Rental Operations" below.

NET PROFIT

For the year ended September 30, 2021, Mainstreet reported a net profit of \$225.5 million (\$24.13 per basic share) as compared to a net profit of \$68.6 million (\$7.32 per basic share) for the year ended September 30, 2020. This increase in net profit results was mainly due to an increase in fair value of \$212.0 million which is further analysed below.

Net profit is further analysed as follows:

(000s of dollars)

For the year ended September 30,	2021	2020	% change
Funds from operations			
– Non IFRS measurement (see Note 1 previous table)	\$ 47,498	\$ 43,681	9%
Change in fair value	212,003	37,211	470%
Gain from disposal of assets	113	–	100%
Depreciation	(712)	(651)	9%
Deferred income tax expense	(33,368)	(11,691)	185%
Net profit and total comprehensive income – IFRS measurement	\$ 225,534	\$ 68,550	229%

Funds from operations in 2021 are further discussed and analysed below.

In 2021, Mainstreet realized a fair value gain of \$212.0 million, compared with a fair value gain of \$37.2 million in 2020. This was mainly due to changes as identified below:

(000s of dollars)

Change in Fair value	2021	2020
Surrey	\$ 146,222	\$ 24,870
Abbotsford	58,617	9,508
Calgary	(11,845)	11,296
Edmonton	(3,491)	537
Saskatoon	37,858	7,010
Regina	9,255	761
Winnipeg	(190)	–
	236,426	53,982
Capital expenditure	(24,423)	(16,771)
Change in fair value	\$ 212,003	\$ 37,211

The fair value gain represented the change in the market value of the Corporation's investment properties over the fiscal years 2021 and 2020. The amount of change was determined by the market value of Mainstreet's investment properties at the year-end dates of September 30, 2021 and 2020, which was regarded as a non-operating expense.

For the year ended September 30, 2021, a fair value gain of \$212.0 million was recorded on the financial statement as a result of changes in the fair value of investment properties based on most recent market conditions, particularly the compression of capitalisation rate in Abbotsford and Surrey, British Columbia which has been driven by continued strong demand for multi-family assets recently during the year.

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 9% to \$47.5 million in 2021, compared with \$43.7 million in 2020. The increase in FFO for 2021 was mainly attributable to the 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 decreased by 2% to \$12.2 million in 2021 as compared to \$12.5 million in 2020, mainly due to decreased professional, travelling and entertaining expenses.

FINANCING COSTS

(000s of dollars)

For the year ended September 30,	2021		2020		% Change
Mortgage interest	\$	33,477	\$	32,968	2%
Amortization of deferred financing cost		4,866		3,893	25%
Financing costs	\$	38,343	\$	36,861	4%

Mortgage interest expenses increased by 2% to \$33.5 million in 2021 from \$33.0 million in 2020.

The rise was mainly attributable to an increase in mortgage loans from refinancing of maturing and new clear title mortgages at low interest rates. The Corporation continues to take advantage of current low interest rates. In 2021, the Corporation financed 15 clear title properties and 25 maturing mortgages for additional net funding of \$226.2 million at an average interest rate of 2.07%.

Subsequent to year-end September 30, 2021, the Corporation also financed 2 clear title properties. These financing activities raised additional funds of \$39.5 million at an average interest rate of 2.58%.

RENTAL OPERATIONS

(000s of dollars except per unit data)

For the year ended September 30,	Total Portfolio			Same Asset			Acquisition		
	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change
Rental and ancillary revenue	\$ 159,925	\$149,770	7%	\$145,803	\$146,207	0%	\$ 14,122	\$ 3,563	296%
Operating expenses	62,077	56,737	9%	56,921	55,157	3%	5,156	1,580	226%
Net operating income	\$ 97,848	\$ 93,033	5%	\$ 88,882	\$ 91,050	(2%)	\$ 8,966	\$ 1,983	352%
Operating margin	61%	62%		61%	62%		63%	56%	
Average vacancy rate	8.9%	7.3%	21%	8.3%	6.9%	21%	15.4%	31.8%	(51%)
Weighted average number of units	14,136	13,249	7%	12,907	12,907	–	1,229	342	259%
Average rental rate per unit per month	\$ 943	\$ 942	0%	\$ 941	\$ 944	0%	\$ 958	\$ 868	10%
Average operating expense per unit per month	\$ 366	\$ 357	3%	\$ 368	\$ 356	3%	\$ 350	\$ 385	(9%)

The vacancy rate increased to 8.9% in 2021, from 7.3% in 2020, partially due to higher vacancy rates in the provinces of Alberta and Saskatchewan as a result of a weakened high rental season. The Corporation believes that a material cause of this increase are the travel restrictions put into place by the government in response to the COVID-19 pandemic, as well as classroom limits in colleges and universities, which have very significantly decreased the number of both domestic and foreign students, as well as other immigrants who require housing. As a result, the average monthly rental rate increased slightly to \$943 per unit in 2021, compared with \$942 per unit in 2020. Overall rental and ancillary revenue increased 7% to \$159.9 million in 2021 as compared to \$149.8 million in 2020. This was mainly due to 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, 2021 and 2020, rental and ancillary revenue remained constant at \$145.8 million in 2021, compared to \$146.2 million in 2020. The average monthly rental rate decreased slightly to \$941 per unit in 2021, from \$944 per unit in 2020. The vacancy rate increased to 8.3% in 2021, from 6.9% in 2020, mainly due to a weakened high rental season and increased number of skipped suites as a result of COVID-19 pandemic and the public health measures, including travel and classroom restrictions.

Mainstreet's overall operating expenses increased 9% to \$62.1 million in 2021, from \$56.7 million in 2020, due mainly to the increased number of newly acquired units since 2020, as well as higher property taxes, insurance and utility expenses.

The overall and same asset operating expenses on a per unit basis increased 3%, due mainly to higher utility and insurance expenses.

As a result, overall net operating income increased 5% to \$97.8 million in 2021, from \$93.0 million in 2020, while net operating margins decreased to 61% in 2021, from 62% in 2020.

For same asset properties, net operating income decreased 2% to \$88.9 million in 2021, from \$91.1 million in 2020. The net operating margins decreased to 61% in 2021, from 62% in 2020.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet achieved a 10% increase in rental revenue in its British Columbia portfolio in 2021 primarily due to the Corporation's diversification strategy, which drove further expansion into British Columbia's market in 2021 combined with increased monthly rents on turnovers of units. The average vacancy rate increased slightly to 1.0% in 2021 from 0.5% in 2020. An above-average occupancy rate 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 higher occupied rents, rental revenue per unit increased to \$1,106 per month in 2021 from \$1,085 per month in 2020.

Operating expenses per unit increased 2% to \$293 per month in 2021 compared with \$288 per month in 2020, due mainly to increased insurance and utility expenses. As a result, net operating income increased 10%, and net operating margins remained at 74% in both 2021 and 2020.

(000s of dollars except per unit data)

For the year ended September 30,	2021	2020	% change
Rental and ancillary revenue	\$ 39,960	\$ 36,318	10%
Operating expenses	10,576	9,623	10%
Net operating income	\$ 29,384	\$ 26,695	10%
Weighted average number of units	3,011	2,789	8%
Average rent per unit per month	\$ 1,106	\$ 1,085	2%
Operating cost per unit per month	\$ 293	\$ 288	2%
Average vacancy rate	1.0%	0.5%	
Operating margin	74%	74%	

ALBERTA

Mainstreet achieved a 7% growth in its Alberta portfolio in 2021 and the weighted average number of rental units grew to 7,801 units, compared with 7,286 units in 2020. The average vacancy rate increased to 10.7% in 2021 from 7.9% in 2020. Rental revenue per unit decreased 1% to \$942 per month in 2021 from \$954 per month in 2020 mainly due to increased vacancy expenses in 2021, which resulted from a weakened high rental season caused primarily by COVID-19 public health measures.

Operating expenses per unit increased 3% to \$390 per month in 2021 compared to \$379 per month in 2020 due mainly to higher property taxes and insurance expenses. As a result, net operating income increased by 3% to \$51.7 million in 2021 from \$50.3 million in 2020, and net operating margins decreased to 59% in 2021 from 60% in 2020.

(000s of dollars except per unit data)

For the year ended September 30,	2021	2020	% change
Rental and ancillary revenue	\$ 88,211	\$ 83,440	6%
Operating expenses	36,475	33,101	10%
Net operating income	\$ 51,736	\$ 50,339	3%
Weighted average number of units	7,801	7,286	7%
Average rent per unit per month	\$ 942	\$ 954	(1%)
Operating cost per unit per month	\$ 390	\$ 379	3%
Average vacancy rate	10.7%	7.9%	
Operating margin	59%	60%	

Saskatchewan

Mainstreet achieved a 3% growth in its Saskatchewan portfolio in 2021. The average number of rental units grew to 3,258 units in 2021, compared with 3,174 units in 2020. The average vacancy rate decreased to 11.7% in 2021 from 12.1% in 2020. Rental revenue per unit increased to \$800 per month in 2021 from \$788 per month in 2020.

Operating expenses per unit increased 3% to \$379 per month in 2021 from \$368 per month in 2020, due mainly to increased insurance expenses during the period. As a result, net operating income increased 3% and net operating margins remained at 53% in both 2021 and 2020.

(000s of dollars except per unit data)

For the year ended September 30,	2021	2020	% change
Rental and ancillary revenue	\$ 31,295	\$ 30,012	4%
Operating expenses	14,802	14,013	6%
Net operating income	\$ 16,493	\$ 15,999	3%
Weighted average number of units	3,258	3,174	3%
Average rent per unit per month	\$ 800	\$ 788	2%
Operating cost per unit per month	\$ 379	\$ 368	3%
Average vacancy rate	11.7%	12.1%	
Operating margin	53%	53%	

MANITOBA

Mainstreet successfully entered the Manitoba market in 2021 with the acquisition of an 87-unit complex in downtown Winnipeg. The average vacancy rate was 11.6% in 2021 as the property is currently undergoing a stabilization process. As a net result, rental revenue per unit was \$580 per month in 2021.

Operating expenses per unit were \$283 per month in 2021, resulting in a net operating income of \$0.2 million and a net operating margin of 51% in 2021.

(000s of dollars except per unit data)

For the year ended September 30,	2021	2020	% change
Rental and ancillary revenue	\$ 459	N/A	N/A
Operating expenses	224	N/A	N/A
Net operating income	\$ 235	N/A	N/A
Weighted average number of units	66	N/A	N/A
Average rent per unit per month	\$ 580	N/A	N/A
Operating cost per unit per month	\$ 283	N/A	N/A
Average vacancy rate	11.6%	N/A	
Operating margin	51%	N/A	

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2021	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019
Rental revenue								
British Columbia	\$ 10,517	\$ 10,126	\$ 9,399	\$ 9,200	\$ 9,096	\$ 8,998	\$ 8,919	\$ 8,693
Alberta	23,269	21,470	21,150	21,260	21,364	20,603	20,467	19,998
Saskatchewan	8,043	7,711	7,612	7,531	7,428	7,371	7,314	7,519
Manitoba	141	148	163	2	–	–	–	–
Total rental Revenue	\$ 41,970	\$ 39,455	\$ 38,324	\$ 37,993	\$ 37,888	\$ 36,972	\$ 36,700	\$ 36,210
Ancillary revenue	486	485	711	501	485	498	532	485
Interest income	30	103	165	128	98	37	34	37
Total revenue from operations	\$ 42,486	\$ 40,043	\$ 39,200	\$ 38,622	\$ 38,471	\$ 37,507	\$ 37,266	\$ 36,732
Change in fair value	\$ 32,915	\$ 195,800	\$ 1,274	\$ (17,986)	\$ 51,370	\$ (2,527)	\$ (3,324)	\$ (8,308)
Profit (loss) from operations	\$ 39,652	\$ 181,002	\$ 10,167	\$ (5,287)	\$ 48,420	\$ 10,873	\$ 3,681	\$ 5,576
Net profit (loss) per share								
– Basic	\$ 4.24	\$ 19.37	\$ 1.09	\$ (0.57)	\$ 5.17	\$ 1.16	\$ 0.39	\$ 0.59
– Diluted	\$ 4.24	\$ 19.37	\$ 1.09	\$ (0.57)	\$ 5.17	\$ 1.16	\$ 0.39	\$ 0.59
Same assets rental and ancillary revenue								
British Columbia	\$ 9,487	\$ 9,351	\$ 9,263	\$ 9,161	\$ 9,083	\$ 9,000	\$ 8,932	\$ 8,813
Alberta	19,352	19,328	19,702	19,832	20,093	19,934	20,262	20,221
Saskatchewan	7,836	7,545	7,493	7,453	7,467	7,409	7,403	7,590
Total same assets rental and ancillary revenue	\$ 36,675	\$ 36,224	\$ 36,458	\$ 36,446	\$ 36,643	\$ 36,343	\$ 36,597	\$ 36,624
Same assets vacancy rate	7.5%	8.7%	8.7%	8.0%	6.9%	6.7%	6.3%	5.7%
Same assets net operating income								
British Columbia	\$ 7,499	\$ 6,828	\$ 6,536	\$ 6,621	\$ 7,072	\$ 6,663	\$ 6,052	\$ 6,541
Alberta	11,786	11,339	10,833	11,410	12,330	12,062	11,595	12,448
Saskatchewan	4,544	4,007	3,650	3,829	4,152	4,052	3,791	4,292
Total same assets net operating income	\$ 23,829	\$ 22,174	\$ 21,019	\$ 21,860	\$ 23,554	\$ 22,777	\$ 21,438	\$ 23,281
Net operating income	\$ 27,442	\$ 24,690	\$ 22,639	\$ 23,077	\$ 24,530	\$ 23,511	\$ 21,704	\$ 23,288
Funds from operations of stabilized properties – Non-IFRS measurement (Note 1)	\$ 12,193	\$ 10,399	\$ 9,236	\$ 10,753	\$ 11,263	\$ 9,487	\$ 8,433	\$ 10,394
Funds from operations – Non-IFRS measurement	\$ 14,001	\$ 12,030	\$ 10,123	\$ 11,344	\$ 12,320	\$ 10,935	\$ 9,091	\$ 11,295
Funds from operations of stabilized properties per share – Non-IFRS measurement								
– Basic	\$ 1.30	\$ 1.11	\$ 0.99	\$ 1.15	\$ 1.20	\$ 1.01	\$ 0.90	\$ 1.11
– Diluted	\$ 1.30	\$ 1.11	\$ 0.99	\$ 1.15	\$ 1.20	\$ 1.01	\$ 0.90	\$ 1.11
Funds from operations per share – Non-IFRS measurement (Note 1)								
– Basic	\$ 1.50	\$ 1.29	\$ 1.08	\$ 1.21	\$ 1.32	\$ 1.17	\$ 0.97	\$ 1.20
– Diluted	\$ 1.50	\$ 1.29	\$ 1.08	\$ 1.21	\$ 1.32	\$ 1.17	\$ 0.97	\$ 1.20
Average vacancy rate								
British Columbia	0.9%	1.0%	1.1%	1.0%	0.5%	0.5%	0.6%	0.4%
Alberta	11.8%	11.1%	10.5%	9.4%	8.6%	8.6%	7.7%	6.4%
Saskatchewan	9.2%	12.2%	13.0%	13.4%	13.0%	13.2%	12.5%	9.7%
Manitoba	19.9%	16.1%	10.3%	–	–	–	–	–
Total average vacancy rate	8.7%	9.1%	9.1%	8.6%	8.0%	8.0%	7.4%	5.9%

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2021:

- Rental and ancillary revenue increased to \$42.5 million, compared to \$39.9 million in Q3 2021 and \$38.4 million in Q4 2020.
- Average vacancy rate for the quarter was 8.7%, compared with 9.1% in Q3 2021 and 8.0% in Q4 2020.
- Change in fair value for the quarter was a gain of \$32.9 million, compared with a gain of \$195.8 million in Q3 2021 and a gain of \$51.4 million in Q4 2020.
- Funds from operations for the quarter were \$14.0 million, a 17% increase from \$12.0 million in Q3 2021 and a 15% increase from \$12.3 million in Q4 2020. See "Non-IFRS Measures".
- Net operating income for the quarter was \$27.4 million, an 11% increase from \$24.7 million in Q3 2021 and a 12% increase from \$24.5 million in Q4 2020.
- Mainstreet's same asset vacancy rate decreased to 7.5% in Q4 2021 from 8.7% in Q3 2021 and increased from 6.9% in Q4 2020, and same asset revenues increased to \$36.7 million in Q4 2021, from \$36.2 million in Q3 2021 and increased slightly from \$36.6 million in Q4 2020.
- Net operating income on a same asset basis for the quarter was \$23.8 million, an 7% increase from \$22.2 million in Q3 2021 and a 1% increase from \$23.6 million in Q4 2020.
- Funds from operations related to stabilized properties were \$12.2 million in Q4 2021, a 17% increase from \$10.4 million in Q3 2021 and a 10% increase from \$11.3 million in Q4 2020. 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, 2021, 342 properties (13,252 units) out of 386 properties (15,074 units) were stabilized. The following table summarizes the change of the Corporation's stabilized and unstabilized units since the beginning of fiscal year 2021.

	Oct. 1, 2020	%	Acquisition/ Creation	Number of units stabilized	Sept. 30, 2021	%
Stabilized Units	12,601	93%	–	651	13,252	88%
Unstabilized Units	982	7%	1,491	(651)	1,822	12%
Total Investment Properties Units	13,583	100%	1,491	–	15,074	100%

The following table summarizes the Corporation's stabilization progress for fiscal year 2021.

	Oct. 1, 2020	No. of units stabilized during the period	No. of unstabilized units acquired/created during the period	Sep. 30, 2021
Numbers of unstabilized units held for renovation	982	(651)	1,491	1,822
Number of months				
Average time spent on stabilization	9	20	5	7
Estimated remaining time for stabilization	15	–	23	20

During the year ended September 30, 2021, the Corporation acquired 358 unstabilized units and created 2 units in Calgary, Alberta; acquired 519 unstabilized units in Edmonton, Alberta; acquired two unstabilized unit in Saskatoon, Saskatchewan; acquired 72 unstabilized units in Regina, Saskatchewan; acquired 18 unstabilized units in Kamloops, British Columbia; acquired 62 unstabilized units in Penticton, British Columbia; acquired 131 unstabilized units in Courtenay, British Columbia; acquired 47 unstabilized units in Vernon, British Columbia; acquired 160 unstabilized units in Chilliwack, British Columbia; acquired 33 unstabilized units in New Westminster, British Columbia and acquired 87 unstabilized units in Winnipeg, Manitoba. Some acquired assets required substantial renovation and had rental rates that are considered well below the market for stabilized units. The Corporation has stabilized 651 units in 2021, for which renovation work is substantially completed, resulting in rent increases to or near current market levels.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2021, FFO of Mainstreet's stabilized property portfolio amounted to \$44.9 million (\$4.80 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, 2021	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 150,233	\$ 9,692	\$ 159,925
Property operating expenses	58,089	3,988	62,077
Net operating income	\$ 92,144	\$ 5,704	\$ 97,848
Operating margin	61%	59%	61%
Vacancy rate	8.3%	16.0%	8.9%
Interest income	\$ (392)	\$ (34)	\$ (426)
General & administrative expenses	11,218	1,022	12,240
Financing cost	36,421	1,922	38,343
Depreciation (computer and vehicle)	177	16	193
Funds from operations – Non-IFRS measurement	\$ 44,720	\$ 2,778	\$ 47,498
Depreciation			\$ 712
Fair value gain			212,003
Gain from disposal of assets			113
Deferred income tax expense			33,368
Net profit and total comprehensive income			\$ 225,534
Funds from operations per share – Non-IFRS measurement			
– basic & diluted	\$ 4.78	\$ 0.30	\$ 5.08
Weighted average number of shares			
– basic & diluted			9,345,350

In 2021, FFO of the stabilized property portfolio increased 4% to \$44.7 million as compared to \$42.8 million in 2020, while the number of stabilized units increased 5% to 13,252 units as of September 30, 2021 compared to 12,601 units as of September 30, 2020. The increase in FFO for stabilized properties was due to the increased number of stabilized units.

(000s of dollars)

For the year ended September 30,	2021	2020	% change
FFO of stabilized properties (Note 2)	\$ 44,720	\$ 42,841	4%
Number of stabilized units	13,252	12,601	5%

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 upfinancings of maturing mortgages, assuming current lending criteria remains mainly unchanged. With the current COVID-19 pandemic, the importance of liquidity has been magnified even more due to the uncertainty of when the pandemic will be contained. The continuing low interest rate environment has allowed Mainstreet to renew its existing maturing mortgages and obtain new mortgages on clear titles at favourable interest rates. With the COVID-19 pandemic, Mainstreet has seen declining interest rates, however, potential interest savings may be tempered by an increase in refinancings to ensure appropriate liquidity.

Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In 2021, after payments of all required expenses, the Corporation generated funds from operations of \$47.5 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. Although the disruption and uncertainty caused by COVID-19 could adversely affect Mainstreet's tenant's ability to pay rent on time going forward, particularly as government supports are scaled back or eliminated, as of September 30, 2021, the 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 2021, the Corporation spent approximately \$244.4 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 at lower interest rates.

Mainstreet's financing program has remained stable since the onset of the COVID-19 pandemic. Furthermore, the current low interest rate environment has allowed Mainstreet to finance its clear title assets and maturing mortgages at attractive low interest rates. In 2021, the Corporation financed 15 clear title properties and 25 maturing mortgages for an additional net funding of \$226.2 million at an average interest rate of 2.07%.

Subsequent to year-end September 30, 2021, the Corporation also financed 2 clear title properties. These financing activities raised additional funds of \$39.5 million at an average interest rate of 2.58%.

As of September 30, 2021, the Corporation owned title to 50 clear title properties and three development lots having an aggregate fair value of approximately \$281.6 million.

High commodity prices and global supply chain constraints have pushed inflation up, with the consumer price index (CPI) hitting 4.7% in November, 2021, it is unclear how long this upward pressure will continue, but Mainstreet has attempted to deal with the risk of inflation 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 51%, 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 5, 2022. As at September 30, 2021, the Corporation has drawn \$Nil (September 30, 2020 – \$Nil) against this credit facility.

Additionally, in 2021, the Corporation entered into a \$15 million revolving credit facility with a third-party financial institution, which carries an interest rate equal to the prime rate. As at September 30, 2021, the Corporation has drawn \$Nil million 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, 2021, the Corporation's overall funded debt to gross book value ratio and debt service coverage ratio are 51% and 1.49, respectively.

CONTRACTUAL OBLIGATIONS

As of September 30, 2021, 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, 2021 are as follows:

(000s of dollars)

12 months ending September 30,	Amount
2022	\$ 87,973
2023	116,455
2024	150,130
2025	82,124
2026	262,816
Subsequent	695,884
	1,395,382
Deferred financing cost	(38,205)
	\$ 1,357,177

LONG-TERM DEBT

(000s of dollars)

	Amount	% of Debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 1,374,996	99%	2.50%
– non-CMHC-insured	20,386	1%	3.48%
Total debt	1,395,382	100%	2.52%
Deferred financing costs	(38,205)		
	\$ 1,357,177		

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, 2021, total mortgages payable were \$1.357 billion compared to \$1.180 billion on September 30, 2020, an increase resulting from financing and acquisition activity during the year ended September 30, 2021.

As of September 30, 2021, Management believes the Corporation’s financial position to be stable, with overall mortgage levels reported at 51% 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 (%)
2021	62,610	4%	2.87%
2022	95,008	7%	3.37%
2023	134,656	10%	3.36%
2024	67,480	5%	2.67%
2025	273,395	20%	2.37%
Subsequent	762,233	54%	2.28%
	\$ 1,395,382	100%	2.52%

The average maturing term of mortgage loans is 6.60 years as of September 30, 2021, compared to 6.20 years as of September 30, 2020.

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, 2021, 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, 2021. Based on this evaluation, Management has concluded that the Corporation's ICFR and DC&P were effective as at September 30, 2021.

As at September 30, 2021, 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, 2021.

As at September 30, 2021, 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, 2021, 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)

		September 30, 2021		September 30, 2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	Level 2	\$ 3,645	\$ 3,645	\$ 3,298	\$ 3,298
Cash and cash equivalents	Level 2	19,224	19,224	38,472	38,472
Trade and other receivables	Level 2	1,195	1,195	1,308	1,308
Financial liabilities:					
Mortgages payable	Level 2	1,357,177	1,381,878	1,179,521	1,259,831
Trade and other payables	Level 2	8,767	8,767	9,386	9,386
Refundable security deposits	Level 1	\$ 5,387	\$ 5,387	\$ 4,754	\$ 4,754

* Refundable security deposits for Alberta 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, 2021 and 2020 (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:

	Year ended September 30, 2021		Year ended September 30, 2020	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding,				
– beginning of the period	9,349,830	\$ 26,507	9,381,730	\$ 26,597
Shares purchased for cancellation	(4,612)	(13)	(31,900)	(90)
Issued and outstanding,				
– end of the period	9,345,218	\$ 26,494	9,349,830	\$ 26,507

All common shares share an equal right to dividends.

On May 28, 2021, Mainstreet obtained approval from the Toronto Stock Exchange ("TSX") to repurchase up to 476,008 common shares of the Corporation under a Normal Course Issuer Bid ("NCIB") commencing June 1, 2021. The current NCIB expires on May 31, 2022. The Corporation's previous NCIB expired on May 31, 2021.

During 2021 and 2020, the Corporation purchased and cancelled 4,612 (2020 – 31,900) common shares at an average price of \$68.10 (2020 – \$55.37) per common share under the NCIB.

Given the discount between its current trading share price and net asset value ("NAV"), Management believes that the acquisition of its common shares for cancellation is in the best interests of Mainstreet, as it returns capital to shareholders in a tax-efficient manner that is accretive to NAV. Mainstreet will continue to assess on an ongoing basis whether purchases of its common shares is 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 and March 29, 2019. The Rights Plan was most recently amended to change the time from 120 days to 105 days for a take-over bid to be taken up to coincide with changes to securities law related to take-over bids, expand the definition of "Convertible Securities" to include any securities issued by the corporation carrying an exercise, conversion or exchange right pursuant to which the holder thereof may acquire Common Shares, amend the definition of "Expiration Time" from 2019 to 2022, amend the definition of "Permitted Lock Up Agreement" to reflect best practices and institutional shareholder services recommendations in respect of shareholder rights plans, amend the definition of "Acting Jointly or in Concert" to better align the same with current securities legislation and make certain amendments relating to the right's agent duties and procedures to change the Right to Agent. The Rights Plan will expire at the termination of the annual general meeting of shareholders of the Corporation scheduled for the 2022 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 to 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 to the Annual financial statements for detailed analysis.

Actual results could differ from estimates.

In addition, beginning in 2020, the COVID-19 pandemic has had a substantial impact on the economy. Although these impacts appear to be slowly lessening over time, there still remains uncertainty associated with the unprecedented nature of the pandemic, which uncertainty may impact certain of the Corporation's significant assumptions. In particular, significant assumptions are required when measuring the value of the Corporation's properties which are carried at fair value using assumptions based on market conditions. Given the uncertainty which has existed, some of which still remains, the full long-term impact of COVID-19 on the valuation of the Corporation's properties may not be completely known at this time. Further, due to the previous high uncertainty associated with the pandemic, lower weight can be applied to previous market evidence to inform fairness of opinions. Assumptions are also required in assessing the collectability of any outstanding tenant rent receivable balances and the consideration of applying an allowance for doubtful accounts to these balances. As government financial supports, which have assisted the Corporation's tenants with their essential needs such as rental payments throughout the pandemic, begin to be reduced or eliminated, the Corporation anticipates that it may see an increase in its bad debt expense and be exposed to an increased credit risk.

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 June 30, 2021 amounted to \$684,113 (2020 – \$221,756). 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 commission paid to the Chief Executive Officer during each year, such that once determined, that portion of the annual performance bonus paid by the Corporation amounts to the difference between the amount of 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 vary, depending on how much commission was paid to the Chief Executive Officer during that year.
- b) The Corporation paid legal and professional fees and reimbursements for the year-ended September 30, 2021 amounting to \$373,389 (2020 – \$485,641) to a law firm of which a director and officer of the Corporation is a partner. As at September 30, 2021, the amounts payable to the law firm were \$1,848 (September 30, 2020 – \$Nil). 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 arrangement was made by the Corporation for 2021.

Subsequent Events

Subsequent to year-end September 30, 2021, the Corporation also financed 2 clear-title properties for \$39.5 million at an interest rate of 2.58%.

Subsequent to the year ended September 30, 2021, the Corporation acquired additional 257 residential units, 2 commercial units and 2 vacant lands in the Province of Alberta for a total consideration of \$23 million.

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, 2021 ("AIF").

Pandemic Risk

Beginning in 2020, the COVID-19 pandemic has had a substantial impact on the economy. Although these impacts appear to be slowly lessening over time, there still remains uncertainty associated with the unprecedented nature of the pandemic. Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, have a materially adverse impact on the Corporation's tenants and/or debt and equity markets, both of which could materially adversely affect the Corporation's operations and financial performance. Although significant progress has been made in vaccinating the Canadian population and many restrictions have been lifted in certain provinces of Canada, barriers to travel still remain in effect and it remains difficult to reliably estimate the impact on the financial results and condition of the Corporation in future periods.

The Corporation saw a material decrease in new rentals during the fourth quarter of its 2020 fiscal year, a period that usually is one of the Corporation's busiest rental seasons. This decrease continued into the Corporation's 2021 fiscal year, and has resulted in a decrease in the Corporation's operations and financial performance as fewer new tenants are moving into the Corporation's properties resulting in an increase in vacancy rates. The Corporation believes that this decrease has resulted from the government's implementation of travel bans in response to the pandemic, and post-secondary institutions limiting in person classes, which vastly decreased the number of foreign students and other immigrants arriving in Canada. Historically, such foreign students and immigrants have comprised a material portion of the Corporation's renters. Although certain travel bans have been lifted in recent months, there still remain significant impediments to international travel and limitations on class rooms. In the event that these impediments and limitations remain in effect through the Corporation's 2021 fourth quarter, the Corporation anticipates that it will suffer continued material decreases in its operations and financial performance.

To date the Corporation has not suffered a material increase in bad debt expense and higher credit risk for the Corporation as a result of increased difficulty in the collection of rent, a requirement to defer the eviction of tenants who do not pay their rent, and an inability by the Corporation to increase rent in certain of its markets. However, as government financial supports, which have assisted the Corporation's tenants with their essential needs such as rental payments throughout the pandemic, begin to be reduced or eliminated, the Corporation anticipates that it may see an increase in its bad debt expense and be exposed to an increased credit risk.

The Corporation's properties are measured at fair value based on assumptions influenced by market conditions. Given the uncertainty which has existed, some of which still remains, the full long-term impact of COVID-19 on the valuation of the Corporation's properties, may not be completely known at this time. Further, due to the previous high uncertainty associated with the pandemic, lower weight can be applied to previous market evidence to inform fairness of opinions.

There is also continuing risk that the Corporation could be adversely affected due to market changes particularly in supply, interest rates and regional rent controls. Further, as social distancing practices are maintained, and labour and material shortages persist, the expected onset of new supply of rental housing may take longer as construction completion times are extended. There has also been significant disruptions to the global supply chain in recent months. All of this increases the supply risk to the Corporation.

To date, the Corporation has 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 mature and need to be renewed.

To date, governments have responded quickly to ensure capital remains available, and currently, Mainstreet still remains able to access capital.

The Corporation, in coordination with its Board of Directors, continues to monitor the situation and has taken and may take additional actions that alter its business operations as may be required by federal, provincial or local authorities or that the Corporation determines are in the best interests of its tenants, employees, suppliers, shareholders and other

stakeholders. Such alterations or modifications have caused and may continue to cause interruption to the Corporation's business and include increased administration, maintenance and repair expenses, related to property modifications, 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. Management of the Company enacted its COVID-19 business continuity plan in March 2020 and to date has experienced only minimal disruptions to its business operations as a result.

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.

The pandemic and the government's response thereto, including travel restrictions and limitations on class rooms for post-secondary institutions, has also increased the vacancy risk for the Corporation. See "Pandemic Risk" above.

Economic Uncertainty

Any worldwide or regional economic slowdown, stock 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 to the COVID-19 pandemic discussed above, the slowing of Western Canada's economic growth rate has filtered through to weaker employment prospects in the prairie provinces, 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. Still

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.

Still 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.

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates 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.

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.

It is uncertain if municipal property tax rates will increase in certain markets to address municipal revenue losses resulting from the COVID-19 pandemic.

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), including as a result of COVID-19;
- 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, COVID-19 has and will likely continue to affect the Corporation's ability to source labour and supplies from other countries.

In addition, high commodity prices and global supply chain constraints have pushed inflation up, with the consumer price index (CPI) hitting 4.7% in November, 2021, and it is unclear how long this upward pressure will continue. This may result in higher costs in respect of renovations.

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, 2021,

rents due from current tenants amounted to \$854,000 (September 30, 2020 – \$574,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$5.4 million (September 30, 2020 – \$4.8 million) and provisions for expected credit losses of \$160,000 (September 30, 2020 – \$200,000). In addition, please see “Pandemic Risk” above.

The aging bands of rents due from current tenants as at September 30, 2021 and September 30, 2020 are outlined in the table below:

(000s of dollars)

	Sep. 30, 2021	Sep. 30, 2020
0-30 days	\$ 610	\$ 420
31-60 days	142	81
61-90 days	22	7
Over 90 days	80	66
Total rents due from current tenants	\$ 854	\$ 574

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

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial 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. Please see “Pandemic Risk” above.

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.

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, including as a result of the COVID-19 pandemic;
- 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.

The Corporation's properties are measured at fair value based on assumptions influenced by market conditions. Given the continuing uncertainty of the longer-term impacts of the COVID-19 pandemic on valuation assumptions, uncertainty continues to exist with respect to the valuation of the Corporation's properties.

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 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.

Cyber Security Risk

Cyber security has become an increasingly important issue for corporations and businesses. A cyber-attack is an intentional attack which can include gaining unauthorized access to information systems to disrupt business operations, corrupt data or steal confidential information. 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-attack can be totally avoided due to ever increasing sophistication of all forms of cyber-attacks.

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. 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.

No History of Dividends

Mainstreet has not declared or paid any dividends on its common shares since its incorporation. 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.

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. During COVID-pandemic, the rent amounts were frozen with a prohibition on rent increases until December 31, 2021. 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.

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

Operational Risks

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed infrastructure, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal or regulatory proceedings. Mainstreet endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and, if deemed necessary, improvements are implemented.

Public Market Risk

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

Potential Conflicts of Interest

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

CHALLENGES

Despite promising results in 2021, inflationary pressures continue to put pressure on Mainstreet earnings, raising costs of both capital and of every line item of the Corporation's operating cost. Still, interest rates currently remain low: Mainstreet's average refinancing in 2021 was locked in at a 10-year fixed rate of just 2.07%, well below current inflation levels. Moreover, the vast majority of Mainstreet debts are set in long-term yields, with an average maturity period of 6.6 years.

Meanwhile, government-imposed lockdowns have seriously diminished Mainstreet's business velocity for 2 years, in particular causing it to miss out on the high rental seasons in summer and fall. Despite the partial re-opening of the Canada-U.S. border in November, other restrictions on international travel have halted the inflow of foreign students and immigrants. Classroom limits in colleges and universities have meaningfully reduced the number of domestic and foreign students, who make up a portion of the Corporation's Edmonton customer base. Still, management believes the eventual re-opening of both the border and post-secondary institutions will quickly reverse that trend.

That has likewise put upward pressure on Mainstreet vacancy rates, which increased to 8.9% in 2021 from 7.3% in 2020. The Corporation's record year of acquisitions of unstabilized properties (1,884 units in YTD 2021) has added to those pressures. However, Mainstreet believes those rates will decline as its management team aggressively restabilizes units and as COVID-19 restrictions are gradually eased.

In addition to revenue challenges, rising operating costs continue to pose headwinds. Major fixed expenses have increased sharply, including property taxes, insurance, and utilities. Carbon taxes and labour, which effectively place the financial burden on property owners, have added to these cost increases. Global supply chain constraints have put further upward pressure on labour and materials costs.

Meanwhile, the productivity of Mainstreet's workforce has been negatively impacted by pandemic protocols. That comes as costs for human resources have also climbed. Paid leave was extended to team members whose children were not able to attend school. Costs for additional cleaning, sanitizing, human resources, and the purchase of personal protective equipment ("PPE") likewise increased expenses. Renovation costs have risen due to public emergency orders that restrict on-site work and substantially inflate costs for building materials. More broadly, a tightening labour market has raised costs and introduced new challenges in hiring staff.

The continuation of the COVID-19 virus will determine how long many of these restrictions remain in place. Even with the majority of the Canadian population vaccinated, the recent spread of the new Omicron variant could lead to the re-introduction of some lockdown measures. In early December, various nations including Canada began restricting international travel to slow the spread of Omicron.

OUTLOOK

Despite difficult circumstances created by the pandemic, Mainstreet continues to see significant opportunity to grow and diversify its portfolio and drive shareholder value. Chiefly, relatively low interest rates and costs for acquisitions (two single-biggest expenses) will continue to provide unprecedented potential for opportunistic growth. The Corporation expects that continued economic growth in the Prairie and BC provinces in particular could provide a revenue boost that can be ploughed into other Mainstreet markets.

Management believes that rising oil prices, which in November reached their highest level since markets collapsed in 2014, will support continued economic growth in Alberta and Saskatchewan. December contracts for West Texas Intermediate, a U.S. benchmark, reached US\$75 in November. Prices for natural gas have spiked to their highest level since late-2018, driven by frigid temperatures and rising demand for alternatives to heavier fossil fuels like coal.

Alberta has attracted billions in private investment over the past 12 months, highlighting a strong push to diversify the economy. There has been over \$17 billion in investments announced in various sectors such as financial technology, petrochemicals, green hydrogen and Amazon's operating hub, according to Invest Alberta Corporation.

Meanwhile, massive stimulus spending plans are expected to keep the broader Canadian economy buoyant. The Government of Canada forecast 5.8% economic growth for fiscal year 2021-22 in its April budget, aided by tens of billions in new spending measures. U.S. Congress' recent passage of its US\$1 trillion infrastructure package is also expected to spur growth that analysts say will spill over into the Canadian economy.

High commodity prices and global supply chain constraints have helped push inflation to reach nearly 20-year highs, with the consumer price index (CPI) spiking to 4.7% in November, according to StatsCan. Mainstreet has for years sought to shield itself from inflationary pressures by locking its debt into long-term maturities. Economists remain divided over whether inflation is transitory, but current trends nonetheless appear set to continue at least in the short-term.

That expansion, at the same time, presents opportunities for Mainstreet to boost operating income by taking advantage of unusually high vacancy rates, which are largely a result of the acquisition of unstabilized properties. As of the year-ended 2021, 1,822 of Mainstreet's 15,074 units (12% of its portfolio) remain unstabilized, creating favourable conditions to increase NOI. Moreover, the Corporation's strong estimated liquidity reserves will assist Mainstreet in both stabilization and opportunistic acquisition efforts.

Meanwhile, new supply in Alberta remains flat: Calgary added just 6,695 new rental units over the past five years, while Edmonton has introduced just 10,722. Compare that with population growth of 129,273 in Calgary over the same period, or the population growth of 130,834 in Edmonton. Management believes these broad trajectories are overwhelmingly supportive of the Corporation's macro thesis on the long-term rental market.

Vancouver/Lower Mainland—which accounts for approximately 22% of Mainstreet's overall portfolio, 30% of overall NOI and 33% of overall fair market value—will continue to drive performance for Mainstreet, as vacancies remain among the lowest in the country, and rental rates among the highest. With an average monthly mark-to-market gap of \$376 per suite per month, 92% of Mainstreet's customers in the region are below the average market rent. That translates into approximately \$13.9 million in NOI growth potential after closing the mark-to-market gap, according to management's estimates.

Management also believes workforce-affordable rental housing will remain an essential and safe asset class, underpinned by favourable long-term market fundamentals that have persisted despite the ongoing pandemic. On the demand side, healthy fundamentals can be seen across Mainstreet's portfolio, including in its core Alberta, British Columbia, and Saskatchewan markets. The federal government is boosting its immigration targets, totalling 1.2 million newcomers over the next three years. Ottawa's decision earlier this year to extend work permits for international students should also attract more newcomers to Western Canada.

Lastly, management believes the robust residential housing market in many urban centres will force young people to remain in the rental market. In 2019, 73% of Canadians (including both working and non-working citizens), or 44.5% of the working Canadian population earned an income of \$49,999 or less, according to Statista Research Department. Mainstreet's mid-market rental rate, with a price-point averaging between \$900 and \$1,000, is perfectly positioned to attract those seeking affordable and quality homes in today's market.

RUNWAY ON EXISTING PORTFOLIO

- 1. Pursuing 100% organic, non-dilutive growth model:** Using Mainstreet's strong potential liquidity position, estimated at \$223 million for fiscal 2022 (including a \$135 million line of credit), the Corporation believes there is significant opportunity to continue acquiring underperforming assets at attractive valuations.
- 2. Closing the NOI gap:** As at year-ended 2021, 12% of the Mainstreet portfolio was going through the stabilization process. Once stabilized, management remains confident same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved. Management is cautiously optimistic that Mainstreet can boost cash flow in coming quarters. In the B.C. market alone, management estimates that the potential upside for NOI growth is approximately \$13.8 million, which mainly represents leveraging the loss-to-lease gaps.
- 3. Lowering interest costs:** The current 10-year, CMHC-insured mortgage rate is currently around 2.7%. Mainstreet expects interest rates to remain low in the near term, and the Corporation believes that its debt financing of \$293 million at an average interest rate of 3.26%, maturing in the next three financial years, will result in approximately \$1.6 million in annual savings to Mainstreet.
- 4. Buying back shares at a discount:** Mainstreet believes MEQ shares continue to trade below their true NAV. Mainstreet will therefore continue to buy back its own common shares on an opportunistic basis under its normal course issuer bid.

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.