

MAINSTREET EQUITY CORP. ANNOUNCES FY2022 RESULTS

December 13, 2022 - CALGARY—In Q4, Mainstreet achieved our fourth consecutive quarter of double-digit, year-over-year growth across our most important operating metrics, with rental revenues increasing 12%, funds from operations (“FFO”) growing 11% and net operating income (“NOI”) rising 10%.

Bob Dhillon, Founder, President & CEO of Mainstreet, said, “These latest year-end results yet again point to the inherent value of Mainstreet’s core business model, wherein we have continued to generate 23-years of shareholder growth.” He added, “We remain deeply committed to our position as a critical supplier of affordable living for Canadians, which we deliver through our highly diversified portfolio situated in highly strategic regions across British Columbia, Alberta, Saskatchewan and Winnipeg.”

By adhering to our proven corporate strategy, we have insulated Mainstreet from external changes in our operating environment while continuing to generate non-dilutive growth.

These positive quarterly results capped off what was another challenging but successful year for Mainstreet, highlighted by the following FY 2022 achievements:

- Boosted annual rental revenue (13%), FFO (11%) and NOI (12%)
- Improved vacancy rates (7.2% in 2022 compared with 8.9% in 2021). Calgary’s vacancy rate is now approximately 2%, Edmonton is less than 5%, and Vancouver/Lower Mainland is approximately 1%. (Overall YTD vacancy is 4.7%)
- Expanded our portfolio (acquired 815 residential apartment units for \$91 million, with an additional 548 units acquired subsequent to year end for \$57.6 million, totaling \$148 million or 1,363 units)
- Refinanced debt (secured \$161 million in long-term mortgages, raising \$104 million in low-cost capital for future growth)
- Achieved a one-time gain on the sale of a broken condo project acquired for resale (totaling \$4.2 million)

We believe these positive results once again prove the viability of Mainstreet’s value-add business model, which has allowed our management team to deliver real growth to shareholders no matter where in the economic cycle we happen to be operating. In the last seven years of severe volatility—including the 2015 commodity market crash and the COVID-19 pandemic—Mainstreet has continued to generate positive returns without exception.

Mainstreet’s Q4 and FY2022 results also underscore the resilience of the mid-market rental space in Western Canada. While many sectors encountered major disruption in recent years, the rental market has proven itself an essential asset for working-class Canadians, particularly as inflationary pressures increase the cost of owning a home. For years, new supply in the rental market has lagged demand, creating a persistent imbalance in the market. Meanwhile, demand is growing fast: renters in Canada have grown at three times the rate of homeowners in the last

decade, according to recent research by Royal Bank of Canada (Proof Point: Is Canada becoming a nation of renters?), suggesting the country has become “a nation of renters.”

Mainstreet is well-positioned amid that supply-demand imbalance due to our tangible position in the real estate space. Given the unique nature of our portfolio, which includes more than 16,500 affordable rental units strategically concentrated around urban centres, Mainstreet believes that it is, and will, remain a crucial provider of quality affordable homes and millennial living in Western Canada, particularly for students and young people, new immigrants and middle-income earners.

As we enter fiscal 2023, Management anticipates more economic and market turbulence ahead (see Challenges section). However, backed by solid market fundamentals and sound management, we remain confident Mainstreet will continue our 23-year legacy of creating non-dilutive growth.

The MEQ intangibles

Underlying those efforts are our many intangible assets, which evidence the inherent value of Mainstreet. They include:

- Residual lands and low density on existing apartment portfolio: Many of Mainstreet’s assets are ripe for further development and expansion, allowing new capacity to be added to our existing portfolio at low cost
- Unstabilized units: 14% of Mainstreet’s portfolio is currently unstabilized, offering substantial room for same store NOI growth
- Mark-to-market rent catch up: Rental rates in some Mainstreet buildings remain below market value—particularly in Vancouver/Lower Mainland and increasingly in Calgary—but will increase once current leases expire
- Strong management: Mainstreet’s highly experienced team has operated through countless cycles in the market, giving them the ability to adapt as operating environments change
- Efficient operations: Mainstreet has invested resources over the past decade by embracing technology and building a strong operating platform to streamline operational oversight
- Non-dilutive organic growth supported by ample liquidity: A \$360-million pool of liquidity¹ currently sits at Mainstreet’s disposal, allowing for future growth during counter-cyclical periods

CHALLENGES

Despite opportunities for growth in the coming year, inflation and rising costs continue to pose a challenge. Inflationary pressures increase the cost of everything from labour to materials, raising our operating costs. As supply shortages for materials linger, renovation and maintenance costs

¹Including \$45 million cash-on-hand, \$185 million expected funds to be raised through re-financing and financing of clear titled assets after stabilization and a \$130 million line of credit.

have also increased. While we have lessened the impact of such constraints by securing dependable suppliers in Asia, higher expenses associated with global bottlenecks cannot be entirely avoided.

Labour markets remain tight, with job vacancies reaching 1.03 million in Q2 2022, according to Statistics Canada, the highest in several quarters. This has raised Mainstreet's labour costs and made hiring more challenging. That said, Mainstreet enjoys a well-established hiring record, especially through foreign worker programs. As long as such programs remain available, we will continue to utilize these programs to fill worker shortages.

Major fixed expenses like property taxes, insurance, and utilities have also increased. Carbon taxes, which place the financial burden on property owners, are scheduled to rise annually. We have addressed higher energy costs by entering into various longer-term natural gas contracts, pursuant to which Mainstreet currently pays well below current spot prices. We have also managed to reduce our insurance costs by more than 13% for fiscal 2023 by obtaining improved rates and coverage.

Increased interest rates will also sharply raise the cost of Mainstreet debt, our largest expense alongside acquisitions. Years ago, Mainstreet's management team began taking steps to establish a long-term debt position as a way to minimize our exposure to increasing interest rates. By securing early finance pre-matured debts and agreeing to pay higher up-front borrowing costs on certain mortgages, we extended our debt obligations over longer periods (10 years instead of the historical, typical five years). Those efforts have allowed Mainstreet to lock in 99% of our debt at fixed-term mortgages with an average maturity of 6.2 years and an average interest rate of 2.57%, as of September 30, 2022.

Regardless of our efforts to counteract inflation and rising interest rates, higher costs erode our operating margins and negatively impact our bottom line. Some of the financial burden will ultimately be passed onto tenants through soft rent increases. However, we are confident Mainstreet will remain the leading provider of quality, affordable housing in Western Canada, given our track record of operational efficiencies, value creation and sound management.

OUTLOOK

As we look ahead, our management team expects several favourable trends to underpin future growth. We believe high commodity prices and a continued post-pandemic recovery will continue to drive a sharp economic rebound in our Alberta, Saskatchewan and British Columbia markets amid shortages of oil, natural gas, grains, and other essential products. While oil prices have come down from their summer highs, U.S. benchmark West Texas Intermediate has continued to trade above recent averages at around US\$80 per barrel as of early December.

Alberta is calling

An improved economy in Alberta has led to highly encouraging interprovincial migration rates, a trend we expect to continue in 2023. A total of 34,883 people came to Alberta in Q2 2022, the largest inflow to the province in more than a decade, according to Government of Alberta data.

Combined with net international migration, Alberta's overall population in Q2 2022 grew at the fastest rate since before 2015, according to Government of Alberta data, bringing the province's total population to 4.54 million. Earlier this year, the provincial government launched an 'Alberta is Calling' campaign to attract more skilled workers from major Canadian urban centres like Vancouver and Toronto, underscoring what we view as a broader trend of continued migration into the prairies.

Vancouver/Lower Mainland remains robust

We believe that similarly positive macro trends will continue to support Mainstreet across our portfolio. We expect Vancouver/Lower Mainland will continue to drive growth and performance, as vacancies remain among the lowest in the country and rental rates among the highest. Vancouver/Lower Mainland has become central to Mainstreet's portfolio, accounting for 43% of our net asset value ("NAV") based on IFRS appraised fair market value. With an average monthly mark-to-market gap of \$513 per suite per month, 98% of our customers in the region are below the average market rent. That translates into approximately \$19 million in NOI growth potential after closing the mark-to-market gap of \$513 per unit per month, according to our internal estimates.

Breaking into the Winnipeg market

Given the abundance of opportunity we've seen across Western Canada, Mainstreet has continued to diversify our asset base. We entered the Winnipeg market for the first time in 2021, and now hold three properties in the city. Our management team is currently acquiring another 287 units in Winnipeg (expected to close subsequent to FY2022), bringing the total to 401 units, or 2.4% of our portfolio.

Canada re-opens the immigration taps

We expect rising immigration levels to complement inter-provincial migration, reversing the pandemic-era slowdown caused by border closures. The federal government now plans to accept around 500,000 newcomers a year, which is higher than previous annual averages. Roughly 1.8 million people came to Canada between 2016 and 2021, the fastest rate of growth among G7 countries (Statistics Canada). As campuses return to in-person classes, we also expect more foreign students to enter the country to undertake their studies.

Buying low during counter-cyclical times

Mainstreet believes macroeconomic volatility will continue to keep inflation elevated in 2023. While the Consumer Price Index has come down from its June peak, inflation remained at 6.9% in November, according to Statistics Canada. Still, core economic theory suggests prices cannot rise in perpetuity, and therefore we believe inflationary periods are ultimately transitory in nature.

Given the current period of monetary tightening, we believe the acquisition environment has entered a period of transition. In the near term, higher interest rates could force more distressed sellers onto the market, which would create further opportunities for acquisitions and risk-adjusted growth (as ever, we will maintain our counter-cyclical strategy of acquiring assets only when it prioritizes true value creation). In the event that interest rates fall in the longer term, Mainstreet will pivot away from our temporary position of short-term interim financing and

revert back to our baseline longer-term debt strategy. That positioning will allow Mainstreet to benefit not just from competitive acquisition costs in the near term, but also potentially lower interest expenses (resulting in higher FFO) on refinancing after stabilization.

Current market conditions also create opportunities to extract more value out of existing assets. Mainstreet vacancy rates dropped in Q4 2022, but we still see ample room to continue repositioning units in coming quarters to further lower vacancies and boost operating income. In Q4 2022, 2,277 units out of a total 15,895 (14% of our portfolio) remain un-stabilized, largely due to our high rate of counter-cyclical acquisitions over the past two years.

RUNWAY ON EXISTING PORTFOLIO

1. Pursuing our 100% organic, non-dilutive growth model: Using our strong potential liquidity position, estimated at \$360 million², we believe there is significant opportunity to continue acquiring underperforming assets at attractive valuations.
2. Boosting NOI: As at Q4 2022, 14% of Mainstreet's portfolio was going through the stabilization process. Once stabilized, we remain confident same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved. We are cautiously optimistic that we can boost cash flow in coming quarters. In the BC market alone, we estimate that the potential upside for NOI growth is approximately \$19 million, which mainly represents leveraging our mark-to-market gaps. The Calgary market also has substantial room for rent-to-market catch up after stabilizing its overall vacancy rate at around 2% for several quarters.
3. Buying back shares at a discount: We believe MEQ shares continue to trade below their true NAV, and that ongoing macroeconomic volatility could intensify that trend.

Forward-Looking Information

Certain statements contained herein constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to the effect of rising interest rates on the Corporation, the effect that inflation will have on the Corporation's tenants and the effect on credit risk, as well as in respect of the cost of renovations and other expenses, disruptions effecting the global supply chain and energy and agricultural markets, including as a result of geopolitical turmoil including Russia's invasion of Ukraine, future acquisitions, dispositions and capital expenditures, future vacancy rates, increase of rental rates and rental revenue, future income and profitability, timing of refinancing of debt, access to low-cost long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans, the potential changes in interest and mortgage rates, the potential changes in inflation rates, the effect of the novel strain coronavirus ("COVID-19") pandemic and other possible future pandemics and governmental responses thereto on the Corporation and the economy, the effect of actual or potential travel restrictions and post-secondary restrictions on the Corporation's operations and financial performance, the effect that COVID-19 has had and may have on valuations of the Corporation's properties, completion timing and costs of renovations, benefits of renovations, funds to be expended on renovations in fiscal year 2023 and the sources thereof, increased funds from operations and cash flow, minimization of operating costs, the Corporation's liquidity and financial capacity, improved rental

² Including \$45 million cash-on-hand, \$185 million expected funds to be raised through re-financing and financing of clear titled assets after stabilization and a \$130 million line of credit.

conditions, potential increases in rental revenue if optimal operations achieved, the period of time required to stabilize a property, future climate change impact, the Corporation's strategy and goals and the steps it will take to achieve them, the Corporation's anticipated funding sources to meet various operating and capital obligations, key accounting estimates and assumptions used by the Corporation, the attraction and hiring of additional personnel, the effect of changes in legislation on the rental market, expected cyclical changes in cash flow, net operating income and operating margins, the effect of environmental regulations on financial results, the handling of any future conflicts of interests of directors or officers and other factors and events described in this document should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions of future events or performance (often, but not always, using such words or phrases as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as forward-looking statements.

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in the Corporation's AIF, dated December 8, 2022 under the heading "Risk Factors", that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, , the effect of inflation on consumers and tenants, the effect of rising mortgage and interest rates on the Corporation, including its financing costs, the duration and severity of future waves of the pandemic or future pandemics, public health measures, disruptions in global supply chains, labour shortages, the length and severity of the conflict in Ukraine and the occurrence of additional global turmoil and its effects on global markets and supply chains, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, supply chain issues, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, carbon tax increases, environmental and other liabilities, effects of climate change, credit risks of tenants, fluctuations in interest and mortgage rates, availability of capital, changes in legislation and regulatory regime applicable to the corporation, loss of key personnel, a failure to realise the benefit of acquisitions and/or renovations, the effects of severe weather events on the Corporation's properties, cyber-attacks, climate change, uninsured losses, fluctuations in the capital markets and the trading price of the Common Shares, conflicts of interest of the Corporation's directors and officers, and other such business risks as discussed herein. This is not an exhaustive list of the factors that may affect Mainstreet's forward-looking statements. Other risks and uncertainties not presently known to the Corporation could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the impact of economic conditions in Canada and globally including as a result of inflation, interest rate increases, pandemics, supply shortages and geopolitical turmoil, including the Russian invasion of Ukraine, the Corporation's future growth potential, prospects and opportunities, the rental environment compared to several years ago, relatively stable interest and mortgage costs, access to capital markets to fund (at acceptable costs), the future growth program to enable the Corporation to refinance debts as they mature, changes in tax laws, mortgage rules and other temporary legislative changes in respect of pandemics or otherwise, and the availability of purchase opportunities for growth in Canada.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance actual results will be consistent with these forward-looking statements and no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur at all, or if any of them do so, what benefits that

Mainstreet will derive from them. As such, undue reliance should not be placed on forward-looking statements. Certain statements included in this MD&A may be considered “financial outlook” for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

Forward-looking statements are based on management's beliefs, estimates and opinions on the date the statements are made, and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions should change except as required by applicable securities laws.

Management closely monitors factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and will update those forward-looking statements where appropriate in its annual and quarterly financial reports.

This MD&A includes forward-looking information about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action and that is not presented in the format of a historical balance sheet, income statement or cash flow statement (“Financial Outlook”). Actual results may vary from the Financial Outlook summarized in this MD&A. Management of the Corporation has approved the Financial Outlook as of December 8, 2022. The Financial Outlook has been included in this MD&A to provide readers with disclosure regarding the Corporation's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the Financial Outlook may not be appropriate for other purposes.

SOURCE: Mainstreet Equity Corp.

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