SPECIAL ISSUE: FINANCIAL STATEMENTS INCLUDED

Annual Report 2004

MAINSTREET

EQUITY CORP.

The TOP 10 Reasons to Invest in Apartments NOW!

2004 Financial & Operational Highlights

How do you Become a *Real Estate Leader* in a Tough Rental Market?

It takes Opportunity, Timing & Growth

PLUS

A close-up look at this year's feature property!

403.215.6060

Value Enhancement

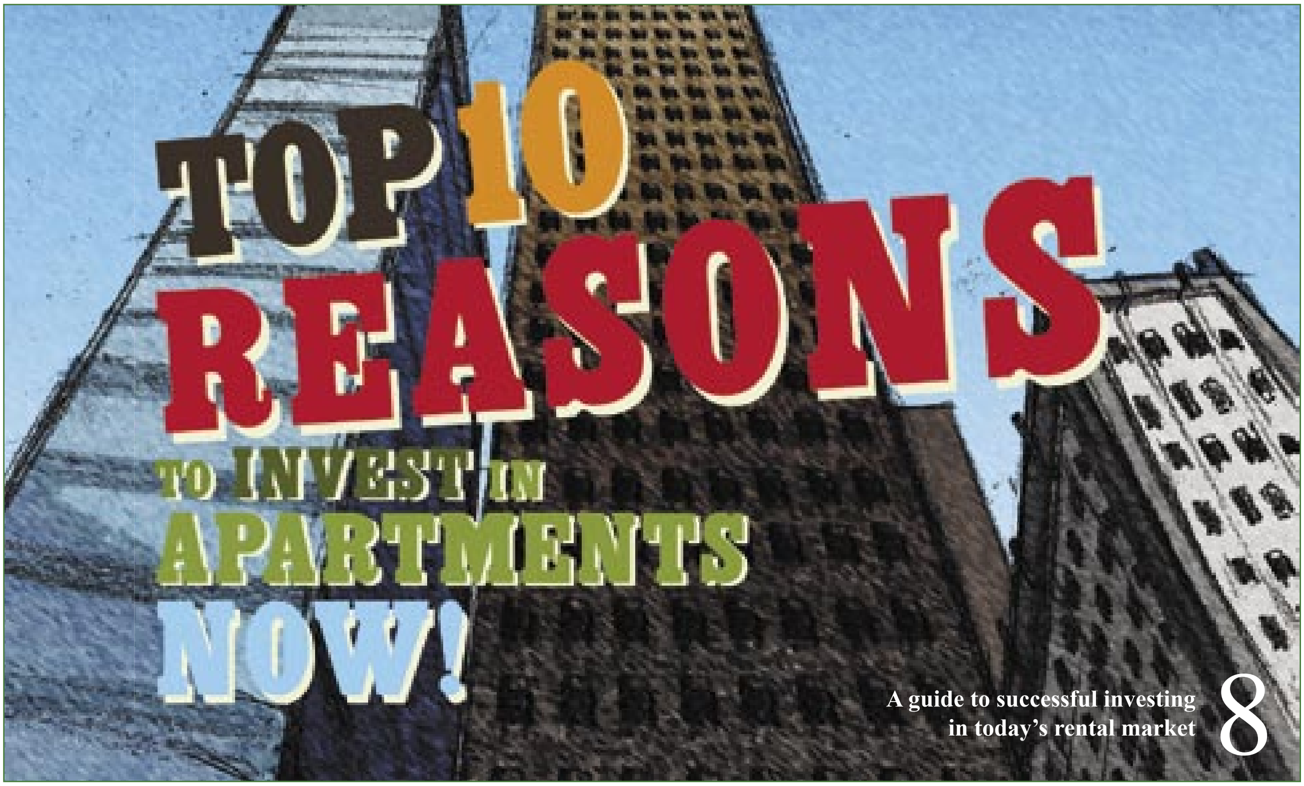
Mainstreet's goal is to become the leading provider of affordable mid-sized, mid-tiered rental accommodations in Canada. To achieve this goal, we buy undervalued residential units, enhance their value through renovations and improved operating efficiencies, and occasionally sell them to redirect capital into new, higher potential properties.

THE MAINSTREET ADVANTAGE

MAINSTREET EQUITY CORP.

www.mainst.biz

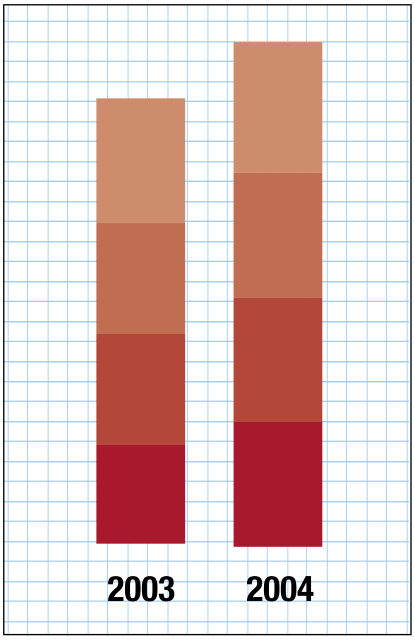
Contents



A guide to successful investing in today's rental market 8

4 President's letter: a look at Vancouver's lower mainland and more

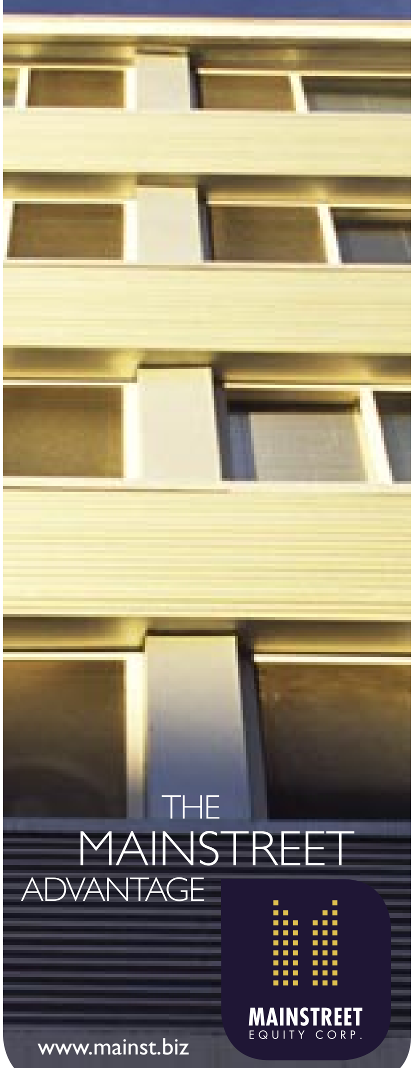
Financial & operational highlights 15



Contents

Acquisitions & Divestitures

Identify and acquire underperforming properties at below replacement costs. Where appropriate, divest properties in fully valued markets to redirect capital into properties with even higher potential.



Business Section

The Annual General Meeting
of shareholders of Mainstreet Equity Corp. will be held on January 27, 2005 at 10:00 a.m., in the offices of Warren Tettensor Amantea law firm, 1413-2 Street SW, Calgary, Alberta.

Corporate profile

Mainstreet Equity is a Canadian real estate company focused on acquiring and managing multi-family residential rental properties. Founded in 1997, Mainstreet buys undervalued residential units, enhances their value through renovations and improved operating efficiencies, and occasionally sells them to redirect capital into new, higher potential properties. The company owns, operates and maintains more than 2,700 units, which are geographically diversified throughout Vancouver lower mainland, Calgary, Edmonton, Red Deer, Alberta, and the Greater Toronto Area.

The annual report, including the letter to shareholders and management's discussion and analysis, may contain forward-looking statements that involve risks and uncertainties regarding the outlook for Mainstreet's business and results of operation. The nature of these risks and uncertainties could cause actual results, performance or achievements to differ materially from those indicated. The forward-looking statements made in this annual report are based on assumptions and judgements of management regarding future events and results. The company disclaims any intention or obligation to publicly update or revise any forward-looking statements, as a result of new information or future events.

MAINSTREET
EQUITY CORP.

OFFICERS

President and CEO
Bob Dhillon
Calgary, AB

Secretary
Joe Amantea
Calgary, AB

Financial Reporting
Johnny Lam
Calgary, AB

VP, Operations
Don Murray

BOARD OF DIRECTORS

Chair
Rowland Fleming
Mississauga, ON

Joe Amantea
Calgary, AB

Frank Boyd
Calgary, AB

Darrell Cook
Calgary, AB

Bob Dhillon
Calgary, AB

Lawrence Tapp
Langley, BC

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Darrell Cook
Calgary, AB

Audit Committee

Chair
Lawrence Tapp
Langley, BC

Rowland Fleming
Mississauga, ON

Frank Boyd
Calgary, AB

Human Resource Committee

Chair
Joe Amantea
Calgary, AB

Frank Boyd
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o/a Montreal Trust
Company of Canada
#600, 530 – 8 Ave SW
Calgary, AB

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700 – 2 Street SW
Calgary, AB

SOLICITORS

Warren Tettensor
Amantea LLP
1413 – 2 Street SW
Calgary, AB

McMillan Binch
Suite 3800
South Tower
Royal Bank Plaza
Toronto, ON

BANKER

TD Canada Trust
335 – 4 Avenue SW
Calgary, AB

STOCK EXCHANGE

Toronto Stock
Exchange
(Trading Symbol:
MEQ)

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Mainstreet Equity Corp.
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www.mainst.biz

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ion communications

WRITING
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Printing Ltd.

Printed in Canada

Contributors

The ***Mainstreet Board of Directors*** is comprised of six members who represent many years of business and entrepreneurial experience.

Rowland Fleming (chair)
Business Executive – Mississauga, Ontario

Mr. Fleming is a seasoned business executive with more than 30 years of experience in the financial services industry. His distinguished career includes positions as President and CEO of the Toronto Stock Exchange, President and CEO of National Trust Company and of the Dominion of Canada General Insurance Company, and Executive Vice President with the Bank of Nova Scotia. He is also an adjunct professor with the Richard Ivey School of Business at the University of Western Ontario.

Joe Amantea
Senior Partner
Warren Tettensor Amantea law firm – Calgary, Alberta

Mr. Amantea concentrates his legal practice on matters related to real estate, construction law, foreclosures, and corporate and commercial law. He acts as corporate counsel on behalf of Mainstreet.

Frank Boyd
President and CEO
Apex Limited Partnership – Calgary, Alberta

Mr. Boyd provides a wealth of practical knowledge about land development and the condominium industry. He is president and CEO of Apex Limited Partnership, which has significant land development operations in Western Canada.

Lawrence Tapp
Chairman of the Board
Tapp Technologies – Langley, British Columbia

Mr. Tapp is former CEO of Lawson Mardon Group Limited and former Dean of the Richard Ivey School of Business at the University of Western Ontario. As CEO of Lawson Mardon Group, he took the company public in one of the largest internationally listed share offerings by a Canadian entity.

Bob Dhillon
President and CEO
Mainstreet Equity Corp. – Calgary, Alberta

Mr. Dhillon has more than 20 years of experience in the acquisition, repositioning and divestiture of multi-family, retail, office, land and industrial properties. He holds an MBA degree from the Richard Ivey School of Business at the University of Western Ontario.

Darrell Cook
President and CEO
Gibraltar Mortgage Ltd. – Calgary, Alberta

Mr. Cook has more than 25 years of experience in real estate acquisition and development. He is a Fellow of the Certified General Accountants Association of Canada and holds an MBA degree from the University of Calgary.

What we see in 2005 and Beyond

BY BOB DHILLON

The year 2004 was a challenging year for companies in the multi-family rental business as the difficult market trends of 2003 continued. Our company's year-end operating and financial results reflected this difficulty:

- Our average tenant vacancy rate was 12% versus 11% the previous year. Part of this increase was self-created, the result of properties under renovation. However, softer rental demand also was a factor, as low interest rates continued to draw rental tenants into the housing market.
- Rental revenues from "same assets" properties (properties owned for the entire period of 2003 and 2004) remained relatively constant at $15 million, even under the very tough market conditions in 2004.
- Operating expenses from "same assets" properties rose 6% from $5.6 million to $5.9 million. Higher natural gas prices, property taxes, maintenance costs and insurance all contributed to this increase.
- Funds from operations were $1.9 million ($0.20 per share), compared with $2.3 million ($0.26 per share) before gains from property disposition and $5.5 million ($0.60 per share) after gains in 2003.

As disappointing as these results are, I believe good news is on the way. And here's why:

Enhancing our business

During 2004, we worked hard to strengthen our financial stability. We took advantage of the current low interest rate environment to refinance long-term debt on more favourable terms, using Canada Mortgage and Housing Corporation (CMHC)-insured loans. As of September 30, 2004, 77% of Mainstreet's mortgages were CMHC-insured long-term debt. Our goal in 2005 will be to convert all remaining floating debt into long-term CMHC-insured mortgages.

We also maintained an ambitious renovation program. Over the last 12 months, we fully renovated 255 units, or 9% of our portfolio, to our branded standards. This new product has come on stream and is being rented at higher rents.

Despite the tough economic times, we continued to investigate the market for long-term possibilities. We believe that difficult market conditions can have a silver lining too, resulting in new opportunities to grow our business.

That's what we see for Mainstreet in 2005 and beyond.

Capitalizing on opportunities

The current market environment is ripe to pursue our business strategy for growth in Vancouver lower mainland, Calgary, Edmonton and the Greater Toronto Area. About 60% of the rental units in our target areas fit our market niche: mid-sized, mid-tiered buildings. Also, with higher vacancies and operating costs and lower cash flow in today's market, there are more opportunities than ever for Mainstreet to acquire underperforming properties and add value.

That's where our talent lies: identifying and buying properties (to reposition) at below replacement cost, then upgrading them through renovations and operational efficiencies. This is a proven approach that we have taken, and will continue to take, to increase rental revenues, improve efficiencies and boost our buildings' value.

Setting new target for growth

Our vision is to become the leading provider of mid-sized, mid-tiered rental accommodations in Canada. We plan to achieve this vision by doubling our portfolio to a minimum of 5,000 rental units by 2006.

In October 2004, after fiscal year-end, we completed a private placement for $33 million in convertible debt — the first in our company's history. Proceeds from this offering will enable us to capitalize on current acquisition opportunities. We now have all the ingredients we need — capital, operating efficiencies, management capacity, human resources and technological systems — to take our company to the next level.

Carrying out our growth plans will involve carefully selecting properties that meet our strict criteria and extensively upgrading them to our branded standards. This will take time. As a result, funds from operations and income will be adversely affected over the next 12 to 18 months. But in our view, the short-term pains will be well worth the long-term gains: stronger market leadership, higher revenues and enhanced shareholder value.

In discussing these growth plans, we are clearly ending our year on a different note. Certainly 2004 was a challenging year. But it was also an exciting year that brought a renewed sense of future to our company.

Defining our future

Finding new opportunities in today's difficult rental market will always mean staying focused on what makes a company a leader: staying alert to market trends, maintaining financial strength and growing our portfolio.

This is what you can count on Mainstreet to deliver in 2005.

We will continue to do what we do best — consolidating properties and adding value in the mid-market rental sector. We will diversify our properties in our core geographic areas to minimize business risk. We will take aggressive steps to manage and streamline operating costs. Through this approach, we will be well positioned to grow our company and its long-term value to shareholders.

(signed)

Bob Dhillon, President and CEO
December 17, 2004
Calgary, Alberta

How do you become a real estate leader in a tough rental market?

It takes Opportunity, Timing and Growth

Growth opportunities don't stop when rental markets get tough — especially if you're well managed and financed.

At Mainstreet, we view uncertainty in the real estate market as an opportunity — not a barrier to growth. In today's tough rental market, our experience, our business systems and our access to capital make it possible to create new opportunities to expand our business and create long-term shareholder value. As always, we remain focused on our goal to become the leading provider of affordable mid-sized, mid-tiered rental accommodations in Canada.

This year's feature apartment is:

Avenue Tower Lofts

Acquired on March 23, 2003

CALGARY, AB
333 – 17th Ave. SW

Six-storey concrete mid-rise

Features

Located on trendy 17th Avenue

Loft suites on second floor

Newly renovated

Elevator

Special Details

Polished concrete or laminate floors with ceramic tile

Floor to ceiling windows

New appliances

Track lighting

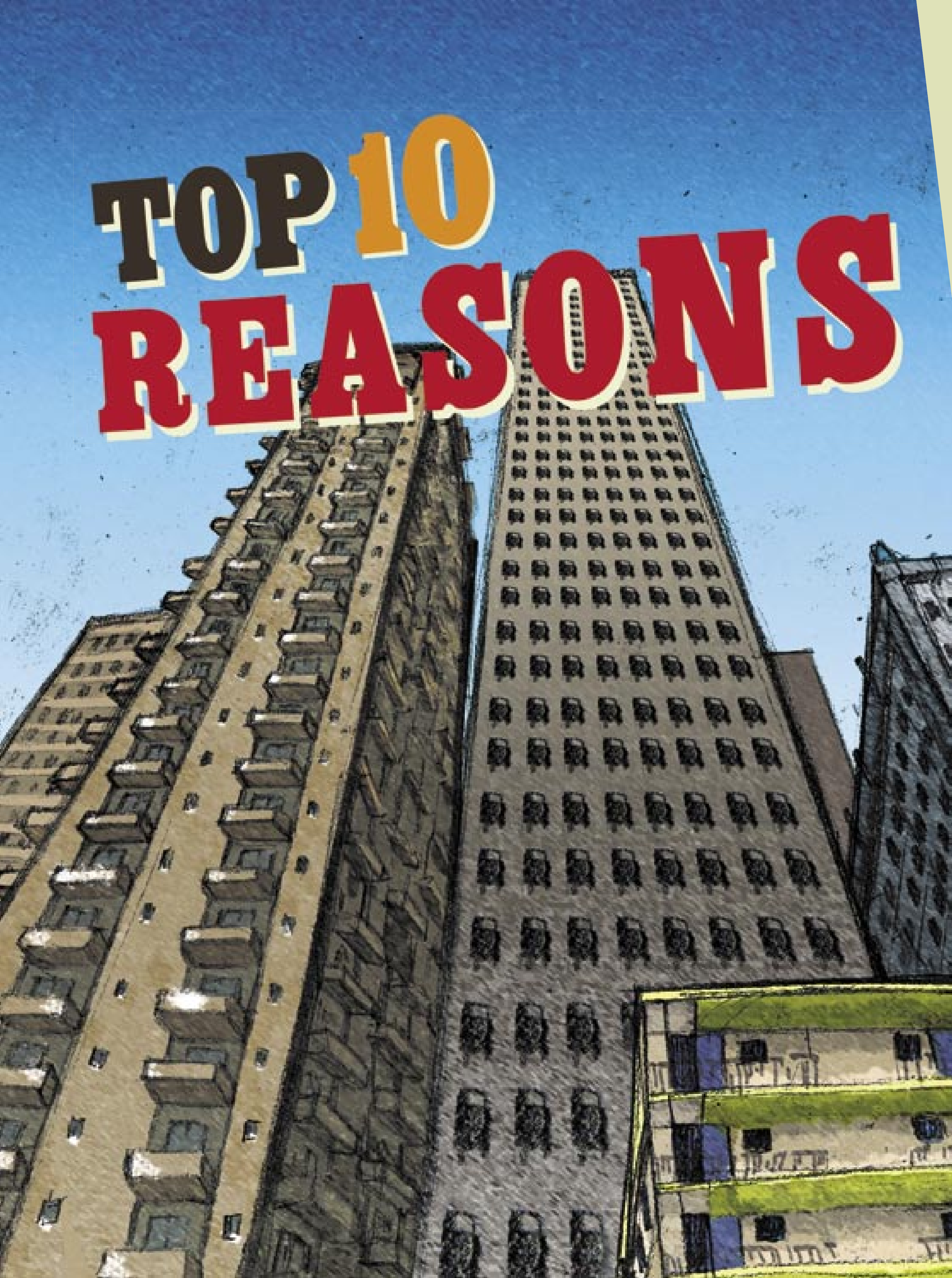
Exposed concrete walls and pillars

Capital Improvement

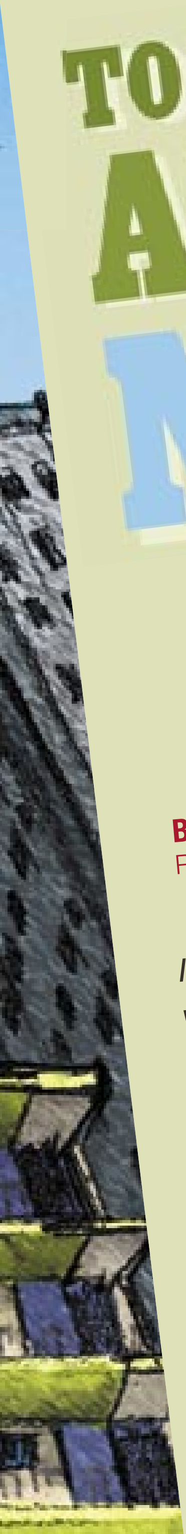
Each year we carry out property improvements, including interior upgrades such as new flooring, carpeting and paint, new appliances and energy-efficiency measures. These activities enhance the attractiveness of our properties, increase operating efficiencies and enhance long-term property values. In 2004, we fully renovated 255 units — or 9% of our total portfolio — to our branded standards.

THE MAINSTREET ADVANTAGE

MAINSTREET EQUITY CORP.


TOP 10
REASONS

To INVEST IN APARTMENTS NOW!



By Bob Dhillon,
President and CEO of Mainstreet Equity Corp.

In past financial reports, I've talked about the tough market conditions and high tenant vacancies that have dominated real estate markets in our country's major cities for some time. Given these conditions, some investors may perceive the multi-family rental market as a bad investment right now. But in my view, the reality is just the opposite: the building blocks of a good investment environment remain in place. Today is actually a better time to invest in the apartment building business, and following are my top 10 reasons why.

"...the number of echo boomers in our country is projected by Statistics Canada to rise by about **200,000** between now and 2011. That means the demand for multi-family rental units should be on the rise for the next decade."

1 Basic need

The rental accommodation business addresses a basic human need for housing and shelter. It will never become obsolete in the future.

2 Buying below replacement costs

Based on current prices for labour, land and materials, it costs about $150,000 on average to build new rental units in the multi-family rental market. This cost is used to determine what we call the average "replacement cost" of apartment buildings. As such, it's a useful indicator of our ability to identify and buy underperforming buildings, well below replacement costs, that represent great "value-add play" for our company and our investors.

Mainstreet's acquisition costs range on average from $50,000 to $70,000 for each rental unit, depending on the geographic market. This gives us a huge opportunity to add value.

3 Access to abundant mortgage funding

When compared with other industries, the multi-family rental business is at an advantage when it comes to leveraging product (in our case, rental accommodations) to secure capital from financial institutions.

Our business is eligible to obtain government-backed insurance through the Canada Mortgage and Housing Corporation (CMHC). CMHC-insured loans benefit real estate companies such as Mainstreet through lower interest rates over the life of the loan. And when loans are CMHC-insured, we can obtain mortgage financing up to 85% of our property value. As a result, we need less equity when purchasing rental properties and can achieve a greater return on investment. Access to abundant mortgage funding provides our business with a stable source of financing for renovations, acquisitions and long-term business growth.

4 40-year-low interest rates

Interest rates — the number one cost in the multi-family rental business — remain at a 40-year low. This low interest rate environment allows real estate companies such as ours to refinance long-term debt on more favourable terms, using long-term CMHC-insured loans.

5 Stable cash flow

The multi-family apartment business provides a source of reliable and constant cash flow, because most of our apartment operating and financial expenses are fixed and stable. Also, our business involves numerous individual tenants. Any changes in individual tenant vacancies do not have a significant affect on overall revenues, as compared to other segments in the real estate industry.

6 Safe asset class

Our area of the real estate business — Canada's multi-family rental market — continues to be top rated as a safe place for investor dollars. In 2004, Moody's Investors Service ranked the market segment at 90 points out of 100, commenting that "despite increased vacancy, the multi-family sector remains structurally sound."

7 Favourable demographic trends, new renters expected

While apartment demand is driven by interest rates, housing costs and other forces in the short run, demographics will dominate in the long run. Many demographic trends, especially the rapid rise toward single-person households, increasing growth in the 50-year to 65-year age group and the upswing in the number of “echo boomers” (those people between the ages of 20 and 29), clearly favour rental housing. In particular, the number of echo boomers in our country is projected by Statistics Canada to rise by about 200,000 between now and 2011. That means the demand for multi-family rental units should be on the rise for the next decade.

8 Opportunities for market leadership

Our target market — mid-sized, mid-tiered apartment buildings — is extensive, representing 60% of the rental units in our company’s target areas. It’s also highly fragmented, with most units being operated by individual owners. The result: minimal competition for rental products. This leaves the door wide open for companies such as Mainstreet to acquire underperforming properties that offer tremendous potential to add value.

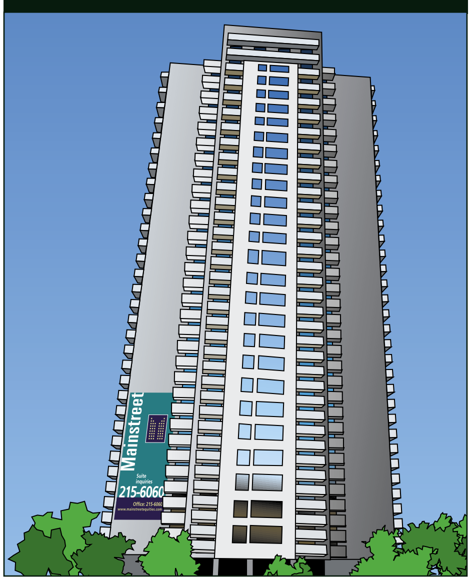
9 Mainstreet’s competitive advantage

In the past, it was easier for institutional and individual property owners to enter the multi-family rental accommodation market, with many choosing to purchase rental buildings as a low risk hedge against inflation and capital appreciation. Today owning apartments buildings is no longer like buying a “bond”; it’s a complex business, one that calls for active management, that requires access to capital, system approaches, market awareness and renovation know-how. Few companies possess all the ingredients to succeed in this market. We do.

10 Timing is now

In 2004, the multi-family rental market remained soft for a variety of reasons: rising vacancy rates, weak tenant demand and high operating costs. Given this situation, it’s easy for some to overlook this market’s long-term potential. But real estate experts know these conditions actually mean it’s a good time for invest in the multi-family market. When there’s a softening in rental market conditions, there are always more opportunities to buy high potential value rental properties at distressed prices. Mainstreet plans to take advantage of these conditions to double our portfolio to a minimum of 5,000 units by 2006.

HOW WE CREATE VALUE

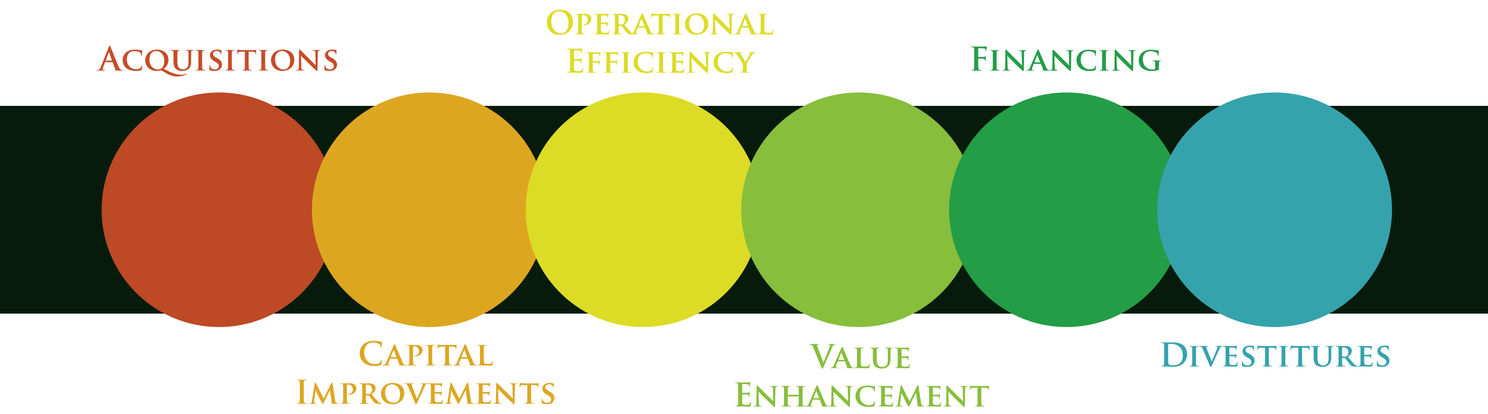


What is our Business?

By Mainstreet Management

Few companies understand the opportunities in the multi-family rental market and how to succeed in this business in tough market conditions. What distinguishes our company from the crowd is our proven operating model. We call it our value chain philosophy. Here's how it works when put into action:

Mainstreet Value Chain



We **identify** and **acquire** underperforming properties at below replacement costs. In every case, our goal is to acquire new properties that will earn solid returns for many years to come.

In 2004, for example, we purchased 115 rental units in Calgary for $6.7 million. With the costs of these properties averaging around $58,000 per unit, well below replacement costs, these acquisitions offer significant potential to add value for our company.

We **upgrade** buildings with energy-efficient fixtures and branded interior designs that feature standardized paint, carpet, cupboards and appliances. It's one of ways we enhance the quality of our portfolio and build for the future.

Over the past six years, we've spent more than $16 million in renovations, enhancing the quality and appeal of our units. During this same period, the estimated market value of our properties has climbed from $17 million to $178 million.

We **minimize operating costs** through professional management, information systems and the use of energy-saving equipment.

In 2004, while total operating costs were up, largely because of rising property taxes and utility rates, we achieved some success in minimizing the impact of those operating costs within our control.

We **increase tenant occupancy** and rents, thereby improving cash flow.

Comparing year to year, our average tenant occupancy decreased marginally from 89% in 2003 to 88% in 2004. We're committed to improving this performance through customer services that help to attract and retain tenants and provide a stable source of rental revenues.

We **refinance** properties at improved cash flow levels to release equity for renovations and future acquisitions.

At Mainstreet, we work hard to improve our cash flow and strengthen financial stability. In 2004, we did this by converting $6.2 million in higher cost mortgage loans to CMHC-insured debt at 4.4%. As a result, our company will benefit from longer-term loans at more advantageous interest rates.

Occasionally, where appropriate, we also **sell mature** real estate properties to redirect capital into newer, higher potential properties.

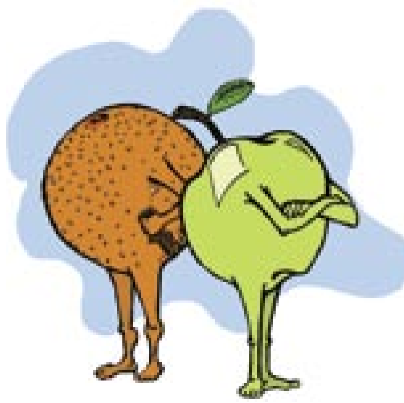
No properties were sold in 2004.

Financing

Refinance properties at improved cash flow levels to release equity for renovations and future acquisitions.

How We Differ From REITs

By Mainstreet Management



In the multi-family rental business, there are large publicly traded companies known as "real estate investment trusts (or REITs)." These companies are significantly different from Mainstreet and should not be considered our competition, for a number of reasons:

- Their capital structure is different.
- Their business model is different.
- They are cash-flow driven companies. We are an equity growth driven company.
- They focus on short-term cash flow. We focus on long-term financial value.
- They buy mature, stable buildings that provide cash distribution. We buy underperforming buildings with significant potential to appreciate and add value.
- They measure performance by annual cash distribution. We measure our performance on our ability to reposition properties and create long-term growth.

Our performance is best compared with that of our direct competition, which consists mostly of individual owners and landlords in the mid-sized, mid-tiered market niche. We are positioning our company to be the market leader in mid-sized, mid-tiered product.

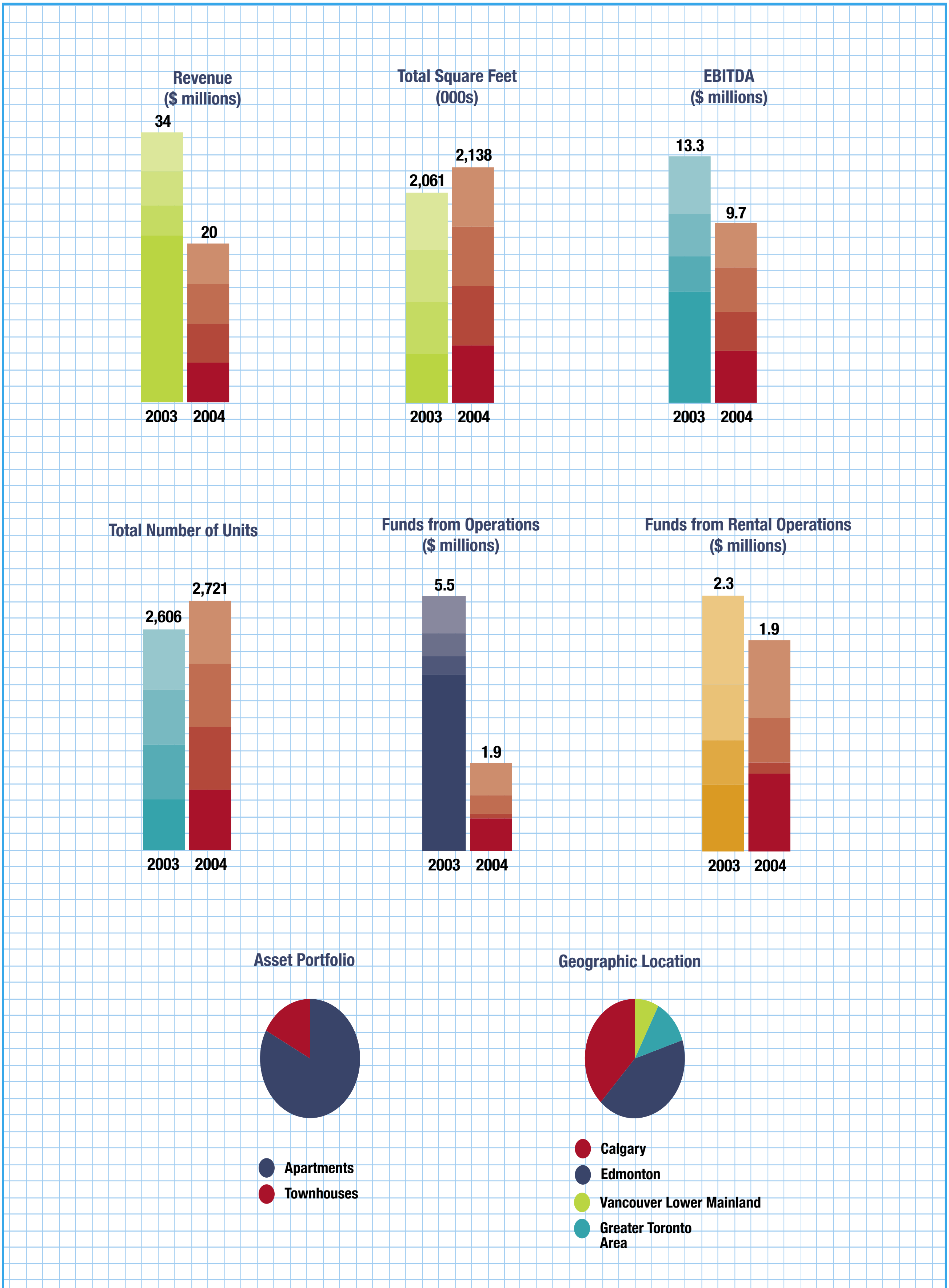
Financial & Operational

HIGHLIGHTS

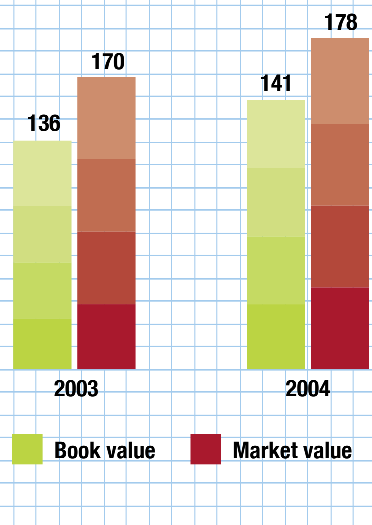
FINANCIAL HIGHLIGHTS

(thousands of dollars except for share amounts)

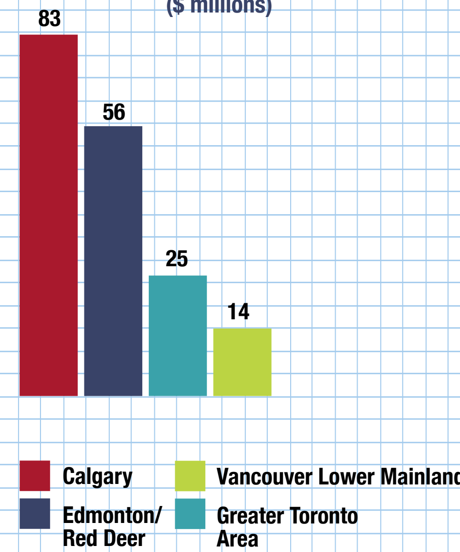
	2004	2003	% change
Net (loss) income			
- after gains from property disposition	$ (1,808)	$ 2,575	(170%)
- before gains from property disposition	$ (1,808)	$ (537)	(237%)
Funds from operations			
- after gains from property disposition	$ 1,857	$ 5,451	(66%)
- before gains from property disposition	$ 1,857	$ 2,339	(21%)
Net operating income	$ 11,594	$10,866	7%
Net operating margin (%)	58%	63%	(8%)
EBITDA			
- after gains from property disposition	$ 9,747	$13,317	(27%)
- before gains from property disposition	$ 9,747	$ 9,502	3%
Net (loss) income per share – basic			
- after gains from property disposition	$ (0.20)	$ 0.28	(171%)
- before gains from property disposition	$ (0.20)	$ (0.06)	(233%)
Funds from operations per share – basic			
- after gains from property disposition	$ 0.20	$ 0.60	(67%)
- before gains from property disposition	$ 0.20	$ 0.26	(23%)


Revenue
($ millions)
34
20
2003
2004
Total Square Feet
(000s)
2,061
2,138
2003
2004
EBITDA
($ millions)
13.3
9.7
2003
2004
Total Number of Units
2,606
2,721
2003
2004
Funds from Operations
($ millions)
5.5
1.9
2003
2004
Funds from Rental Operations
($ millions)
2.3
1.9
2003
2004
Asset Portfolio
Apartments
Townhouses
Geographic Location
Calgary
Edmonton
Vancouver Lower Mainland
Greater Toronto Area

Value of Real Estate Properties ($ millions)

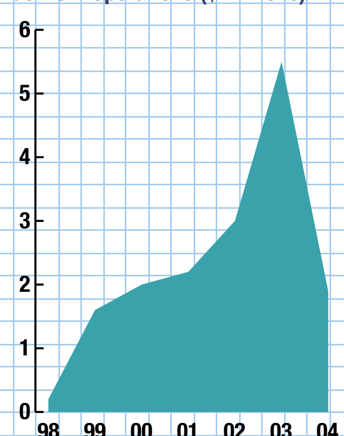


Value by Geographic Location ($ millions)

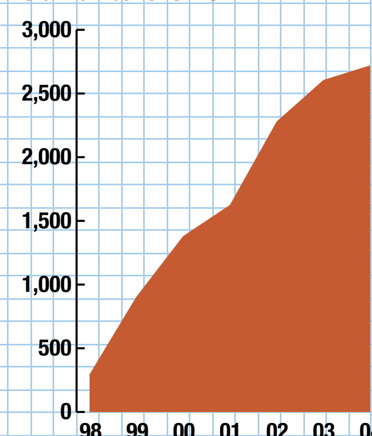


Seven-Year Summary

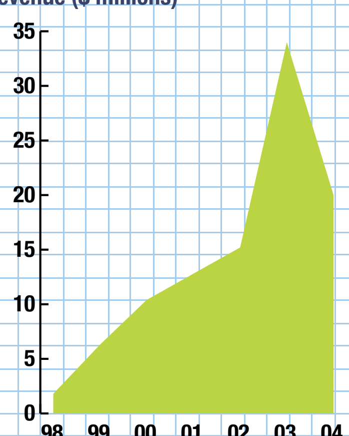
Funds from Operations ($ millions)



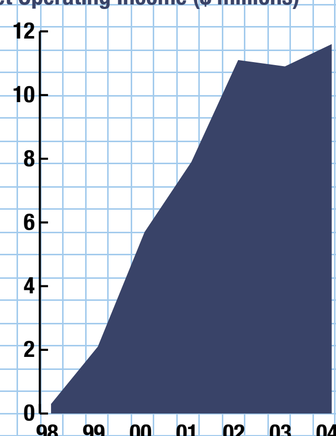
Total Number of Units



Revenue ($ millions)



Net Operating Income ($ millions)



MD&A MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis reviews Mainstreet Equity Corporation's operations and financial condition for the fiscal year ending September 30, 2004. The results from fiscal year 2004 are directly comparable with those from fiscal year 2003. This section should be read in conjunction with the Company's audited financial statements and the accompanying notes included in this annual report.

Business Overview

Mainstreet Equity is a Canadian real estate company listed on the Toronto Stock Exchange (TSX) under the symbol MEQ. Headquartered in Calgary, Alberta, the Company is focused on acquiring and managing multi-family residential rental properties across Canada.

The Company owns a diversified portfolio of multi-family residential properties in four geographic markets: Vancouver lower mainland, Calgary, Edmonton/Red Deer and the Greater Toronto Area. The total portfolio includes 2.1 million square feet and 2,721 residential units, consisting of townhouses, garden-style apartments and mid-rise and high-rise apartments. As of September 30, 2004, 90% of these units were rented, 5% were being renovated and the remainder were vacant because of market conditions.

Since 1997, the company's portfolio has increased from 10 buildings to 55 buildings, while the estimated market value of this portfolio has grown from about \$17 million to about \$178 million.[1]

Business Strategy

Mainstreet's goal is to become the leading provider of affordable mid-sized, mid-tiered rental accommodations in Canada. The Company's business strategy to achieve this goal includes:

- identifying and buying underperforming rental units at prices well below replacement costs
- increasing the value of its portfolio by aggressively managing and upgrading rental units
- minimizing operating costs through professional management, technology and energy-saving equipment
- building customer loyalty through high levels of service
- maintaining a sound capital structure with access to capital markets

1. Market value as determined by independent real estate appraisers. The actual selling value of these properties may be substantially different and will depend on market conditions at the time of the sale.

Review of Financial and Operating Results

Summary of financial results (THOUSANDS OF DOLLARS EXCEPT FOR SHARE AMOUNTS)

(FISCAL YEAR ENDING SEPTEMBER 30, 2004)

	2004	2003	% change
Gross revenues	**$ 20,044**	**$ 34,010**	**(41%)**
Net (loss) income			
- after gains from property disposition[1]	**$ (1,808)**	**$ 2,575**	**(170%)**
- before gains from property disposition	**$ (1,808)**	**$ (537)**	**(237%)**
Funds from operations[2]			
- after gains from property disposition	**$ 1,857**	**$ 5,451**	**(66%)**
- before gains from property disposition	**$ 1,857**	**$ 2,339**	**(21%)**
Net operating income[3]	**$ 11,594**	**$ 10,866**	**7%**
Net operating margin (%)	**58%**	**63%**	**(8%)**
EBITDA[4]			
- after gains from property disposition	**$ 9,747**	**$ 13,317**	**(27%)**
- before gains from property disposition	**$ 9,747**	**$ 9,502**	**3%**
Total assets	**$145,890**	**$143,108**	**2%**
Long-term debt, including debenture	**$135,639**	**$130,615**	**4%**
Net (loss) income per share - basic			
- after gains from property disposition	**$ (0.20)**	**$ 0.28**	**(171%)**
- before gains from property disposition	**$ (0.20)**	**$ (0.06)**	**(233%)**
Funds from operations per share - basic			
- after gains from property disposition	**$ 0.20**	**$ 0.60**	**(67%)**
- before gains from property disposition	**$ 0.20**	**$ 0.26**	**(23%)**

1. Property disposition refers to the sale of 188-unit complex in Calgary during the first quarter of 2003.

2. Funds from operations (FFO) is calculated as net earnings before depreciation of real estate properties and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance. It is not, however, a recognized measure under Canadian generally accepted accounting principles (GAAP). The GAAP measurement most directly comparable to FFO is net income (to which reconciliation is provided below). FFO should not be construed as an alternative to net income or cash flow from operating activities, determined in accordance with GAAP, as an indicator of Mainstreet's performance. Readers are cautioned that FFO may differ from similar calculations used by other comparable entities.

3. Net operating income is rental income minus property operating expenses including utility rebate. It does not include financing costs, general and administrative expenses or depreciation and amortization expenses.

4. EBITDA is earnings before interest, income taxes, depreciation and amortization and is used by Mainstreet to measure its financial performance. EBITDA is not, however, a recognized measure under GAAP. Management believes EBITDA is a useful supplemental measure to net earnings, providing investors with an indicator of cash available for distribution prior to debt service, capital expenditures and income taxes. The GAAP measure most directly comparable to EBITDA is net income. EBITDA should not be construed as an alternative to net income determined in accordance to GAAP. Readers are cautioned that EBITDA may differ from similar calculations used by other comparable entities.

In 2004, Mainstreet reported a net loss of $1.8 million ($0.20 per share), compared with a net loss of $0.5 million ($0.06 per share) before gains from property disposition and net income of $2.6 million ($0.28 per share) after gains in 2003.

Part of this performance can be attributed to the change in accounting policy for recording depreciation expenses, which resulted in higher depreciation charges ($4.5 million, compared with $2.3 million in 2003). However, difficult market conditions, such as high vacancies and tenant turnover in its properties, also contributed to the year's results.

In 2004, the Canada Mortgage and Housing Corporation (CMHC) amended its fee structure relating to mortgage insurance premiums.[1] In response, the Company changed its estimation of the period over which the CMHC insurance premium relates to and amortize the insurance premium over the amortization period of 25 years rather than over the terms of the respective mortgages. As a result, financing costs on insurance premiums for the loans were reduced from $0.7 million in 2003 to $0.4 million.

During the year, 5% of the Company's properties underwent renovations and, therefore, were unavailable for occupancy and generating income. Management believes that the benefit of property renovations will be reflected in future results.

Funds from operations (THOUSANDS OF DOLLARS)

	2004	2003	% change
Net (loss) income			
- after gains from property disposition	$ (1,808)	$ 2,575	(170%)
Gains on early redemption of debenture	–	$ (150)	–
Depreciation	$ 4,529	$ 2,378	90%
Future income tax	$ (864)	$ 648	(233%)
Total funds from operations	$ 1,857	$ 5,451	(66%)
Funds from operations per share - basic			
- after gains from disposition	$ 0.20	$ 0.60	(67%)
- before gains from disposition	$ 0.20	$ 0.26	(23%)

A key performance measure of real estate companies is the cash or funds generated from operations. Funds from operations (FFO) are calculated as net earnings before depreciation of real estate properties and future income taxes.

Mainstreet generates funds from operations from two sources: rental income from properties and the periodic sale of properties. Results can be improved if vacancy rates can be kept low and rental rates can be increased.

For the year ending September 30, 2004, the Company recorded funds from operations before gains from property disposition of $1.9 million ($0.20 per share), compared with $2.3 million ($0.26 per share) in 2003. Funds from operations after gains from property disposition were $1.9 million ($0.20 per share), compared with $5.5 million ($0.60 per share) in 2003.

This decrease reflected difficult market conditions, as lower than expected interest rates and the CMHC's removal of its 5% down payment restrictions made the purchase of homes and condominiums more attractive for first-time buyers, encouraging more renters to leave the rental accommodation market. As a result, Mainstreet experienced a higher average vacancy rate: 12% for 2004, versus 11% the previous year. Of this vacancy rate, 5% was due to renovations, which left properties unavailable for occupancy and, therefore, not generating funds. To reduce the vacancy rate, the Company increased advertising and introduced rental concessions to attract new tenants.

During the year, the Company also faced higher operating costs, mainly because of increased utility costs and property taxes.

Revenues (THOUSANDS OF DOLLARS)

	2004	2003	% change
Rental revenues	$ 19,999	$ 17,117	17%
Property dispositions	–	$ 16,800	–
Interest income	$ 45	$ 93	(52%)
Gross revenues	$ 20,044	$ 34,010	(41%)

1. Historically, on conversion of mortgage loans to CMHC-insured mortgage loans, the CMHC charged an insurance premium of 2.5% to 3.5% of the loan amounts. The insurance covered the entire amortization period of mortgage loans of 25 years. If the loan was refinanced on or prior to maturity, the CMHC premium would be forfeited and a new premium would be charged. As a result, the Corporation had adopted a policy to amortize the CMHC insurance premium over the terms of the mortgage loans. In 2004, however, the CMHC changed its policy. This change allows companies, upon refinancing of a mortgage loan, to apply a full credit of the balance of the insurance premium to the new financing. In response, the Corporation has changed its estimation of the period over which the CMHC insurance premium relates to and amortize the CMHC insurance premium over the amortization period of 25 years rather than over the terms of the respective mortgages.

Mainstreet's operations generate gross revenues from two separate sources: rental operations and the periodic sale of real estate properties. The most consistent source of income comes from rental operations.

Gross revenues were $20 million, down 41% from $34 million in 2003. The difference between year-to-year results was primarily due to residential property sales in 2003 totalling $16.8 million.

Rental operations (THOUSANDS OF DOLLARS)

	2004	2003	% change
Same asset rental revenues	$ 15,014	$ 15,079	(<1%)
Acquisition rental revenues	$ 4,985	$ 2,038	145%
Total rental income	$ 19,999	$ 17,117	17%
Weighted average number of units	2,668	2,324	15%
Average rental rate per unit per month (dollars)	$ 625	$ 614	2%
Weighted average square feet (thousands)	2,203	1,857	19%
Average rental rate per square foot per month (dollars)	$ 0.76	$ 0.77	(1%)

Overall, rental income rose 17% from $17.1 million (or $614 per unit each month) in 2003 to $20 million (or $625 per unit each month) in 2004.

Of this total, the largest portion consisted of "acquisition" rental revenues from properties acquired in 2003 and 2004. This revenue stream more than doubled from $2 million to nearly $5 million, largely on the strength of properties purchased in the Greater Toronto Area, where average rental rates are higher. The impact of property acquisitions was offset somewhat by high vacancies during renovations and the use of rental incentives to attract new tenants.

Rental revenues from "same assets" properties consists of revenues earned on properties owned for the entire period of 2003 and 2004. This amount remained constant at just over $15 million for the year, reflecting the difficult challenges facing rental markets in core geographic areas. In 2004, for example, lower interest rates continued to create affordable housing for first-time buyers, helping to increase tenant vacancies. As a result, the Company has been unable to increase rental revenues from same asset properties.

Rental operations by province

Mainstreet closely monitors and manages the performance of rental properties in each of its geographic markets. Rental operating results by province are summarized as follows:

Alberta (THOUSANDS OF DOLLARS EXCEPT PER UNIT DATA)

	2004	2003	% change
Rental income	$ 15,205	$ 15,015	1%
Operating expenses	$ 5,877	$ 5,322	10%
Net operating income	$ 9,328	$ 9,693	(4%)
Average rent per unit per month	$ 593	$ 610	(3%)
Operating costs per unit per month	$ 230	$ 216	6%
Average vacancy rate	11.2%	9.8%	14%
Operating margins	61%	65%	(6%)

Mainstreet's Alberta operations reported results consistent with those reported for 2003. Rental income in 2004 increased 1% from $15 million in 2003 to $15.2 million. This growth was offset somewhat by higher operating expenses, high vacancies and the use of short-term rental incentives to attract and retain tenants. Overall, the net operating income was slightly lower (down 4% from $9.6 million in 2003 to $9.3 million) and operating margins declined from 65% to 61%.

British Columbia (THOUSANDS OF DOLLARS EXCEPT PER UNIT DATA)

	2004	2003	% change
Rental income	$ 1,571	$ 1,336	18%
Operating expenses	$ 594	$ 594	0%
Net operating income	$ 977	$ 742	32%
Average rent per unit per month	$ 642	$ 546	18%
Operating costs per unit per month	$ 243	$ 243	0%
Average vacancy rates	9.8%	22%	(55%)
Operating margins	62%	56%	11%

Mainstreet's British Columbia operations showed steady improvement in financial results for 2004. Rental income increased 18% from $1.3 million in 2003 to $1.6 million. This increase was largely due to a reduction in the average vacancy rate and the introduction of higher rental rates after renovation for the Company's 204 units in Vancouver lower mainland. Overall, net operating income improved (up 32% from $0.7 million in 2003 to $1.0 million) and operating margins increased from 56% to 62%.

Ontario (THOUSANDS OF DOLLARS EXCEPT PER UNIT DATA)

	2004	2003	% change
Rental income	$ 3,223	$ 766	321%
Operating expenses	$ 1,934	$ 335	477%
Net operating income	$ 1,289	$ 431	199%
Average rent per unit per month	$ 834	$ 912	(9%)
Operating costs per unit per month	$ 501	$ 399	26%
Average vacancy rates	18.8%	5.8%	224%
Operating margins	40%	56%	(29%)

Mainstreet's Ontario operations showed significant growth. Rental income rose 321%, mainly as a result of growth in the Company's portfolio in the Greater Toronto Area, which has increased from 104 units in March 2003 to 322 units at year-end. This was offset somewhat by increased operating expenses due to higher wages, utilities and property taxes. The average vacancy rate was also higher during the year (18.8% versus 5.8% in 2003), largely due to the Company's substantial renovation program in 2004.

Operating costs (THOUSAND OF DOLLARS)

	2004	2003	% change
Same assets operating expenses	$ 5,853	$ 5,563	6%
Acquisition operating expenses	$ 2,552	$ 688	271%
Total operating costs[1]	$ 8,405	$ 6,251	35%

Overall, operating costs (after utility rebate[2]) increased 35% from $6.3 million in 2003 to $8.4 million in 2004. When considered on a per unit per month basis, these costs rose 17% from $224 to $263 over this period.

More than 30% of the increase in operating costs was due to the growth in the Company's portfolio, which grew from 2,280 units in 2002 to 2,721 units in 2004.

Operating costs for "same assets" properties (properties owned for the entire period of 2003 and 2004) totalled $5.9 million, an increase of 6% from $5.6 million in 2003. Higher natural gas (heating) prices, property taxes, maintenance costs and insurance all contributed to these expenses. Also, because of changing market conditions and the launch of newly renovated suites, Mainstreet continued to offer short-term incentives to attract and retain tenants.

1. Operating expenses for properties acquired during 2003 and 2004.

2. Introduced by the Alberta government in 2003 to help consumers with the increasing cost of natural gas.

General and administrative expenses (THOUSANDS OF DOLLARS EXCEPT PER UNIT DATA)

	2004	2003	% change
Total	**$ 1,893**	**$ 1,607**	**18%**
Per unit per month	**$ 59**	**$ 58**	**2%**
Per square foot per month	**$ 0.07**	**$ 0.07**	**0%**

General and administrative (G&A) expenses include the cost of corporate activities such as salaries and professional fees. These expenses rose 18% from $1.6 million in 2003 to $1.9 million in 2004. Monthly G&A costs per unit increased 2% over the year.

The main contributor to higher overall G&A costs in 2004 was the overall growth in the Company's portfolio, from 2,606 to 2,721 units, and setting up a regional office in Ontario. Over 2005 and 2006, the Company plans to expand its holdings to 1,500 units in both the Ontario and British Columbia markets. As these expansion plans are carried out, G&A expenses on a per unit basis should improve over the long term.

Financing costs (THOUSAND OF DOLLARS)

	2004	2003	% change
Same assets mortgage interest	**$ 5,457**	**$ 5,851**	**(7%)**
Acquisition mortgage interest	**$ 1,815**	**$ 839**	**116%**
Amortization of finance charges	**$ 357**	**$ 717**	**(50%)**
Total financing costs	**$ 7,629**	**$ 7,407**	**3%**

Overall, financing costs on long-term debt increased 3% from $7.4 million to $7.6 million. This reflected additional financing to cover the Company's acquisition program in 2003 and 2004.

More specifically, the year's financing costs included:

- *"same assets" mortgage interest* that the Company pays on long-term debt for properties acquired before 2003. These expenses were $5.4 million, down 7% from $5.8 million in 2003. This was due to a decrease in interest rates and the use of CMHC-insured loans, which allows the company to refinance long-term debt on more favourable terms.
- *"acquisition" mortgage interest* that the Company pays on long-term debt for properties acquired in 2003 and 2004. These expenses were $1.8 million, or 116% higher than the $0.8 million recorded the previous year. The higher expenses for 2004 correspond with the significant growth in the Company's portfolio.
- *amortization of finance charges*, which include CMHC insurance premiums paid for CMHC-insured loans. In 2004, the Company changed its estimation of the period over which the CMHC insurance premium relates to and amortize the insurance premium over the amortization period of 25 years.[1] As a result, finance charges for the premiums were reduced from $0.7 million to $0.4 million.

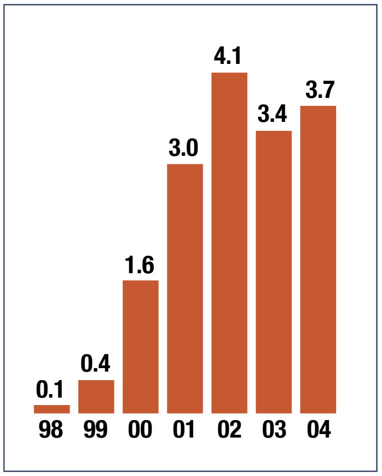
Capital investment

Renovation activities are a core part of Mainstreet's Value Chain business philosophy. These activities enable the company to improve the attractiveness of properties to tenants, reduce operating costs and enhance long-term property values.

In 2004, the Company spent $3.7 million on property improvements, specifically for exterior upgrades such as new siding and insulation and interior upgrades such as carpet and paint, new appliances and energy-efficiency measures. This enabled the company to introduce 255 renovated apartments, or 9% of the portfolio, onto the market at higher rents during the year.

About $2.7 million in renovations is planned for 2005 to renovate another 380 suites in the Company's portfolio. These improvements will be financed through funds from operations and refinancing of existing properties.

Total Investments in Renovations
(MILLIONS OF DOLLARS)



Summary of quarterly results (THOUSANDS OF DOLLARS EXCEPT FOR SHARE AMOUNTS)

	Sept. 30 2004	June 30 2004	March 31 2004	Dec. 31 2003	Sept. 30 2003	June 30 2003	March 31 2003	Dec. 31 2002
Revenue								
Rental income	$ 5,037	$ 5,020	$ 4,865	$ 5,077	$ 4,878	$ 4,334	$ 3,823	$ 4,082
Sales of real estate properties	–	–	–	–	–	–	–	16,800
Interest income	$ 5	$ 7	$ 15	$ 18	$ 25	$ 22	$ 22	$ 24
Total revenue	$ 5,042	$ 5,027	$ 4,880	$ 5,095	$ 4,903	$ 4,356	$ 3,845	$ 20,906
Net (loss) income	$ (361)	$ (575)	$ (647)	$ (225)	$ 223	$ (179)	$ (283)	$ 2,814
(Loss) earnings per share								
- basic	$ (0.05)	$ (0.06)	$ (0.07)	$ (0.02)	$ 0.02	$ (0.02)	$ (0.03)	$ 0.31
- diluted	$ (0.05)	$ (0.06)	$ (0.07)	$ (0.02)	$ 0.02	$ (0.02)	(0.03)	$ 0.31

During the fourth quarter ending September 30, 2004, there were no acquisitions, no refinancing and no year-end adjustments that had a material impact on the Company's financial results for the year, with the exception of the following:

- The average tenant vacancy rate for the Company's properties was 11.3% for the quarter, compared with 12% for the fiscal year.
- Heating costs for the quarter were lower than the 2004 average due to warmer summer weather conditions.
- The Company's changed its estimation of the period over which the CMHC insurance premium relates to and amortize the CMHC premium over the amortization period of 25 years. As a result, financing charges for the premiums were reduced from $0.7 million to $0.4 million.

Acquisitions (THOUSANDS OF DOLLARS EXCEPT AS NOTED)

	2004	2003
Geographic markets	Calgary	Calgary, Greater Toronto Area
Suites (number)	115	513
Square feet (thousands)	83	364
Total purchase costs (average)	$ 6,675	$ 35,898
Price per square foot (dollars per square foot)	$ 80	$ 99
Price per suite[2]	$ 58	$ 70

As part of its business strategy, the Company identifies and acquires high potential rental properties at below replacement costs. Once acquired, these properties are renovated to Mainstreet's branded standards to increase their value and improve operating efficiencies.

In 2004, the Company purchased two buildings in Calgary for $6.7 million, adding 115 units and 83,000 square feet to its portfolio. The acquired buildings are in attractive downtown and northeast areas of the city, where they can be grouped with nearby Mainstreet properties for operating efficiencies.

In the above cases, the average purchase price per unit was $58,000. This represented significant discounts to the estimated replacement costs.

Divestitures

Occasionally the Company sells mature real estate properties to redirect capital into new, higher potential properties. There were no properties sold in 2004.

Liquidity and Capital Resources

In the normal course of business, the Company requires sufficient capital to finance continued growth and to cover operating expenses and building improvements. Sources for capital include funds from operations, the sale of non-core properties and the refinancing of existing properties.

1. Historically, on conversion of mortgage loans to CMHC-insured mortgage loans, the CMHC charged an insurance premium of 2.5% to 3.5% of the loan amounts. The insurance covered the entire amortization period of mortgage loans of 25 years. If the loan was refinanced on or prior to maturity, the CMHC premium would be forfeited and a new premium would be charged. As a result, the Corporation had adopted a policy to amortize the CMHC insurance premium over the terms of the mortgage loans. In 2004, however, the CMHC changed its policy. This change allows companies, upon refinancing of a mortgage loan, to apply a full credit of the balance of the insurance premium to the new financing. In response, the Corporation has changed its estimation of the period over which the CMHC insurance premium relates to and amortize the CMHC insurance premium over the amortization period of 25 years rather than over the terms of the respective mortgages.
2. Does not include cost of significant capital improvements.

During 2004, Mainstreet generated $1.9 million in funds from operations. The Company also has an operating line of credit of $0.8 million. Mainstreet believes these resources will be sufficient to fund operational and capital requirements.

In October 2004, after fiscal year-end, the Company added to its financial resources by completing a private placement of $33 million in convertible debentures. The debentures have a seven-year term, bear a coupon of 7.25% and are convertible into common shares at a price of $6.25 per share at the option of the debenture holders. This financing will be used to accelerate Mainstreet's acquisition program over 2005 and 2006.

As of September 2004, the Company had the following contractual obligations. These will be met by funds from operations and the renewal of mortgage loans on maturity.

Payments due by period (THOUSANDS OF DOLLARS)

	Total	Less than one year	One to three years	Four to five years	After five years
Mortgages payable	$ 134,639	$ 30,464	$ 40,195	$ 55,254	$ 8,726
Debentures	$ 1,000	–	$ 1,000	–	–
Total contractual obligation	$ 135,639	$ 30,464	$ 41,195	$ 55,254	$ 8,726

As of September 30, 2004, the Company's overall mortgage levels were at 95% of net book value. About 77% of the Company's mortgage portfolio was CMHC-insured.

Long-Term Debt

Mortgage schedule (THOUSANDS OF DOLLARS)

	Floating rate debt	Fixed rate debt	Total mortgage
CMHC-insured	$ –	$ 103,691	$103,691
Non-CMHC-insured	$ 22,268	$ 8,680	$ 30,948
Total	$ 22,268	$ 112,371	$134,639

Fixed rate debt (THOUSANDS OF DOLLARS)

	Amount	Average interest rate
CMHC-insured	$103,691	5.5%
Non-CMHC-insured	$ 8,680	5.7%

Long-term debt consists mainly of low-rate, fixed-term mortgage financing. All amounts are secured by individual mortgages against the appropriate real estate assets. Largely based on the value of properties, this refinancing reflects the strength of Mainstreet's portfolio. The maturity dates for this debt are staggered to lower the overall rate risk.

As of September 30, 2004, mortgages payable were $135 million, compared with $130 million in the previous year. This increase is the result of the continued growth of the Company, including the refinancing of existing debt and the assumption of debt on new acquisitions.

To maintain cost-effectiveness and flexibility of capital, Mainstreet continually monitors short-term and long-term interest rates. If appropriate, the Company looks for opportunities to convert short-term floating rate debt to long-term, CMHC-insured fixed debt.

In 2004, Mainstreet converted $6.2 million of 6.2% mortgages to CMHC-insured loans at an average rate of 4.4%. Mainstreet's overall weighted average interest rate on long-term debt has decreased slightly from the previous year. At September 30, 2004, the weighted average interest rate was 5.5%, compared with 5.6% in 2003.

Mortgage maturity schedule[1]	Balance maturing *(thousands of dollars)*	% of debt maturing	Weighted average rate on expiry (%)
2005	$ 27,985	21%	5.8%
2006	$ 2,963	2%	4.7%
2007	$ 34,318	26%	5.6%
2008	$ 50,457	37%	5.1%
2009	$ 8,659	6%	5.0%
Subsequent	$ 10,257	8%	6.8%
Total	$ 134,639	100%	5.5%

1. At year-end September 30

Internal Controls

The Company has established internal controls to provide reasonable assurance on the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations. There were no significant changes in Mainstreet's internal controls in 2004.

Share Capital

As of September 30, 2004, issued and outstanding common voting shares were 9,188,333.

Significant Accounting Policies

The Company's financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions.

Since October 2003, the Company has calculated depreciation expenses on rental properties using the straight-line method, in accordance with Section 1100 of the Canadian Institute of Charter Accountants (CICA) Handbook. This practice has replaced the use of the sinking fund method.

Historically, on conversion of mortgage loans to CMHC-insured mortgage loans, the CMHC charged an insurance premium of 2.5% to 3.5% of the loan amounts. The insurance covered the entire amortization period of mortgage loans of 25 years. If the loan was refinanced on or prior to maturity, the CMHC premium would be forfeited and a new premium would be charged. As a result, the Company had adopted a policy to amortize the CMHC insurance premium over the terms of the mortgage loans.

In 2004, however, the CMHC changed its policy. This change allows companies, upon refinancing of a mortgage loan, to apply a full credit of the balance of the insurance premium to the new financing. In response, the Company changed its estimation of the period over which the CMHC insurance premium relates to and amortize the CMHC insurance premium over the amortization period of 25 years rather than over the terms of the respective mortgages.

Had the Company continued to use the sinking fund method of depreciation and amortize CMHC insurance premiums over the terms of the respective mortgages, the results would have been:

- a net loss of $1.0 million
- a net loss per share (basic) of $0.11
- a net book value of real estate properties of $143 million
- deferred charges of $2.2 million

In 2004, the Company also adopted the recommendations of:

- Emerging Issues Committee (EIC) 140 (accounting operating leases acquired in either an asset acquisition or a business combination)
- EIC 137 (recognition of customer relationship intangible assets acquired in business combination with respect to the purchase price allocation of income-producing properties)

Under these recommendations, the purchase price must be allocated to land, building and intangible assets (such as the value of above and below market leases, the value of in-place leases, origination costs associated with in-place leases and the value of tenant relationships, if any). The value of above and below market leases and origination costs associated with in-place leases are recorded and amortized to rental income over the remaining term of the associated lease. The value associated with the tenant relationships is amortized over the expected term of the relationship, which includes an estimate of the probability of the lease renewal and its estimated term.

The Company frequently purchases properties requiring a considerable amount of capital improvement. This often involves the replacement of tenants occupying buildings at the time of acquisition. Upon review of the leases and the tenants' relationships relating to the acquired buildings, the Company has established that there is little value associated with the above and below value leases, in-place leases or tenant relationships. For these properties, the Company has placed a nominal value on the tangible assets acquired through acquisitions.

Critical Accounting Estimates

Depreciation

The depreciation period of capital assets is estimated based on the useful life of the assets, using management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of capital assets proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Property Acquisitions

The purchase price of properties under EIC 140 must be allocated to land, building and intangible assets (such as the value of above and below market leases, the value of in-place leases, origination costs associated with in-place leases and the value of tenant relationships, if any). Determining the value of different components in the purchase price involves substantial estimates and judgment by management.

Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. Mainstreet's long-lived assets consist of its investments in income-producing properties.The fair value of investments in income-producing properties depends on anticipated future cash flows from operations over the anticipated holding period.

In determining anticipated future cash flows, estimates are made with respect to occupancy, rental rates and residual value, all of which are affected by market conditions and other factors. The assumptions with respect to the above are based on management's best estimate of future events and may not be ultimately achieved and, therefore, could affect the value of the property.

Financial Instruments

A $1 million 10% debenture, issued in 2001 to help fund the company's growth plans, matures in May 2006. The Company estimates that the fair market value of the debenture, based on market interest rates, equals its carrying value of $1 million.

In October 2004, after fiscal year-end, the Company completed a private placement of $33 million in convertible debentures. The debentures have a seven-year term, bear a coupon of 7.25% and are convertible into common shares at a price of $6.25 per share at the option of the debenture holders. This financing will be used to accelerate Mainstreet's acquisition program over 2005 and 2006.

Transactions with Related Parties

As previously discussed under "financial instruments," a $1 million 10% debenture was issued in 2001 to fund the Company's growth plans. The debenture was issued to a company, of which a Mainstreet director is a director and shareholder. This transaction was completed under the same terms and conditions as those issued to third parties for the existing debenture.

For the fiscal year ending 2004, the President and Chief Executive Officer received no salary as compensation for his services; instead, he received a commission at commercial rates in his capacity as a licensed broker for the Company's property transactions. At September 30, 2004, his commission for the year totalled $53,000, compared with $103,000 in 2003.

Risk Management

Like other real estate companies, Mainstreet is exposed to different risks in the normal course of business that can affect financial performance. These risks include tenant vacancies, financial risk, interest rates and utility costs.

Vacancy Risk

The Company is subject to tenant vacancy risk, caused by new supply of multi-family residential units and lower interest rates. When vacancies are high, rental income and cash flow decrease.

Vacancy rates can be negatively affected by new supply of condominium units in major market areas. In 2004, condominium developers lowered prices and provided attractive financing to attract rental tenants into the housing market. At the same time, lower interest rates encouraged some tenants to purchase homes for the first time.

Mainstreet addresses this risk by enhancing customer satisfaction, diversifying its portfolio in different geographic markets in Canada, maintaining its focus on affordable mid-sized, mid-tiered multi-family accommodation and carrying out advertising and offering rental incentives to attract new tenants.

Financial Risk

The Company is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and generating income. Mainstreet addresses this risk by acquiring financing to fund renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis.

Interest Risk

Mainstreet's business is exposed to the risk of rising interest rate environments. The Company addresses this risk by creating a balanced mortgage portfolio with varying terms to maturity and by refinancing long-term debt, wherever possible, on more advantageous terms. This includes reducing the fixed debt load by converting significant sums of mortgage financing into longer-term, less-expensive CMHC-insured debt.

Utility Risks

The business is also exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. Mainstreet closely monitors gas prices and looks for long-term contracts for these prices, wherever possible. In addition, installing energy-saving measures in all buildings through renovations is a key priority.

Outlook

Preparing for 2005, Mainstreet is focused on two primary objectives: to take advantage of changing market conditions and increase geographic diversification.

Market Conditions

The demand for rental properties in the Company's core market areas continued to be soft in 2004, largely because of continued low interest rates and oversupply of new condominium apartments. These factors, together with high operating costs, have contributed to lower rental income and funds from operations in all of Canada's major cities.

Average vacancy rates in key geographic markets

	2003	2004
Vancouver	2%	2.5%
Edmonton	3.4%	5%
Calgary	4.4%	5%
Toronto	3.8%	4.8%

(Source: Canada Mortgage and Housing Corporation)

Management believes that the multi-family rental market will gradually improve in the near term and long term.

A strong economy, continued immigration, recent increases in housing costs and a projected rise in interest rates are expected to attract new tenants to the Company's market niche — affordable mid-sized, mid-tiered rental accommodation. As these favourable market conditions occur, they will gradually improve vacancy rates and increase rents.

In the longer term, the multi-family market will benefit from changing demographics. According to Statistics Canada, the number of Canadians in the primary rental markets (ages 20 to 29 and 50 to 65) is expected to significantly increase over the next decade. This will help to boost demand for rental products in our core urban markets.

Mainstreet's goal is to become the market leader in mid-sized, mid-tiered rental products. The Company will find opportunities in the current market conditions, because of its experience, its strong management team and systems as well as access to capital and acquisition expertise. The Company's business philosophy of providing standardized, branded rental product will continue to provide a service to this segment that is typically neglected.

Geographic Diversification

Concentrated in some of the most attractive mid-sized, mid-tiered rental markets in Canada, Mainstreet's portfolio is well positioned geographically.

Most of the company's portfolio (about 81%) is in Alberta, which continues to lead the country in economic and job growth. Calgary and Edmonton, the Company's two key Alberta markets, are expected to be among the top urban centres for economic growth next year. These cities are forecast to achieve GDP growth of 4% and 3% in 2005.

The Company is also committed to expanding its presence in other geographic markets such as the Greater Toronto Area and the Vancouver lower mainland. These continue to be among the best Canadian areas for strong and diverse economies, population growth, capital appreciation and upswing potential on rents — all requisites for growth in the real estate business. According to industry estimates, the Vancouver region and the Greater Toronto Area will achieve GDP growth of 3.5% and 3.9% in 2005.

Over the past two years, Mainstreet has set up offices in Ontario and British Columbia to grow its portfolio in those regions. Currently the Company has 322 units in the Greater Toronto Area and 204 units in Vancouver lower mainland. The Company plans to significantly expand its presence in these markets to 1,500 units each over the next 12 to 18 months. Our long-term goal is to double the size of the Company's total portfolio to about 5,000 units. This target will enable Mainstreet to achieve significant growth while maintaining operating efficiencies in these areas

To accelerate this acquisition program, the Company took actions in 2004 to raise funds from the capital market. In October 2004, after fiscal year-end, the Company successfully completed private placement of $33 million in convertible debentures.

Because it will take time to acquire properties that meet Mainstreet's criteria, interest payments on the debentures of $2.4 million per year will negatively affect financial performance in 2005. As properties are acquired over the year, the Company expects to strengthen financial performance and enhance shareholder value over the long term.

Management's Report

To the Shareholders of Mainstreet Equity Corp.:

The management of Mainstreet Equity Corp. is responsible for the preparation and content of the financial statements. The financial statements have been prepared in accordance with generally accepted accounting principles.

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are property authorized, financial reporting responsibilities are met and assets of the corporation are safeguarded against theft.

The financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with generally accepted auditing standards. The Audit Committee recommended their approval of the statements to the Board of Directors. The Board of Directors have approved the financial statements on the recommendation of the Audit Committee.

(signed)

Bob Dhillon
Director

(signed)

Joe Amantea
Director

Auditors' Report

To the Shareholders of Mainstreet Equity Corp.:

We have audited the balance sheets of **Mainstreet Equity Corp.** as at September 30, 2004 and 2003 and the statements of loss, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Deloitte & Touche LLP
Chartered Accountants

November 22, 2004
Calgary, Alberta

Balance Sheets

As at September 30, 2004 and 2003
(Thousands of dollars)

	Note	2004	2003
ASSETS			
Real estate properties	3	**$ 141,472**	$ 135,501
Restricted cash		**774**	766
Cash		**218**	2,901
Other assets	4	**736**	1,171
Deferred charges		**2,690**	2,769
		$ 145,890	$ 143,108
LIABILITIES			
Mortgages payable	5	**$ 134,639**	$ 129,615
Debenture	6	**1,000**	1,000
Accounts payable		**1,964**	1,542
Refundable security deposits		**774**	766
Future income taxes	7	**1,415**	2,279
		139,792	135,202
SHAREHOLDERS' EQUITY			
Share capital	8	**1,900**	1,900
Retained earnings		**4,198**	6,006
		6,098	7,906
		145,890	$ 143,108

Approved on behalf of the Board

(signed)

Bob Dhillon
Director

(signed)

Joe Amantea
Director

See accompanying notes to the financial statements.

Statements of Loss and Retained Earnings

For the years ended September 30, 2004 and 2003
(Thousands of dollars, except per share amounts)

	Note	2004	2003
REVENUE			
Rental income		$ **19,999**	$ 17,117
Sale of properties held for resale		–	16,800
Interest income		**45**	93
		20,044	34,010
EXPENSES			
Property operating expenses		**8,491**	6,272
Utilty rebate	14	**(86)**	(21)
Cost of sales of properties held for resale		–	12,985
General and administrative expenses		**1,893**	1,607
Financing costs		**7,629**	7,407
Depreciation		**4,529**	2,378
		22,456	30,628
Gain on early redemption of debenture		–	150
(Loss) earnings before income taxes		**(2,412)**	3,532
Income taxes (recovery) expenses	7		
-current		**260**	309
-future		**(864)**	648
		(604)	957
Net (loss) earnings		**(1,808)**	2,575
Retained earnings, beginning of year		**6,006**	3,431
Retained earnings, end of year		$ **4,198**	$ 6,006
(Loss) earnings per share			
-basic	10	$ **(0.20)**	$ 0.28
-diluted		$ **(0.20)**	$ 0.28

See accompanying notes to the financial statements.

Statements of Cash Flows

For the years ended September 30, 2004 and 2003
(Thousands of dollars, except per share amounts)

	2004	2003
Cash obtained from (used in):		
OPERATING ACTIVITIES		
Net (loss) earnings	**$ (1,808)**	$ 2,575
Items not affecting cash		
-Gain on early redemption of debenture	–	(150)
-Depreciation	**4,529**	2,378
-Future income taxes	**(864)**	648
-Funds from operations	**1,857**	5,451
-Net change in non-cash operating balances	**856**	523
-Decrease in properties held for resale	–	12,985
Cash flow from operating activities	**2,713**	18,959
FINANCING ACTIVITIES		
Financing of real estate properties	**15,009**	79,450
Repayment of secured debts on revenue producing properties, and other debts	**(15,365)**	(59,485)
Issue of shares	–	31
Redemption of debenture	–	(850)
Deferred charges (net of amortization)	**79**	(1,058)
	(277)	18,088
INVESTING ACTIVITIES		
Purchase of and addition to real estate properties	**(5,119)**	(33,969)
Net (decrease) increase in cash and cash equivalents	**(2,683)**	3,078
Cash and cash equivalents (bank indebtedness), beginning of year	**2,901**	(177)
Cash and cash equivalents (bank indebtedness), end of year	**$ 218**	$ 2,901
Cash and cash equivalents (bank indebtedness) comprise of:		
Cash (bank indebtedness)	**$ (112)**	192
Short-term deposits	**330**	2,709
	$ 218	$ 2,901
Income taxes paid	**$ 329**	$ 307
Interest paid	**$ 7,272**	$ 6,656

See accompanying notes to the financial statements.

Notes to Financial Statements

For the years ended September 30, 2004 and September 30, 2003

(Tabular amounts in thousands of dollars)

1. Significant accounting policies

General

Mainstreet Equity Corp. (the "Corporation") is a real estate corporation specializing in the acquisition and rental of multiple unit residential buildings.

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Revenue recognition

Revenue from a rental property is recognized when a tenant commences occupancy of a rental suite and rent is due. The Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes rent, parking and other sundry revenues.

Revenue on property held for development and resale is recognized when all substantial conditions of the purchase agreement have been met, a minimum 15% cash deposit has been received, and collection of the remaining balance is reasonably assured.

Revenue producing real estate properties

Revenue producing real estate properties held as ongoing investments are stated at the lower of cost less accumulated amortization, or net recoverable amount. Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. Major capital improvements and replacements are capitalized and amortized over terms appropriate to the expenditure.

The net recoverable amount represents the undiscounted estimated future net cash flows that are directly associated with, and that are expected to arise as a direct result of the ongoing use of the property and its eventual disposition. The net recoverable amounts take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. At September 30, 2004, the Corporation applied the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3063 *Impairment of Long-Lived Assets*.

Properties held for resale

Periodically, the Corporation makes an assessment of its portfolio and determines whether such properties should be retained or sold in order to redeploy capital. When a determination is made to sell a property it is transferred to properties held for sale. The Corporation capitalizes property taxes, interest charges and other direct costs, net of any revenue, to properties held for sale. The properties are recorded at the lower of cost or net realizable value.

Depreciation

Revenue producing real estate properties are depreciated at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Buildings	2.5% – Straight line
Building improvements	20% – Declining balance
Equipment and appliances	20% – Declining balance
Painting	40% – Declining balance
Carpet	30% – Declining balance
Furniture and fixtures	20% – Declining balance
Computer equipment	30% – Declining balance

Deferred charges

Deferred charges include mortgage financing costs and associated legal and appraisal fees, Canadian Mortgage and Housing Corporation (CMHC) insurance premium and fees and prepaid interest. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Costs of financing are amortized over the terms of the respective mortgages. CMHC insurance premiums are amortized over the amortization period of 25 years.

Stock option plan

The Corporation has a stock option plan which is described in Note 9. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

For stock options issued after January 1, 2003 , the fair value of the stock options is determined at the date of grant using an acceptable option pricing model. The fair value is than recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. No stock options have been issued after January 1, 2003.

Risk management and fair value

a) Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling $28 million are subject to renewal in the next year. Increases in the interest rate may adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages.

b) Credit risk

The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting an indepth credit assessment of all tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk.

c) Fair value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. The significant financial instruments of the Corporation and their carrying values as of September 30, 2004 and 2003 are as follows:

	2004		2003	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Mortgages payable	$ 134,639	$ 137,185	$ 129,615	$ 133,719
Debentures	$ 1,000	$ 1,000	$ 1,000	$ 1,000

Earnings per share

Basic net (loss) earnings per share is calculated based on the weighted average number of shares outstanding. Fully diluted earnings per share reflect the dilutive effect of the exercise of the options outstanding as at the balance sheet date. The dilutive effect of outstanding share purchase options are computed using the "treasury stock" method whereby the proceeds that would be received from the exercise of options are assumed to be used to repurchase outstanding shares of the Corporation.

Use of estimates

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions which can effect the reported amount of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Assumptions underlying estimates of net recoverable amounts and asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Actual results may vary from those estimates.

2. Changes in accounting policies

Accounting for operating leases acquired in asset acquisitions

During the year, the Corporation adopted the recommendations of the Emerging Issues Committee EIC 140 – *Accounting Operating Leases Acquired in Either an Asset Acquisition or a Business Combination* and EIC 137 – *Recognition of Customer Relationship Intangible Assets Acquired in Business Combination* with respect to the purchase price allocation of income producing properties. The purchase price is required to be allocated to land, building, and intangible assets (such as the value of above and below market leases, the value of in-place leases, origination costs associated with in-place leases and the value of tenant relationship, if any). The value of above and below market leases, origination costs associated with in-place leases are recorded and amortized to rental income over the remaining term of the associated leases. The value associated with the tenant relationship is depreciated over the expected term of the relationship, which includes an estimate of the probability of the lease renewal and its estimated term.

Depreciation for buildings and amortization of CMHC insurance premium

Effective October 1, 2003, the Corporation adopted CICA Handbook Section 1100, *Generally Accepted Accounting Principles*. Section 1100 effectively eliminates industry practice as a source of GAAP, as such, the Corporation has changed its method of depreciation for buildings from the sinking-fund method to the straight-line method of depreciation. This change has been applied prospectively as recommended in the transitional provisions of Section 1100.

During the year, the CMHC amended its fee structure relating to mortgage insurance premiums. Historically, on conversion of mortgage loans to CMHC insured mortgage loans, CMHC charged an insurance premium of 2.5% to 3.5% of the loan amounts. The insurance covered the entire amortization period of mortgage loans which was generally 25 years. If the loan was refinanced on or prior to maturity, the CMHC premium would be forfeited and a new premium would be charged. The Corporation does not normally renew the mortgage loan on maturity but will apply for new financing with CMHC based on the new market value of the property. As such, the Corporation has adopted a policy to amortized the CMHC insurance premium over the terms of the mortgage loans.

In 2004, CMHC changed its policy and, upon refinancing of a mortgage loan, will apply a full credit equal to the remaining balance of the insurance premium relating to the original mortgage loan to the insurance premium of new mortgage loan. In response to the change in CMHC's policy, the Corporation changed its estimation of the period over which the CMHC insurance premium relates to and amortize the insurance premium over the amortization period of 25 year rather than over the terms of the respective mortgages.

Had the Corporation continued to use the sinking-fund method of depreciation and amortize CHMC insurance premium over the terms of respective mortgages, the net loss, net book value of real estate properties, deferred charges and the basic and diluted loss per share for the financial year ended September 30, 2004 would have been as follows:

Net loss	$ (972)
loss per share	
-basic	$ (0.11)
-diluted	$ (0.11)
Net book value of real estate properties	$ 143,151
Deferred charges	$ 2,282

3. Real estate properties

	2004			2003		
	Cost	Accummulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 36,874	$ –	$ 36,874	$ 34,900	$ –	$ 34,900
Buildings	101,874	4,745	97,129	96,068	2,136	93,932
Building improvements	12,799	5,508	7,291	10,122	3,638	6,484
Furniture and fixtures	401	223	178	358	173	185
	$ 151,948	$ 10,476	$ 141,472	$ 141,448	$ 5,947	$ 135,501

Acquisitions of apartment buildings

	2004	2003
Mortgages arranged	$ 628	$ 28,733
Debt assumed	4,665	2,772
Cash paid	1,382	4,393
Total purchase price	$ 6,675	$ 35,898
Units acquired	115	513

The properties purchased during the year required a considerable amount of capital improvements. Efforts are currently underway to remove the current tenant base and to begin renovating the properties. As such, upon review of the leases and the tenant relationships relating to the buildings acquired, the Corporation has established that there is no significant value associated with above and below value leases, in place leases or customer relationships associated with the properties. Therefore, the Corporation has placed a minimal value on the intangible assets acquired on acquisition.

Dispositions of apartment buildings

	2004	2003
Net cash received	–	$ 3,831
Settlement of mortgages	–	12,969
Total proceeds	–	16,800
Net book value	–	12,985
Gain on sale	–	$ 3,815
Units sold	–	188

4. Other assets

	2004	2003
Accounts receivable	$ 173	$ 84
Other receivable	138	522
Deferred rent concession	62	258
Deposits and prepayments	363	307
	$ 736	$ 1,171

5. Mortgages payable

Mortgages payable bearing interest at a weighted average rate of 5.47% (2003 – 5.62%) per annum, are payable in monthly principal and interest installments totalling $827,000 (2003 – $793,000), maturing from 2004 to 2010 and are secured by specific charges against specific properties and several personal guarantees of certain directors to the extent of $31,568,000 (2003 – $28,410,000), having a carrying value of $141,472,000 (2003 – $135,501,000).

	2004	2003
	$ 134,639	$ 129,615

Estimated principal payments required to retire the mortgage obligations are as follows:

Year	Amount
2005	$ 31,092
2006	4,943
2007	34,624
2008	47,128
2009	8,126
Subsequent	8,726
	$ 134,639

6. Debenture

The debenture maturing in May 2006 and bearing interest at a rate of 10% per annum, is secured by a floating charge on all assets, and is subordinate to all existing mortgage loans.

7. Income taxes

The Corporation has non-capital losses of $3,946,000 available to reduce future taxable income, the benefit of which has been accounted for in computing future income taxes. The losses will expire between 2008 to 2011.

The provision for income tax differs from the results which would be obtained by applying the combined federal and provincial income tax rate to (loss) earnings before income taxes. This difference results from the following:

	2004	2003
Statutory tax rate	34.54%	36.87%
Computed expected tax	$ (833)	$ 1,302
Non-taxable portion of capital gain	–	(574)
Others	(6)	(22)
Adjustment for change in statutory tax rate	(25)	(52)
Large corporation tax	260	303
Provision for income tax	$ (604)	$ 957

The future income tax liability is comprised of the following:

	2004	2003
Tax assets related to operating losses	$ (1,349)	$ (354)
Tax liabilities related to differences in tax and book basis	2,764	2,633
	$ 1,415	$ 2,279

8. Share capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	2004		2003	
	Number of shares	Amount	Number of Shares	Amount
Issued and outstanding, beginning of the year	9,188,333	$ 1,900	9,033,333	$ 1,869
Issued pursuant to exercise of options	–	–	155,000	31
Issued and outstanding, end of year	9,188,333	$ 1,900	9,188,333	$ 1,900

During the year ended September 30, 2004, there were no stock options granted by the Corporation.

9. Stock option plan

Under the 2000 stock option plan, the Corporation may grant options to its directors, employees, consultants, subsidiary and affiliated companies for up to 900,000 shares of common stock. The exercise price of the option equals the market price of the Corporation's stock on the date of grant.

A summary of the Corporation's stock option plan as of September 30, 2004 and 2003, and changes during the years ended on those dates is presented on the following page.

Stock Option	2004 Number of Shares	2004 Weighted Average Exercise Price	2003 Number of Shares	2003 Weighted Average Exercise Price
Outstanding, beginning of year	120,000	$ 3.82	275,000	$ 1.78
Granted	–	–	–	–
Exercised	–	–	(155,000)	$ 0.20
Outstanding, end of year	120,000	$ 3.82	120,000	$ 3.82
Options exercisable, end of year	120,000		120,000	

The following table summarizes information about stock options outstanding at September 30, 2004 and 2003.

Exercise Prices	2004 Number of Shares Outstanding at September 30, 2004	2004 Weighted Average Remaining Contractual Life	2003 Number of Shares Outstanding at September 30, 2003	2003 Weighted Average Remaining Contractual Life
$ 3.00	50,000	0.17 years	50,000	1.17 years
$ 4.15	50,000	0.83 years	50,000	1.83 years
$ 5.00	20,000	1.08 years	20,000	2.08 years
	120,000	0.60 years	120,000	1.60 years

All stock options are fully vested.

10. (Loss) earnings per share

Basic (loss) earnings per share are calculated using the weighted average number of shares outstanding during the period.

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

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

	2004	2003
Numerator		
Net (loss) income	$ (1,808)	$ 2,575
Denominator		
-denominator for basic earnings per share		
Weighted average shares	9,188,333	9,131,429
Effect of diluted earnings per share	–	2,519
-denominator for diluted earnings per share	9,188,333	9,133,948
Basic earnings per share	$ (0.20)	$ 0.28
Diluted earnings per share	$ (0.20)	$ 0.28

The diluted earning per share calculation does not include the impact of the weighted average shares of 21,715 for the options outstanding at September 30, 2004 due to losses reported for the year then ended. If included, the impact would be anti-dilutive; and therefore, it is not included in the computation of diluted loss per share.

11. Guarantees

In the normal course of business, the Corporation enters into various agreements that may contain features that meet the AcG-14 definition of a guarantee. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

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

12. Related party transactions

a) The $1 million debenture was issued to a company of which a Mainstreet director is a director and a shareholder. This transaction was completed with the same terms and conditions as those issued to third parties for the existing debenture.

b) The President and Chief Executive Officer receives no direct compensation for his services as an officer of the Corporation, rather, he receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. The commissions received during the year amounted to $53,000 (2003 – $103,000).

13. Banking Facilities

The Corporation has an operating line of credit of $820,000 carrying interest at prime rate. As at September 30, 2004, an amount of $40,000 has been drawn on this line of credit (2003 – $Nil). General security agreement with charges against three specific properties, demand debenture in the amount of $1,200,000 and assignment of rents are given as collateral for this line of credit.

14. Utility rebate

Utility rebate represents rebates on natural gas prices given by the Alberta Government.

15. Segmented information

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

	2004	2003
Alberta		
Rental income	$ 15,205	$ 15,015
Operating expenses (including utility rebate)	5,877	5,322
Net operating income	9,328	9,693
Sale of properties held for resale	–	16,800
Cost of properties held for resale	–	12,985
Gain on sale of properties held for resale	–	3,815
Identifiable assets and liabilities		
Real estate properties	103,835	98,068
Mortgages payable	103,140	97,190
British Columbia		
Rental income	1,571	1,336
Operating expenses (including utility rebate)	594	594
Net operating income	977	742
Identifiable assets and liabilities		
Real estate properties	12,061	12,268
Mortgages payable	10,422	11,131
Ontario		
Rental income	3,223	766
Operating expenses (including utility rebate)	1,934	335
Net operating income	1,289	431
Identifiable assets and liabilities		
Real estate properties	25,576	25,165
Mortgages payable	21,077	21,294
Total		
Rental income	19,999	17,117
Operating expenses (including utility rebate)	8,405	6,251
Net operating income	11,594	10,866
Sale of properties held for resale	–	16,800
Cost of properties held for resale	–	12,985
Gain on sale of properties held for resale	–	3,815
Identifiable assets and liabilities		
Real estate properties	141,472	135,501
Mortgages payable	$ 134,639	$ 129,615

16. Subsequent events

On October 8, 2004, the Corporation has issued $33 million of convertible debentures. The debentures have a seven-year term, bearing a coupon rate of 7.25% and are convertible into common shares at a price of $6.25 per share at the option of the debenture holders.

On October 13, 2004, the Corporation redeemed the 10% debenture at par for $1,000,000.

Calgary, AB

Trevella Park, 1300 – 41 St. SE, 218 units. Newly renovated two and three bedroom townhomes. Surrounded by three schools. Inner city with acres and acres of land. The jewel of South East.

Falconcrest Village, 360 Falshire Dr. NE, 176 units. Renovated one and two bedroom apartments. Dishwashers! Minutes to airport and Peter Lougheed Hospital.

Doverglen Estates, 216 Doverglen Cr. SE, 97 units. One and two bedroom apartments, 4 km east of downtown Calgary. Access to Deerfoot and Barlow Trail. Outstanding mountain views!

Avenue Towers, 333 – 17 Ave. SW, 77 units. Bachelor and one bedroom apartments. LOFT suites. Funky open concept with concrete treated floors or hardwood floors. New modern cabinets, appliances, lighting and colours. Located on trendy 17th avenue!

Acadia Place, 331/333 – Heritage Dr. SE, 57 units. One, two and three bedroom apartments. HARDWOOD floors, renovated suites with new appliances, blinds and paint. Located close to schools, shopping and bus routes.

Mainstreet Place, 1122 – 8 Ave. SW, 50 units. Located in the heart of downtown and totally renovated in 1999.

Delburn House, 1419 – 17 Ave. NW, 47 units. One and two bedroom apartments. Across from SAIT. Renovated with new appliances, carpet, paint and lino. New hallway carpet and finishing.

White Plains, 2620 – 16 St. SW, 34 units. One and two bedroom apartments. Renovated suites with TILE floors. Located in the Bankview area near Alberta Children's Hospital and 5 minutes from downtown.

The Westwinds, 211 – 14 Ave. SW, 32 units. Great downtown location!!! Close to parks and recreational facilities.

The Wilmax,1212 – 13 Ave. SW, 30 units. A short walk to trendy 17th avenue.

Bankview Place, 1715 – 24 Ave. SW, 24 units. Close to 17th avenue, downtown, major bus routes, and across from a park.

Chinook Winds, 707 – 57 Ave. SW, 24 units. Property renovated in 1999 with 1 & 2 bedroom apartments.

1612, 1612 – 24 Ave. SW, 24 units. Located near bus routes and recreational facilities.

Westview Terrace, 1611 – 23 Ave. SW, 24 units. Across from a park.

Lincoln, 2111 & 2107 – 54 Ave. SW, 23 units. 1 block from North Glenmore Park Community Centre.

North Hill Manor, 305 – 13 Ave. NE, 23 units. Close to Edmonton Trail, 5 min. from downtown.

Spring Garden Terrace, 1723 – 26 Ave. SW, 21 units. One and two bedroom apartments. Located in the Bankview area, close to 14th street. Five minutes from downtown. Renovated suites have large balconies with a great southern view.

Grace Manor, 1639 – 26 Ave. SW, 18 units. One and two bedroom apartments. Wow! brand new renovation with hardwood floors, new balconies and exterior colours.

Westbrook Manor, 937 – 37 St. SW, 18 units. Across from Westbrook Mall; close to many restaurants and commercial shops.

2501, 2501 – 16 St. SW, 10 units. Only a couple of blocks away from transit, in the Bankview community.

Edmonton, AB

Wedgewood Homes, 12267 – 129 A St., 132 units. Two and three bedroom townhomes. Renovated suites new flooring, appliance, paint, base and lighting. Washer and dryer hookups.

Clareview Court, 3830 – 134 Ave., 86 units. Bachelor, two and three bedroom townhomes. Renovated suites with new flooring, appliances, paint, base, lighting, and siding. Washer and dryer hookups.

McCam 2, 10325 – 123 St., 66 units. Easy access to central business district, grocery stores, pharmacies, and close to a municipal golf course.

Riverside Estates, 9209 – 9315 Jasper Ave., 66 units. Bachelor, one and two bedroom apartments. Great location along Jasper Avenue. New HARDWOOD! Completely new hallways, new bathrooms, kitchens, paint, appliances, microwave, base and tile.

Thunderbird, 10720 – 104 St., 62 units. Bachelor, one and two bedroom apartments. Close to Grant MacEwan College. Renovated hallways, new flooring, appliances, and widow coverings.

Lauderdale Manor, 10504 Lauder Ave., *39 units*. Three bedroom townhomes. Renovated suites with new flooring appliances, paint, base, and lighting. Washer and dryer hookups.

Edm 18, 10730 – 111 St., 33 units. Bachelor, one and two bedroom apartments. Close to Grant MacEwan College. New siding on building. Great renovations in hallways and suites. New appliances, flooring, paint, baseboard, bathrooms and countertops.

McCam 1, 10330 – 123 St., 33 units. Walking and cycling paths, golf course nearby.

McCam 4, 10235 – 123 St., 33 units. Bachelor, one and two bedroom apartments. Great Oliver location. Walk to downtown and live in a wonderful neighborhood. Renovated suites. New flooring, paint, lighting, base and hallways.

Edm 5, 11416 – 124 St., 33 units. Bachelor, one and two bedroom apartments. Renovated hallways. New flooring, paint, bathrooms, baseboard, lighting and appliances. Convenient access to downtown district and The University of Alberta.

Edm 2, 14224 McQueen Road, 27 units. Bachelor, one and two bedroom apartments. Suites have new flooring, paint, countertops, appliances, and bathrooms.

Edm 17, 10835 – 115 St., 26 units. The BEST rental accommodations in the area!

Elizabeth Manor, 11334 – 124 St., 25 units. Bachelor, one and two bedroom apartments. Great location on 124th Street. HARDWOOD FLOORS. Renovated hallways. New flooring, paint, bathrooms, base, lighting and appliances.

Edm 13, 7107 – 79 Ave., 24 units.

Edm 14, 7108 – 78 Ave., 24 units.

Edm 11, 10710 – 111 St., 22 units.

Edm 12, 10720 – 111 St., 22 units.

Edm 15, 10325 – 117 St., 22 units. All suites have been extensively renovated, including flooring, lighting, painting, appliances and window coverings.

Edm 16, 10316 – 119 St., 22 units.

Edm 20, 10610 – 106 St., 22 units.

McCam 3, 10320 – 123 St., 22 units.

Edm 7, 11906 – 104 St., 21 units. Close to NAIT and Kingsway Garden Mall.

Edm 8, 11937 – 105 St., 21 units.

Edm 9, 11919 – 105 St., 21 units. Excellent access to bus routes and major roadways.

Edm 21, 10730 – 109 St., 20 units.

Edm 19, 10634 – 113 St., 17 units.

Pride, 13608 – 109A Ave., 17 units. Bachelor, one and two bedroom apartments. Great location in a quiet neighborhood. Renovated hallways. New HARDWOOD floors, paint, bathrooms, baseboard, lighting and appliances.

Edm 10, 10416 – 119 Ave., 15 units. Bachelor, one and two bedroom apartments. Walk to NAIT. New siding on building. New hallway renovations. Suites have new flooring, paint, countertops, lighting, bathrooms and baseboard.

Cedar Wood Arms, 10614 – 122 St., 14 units. One and two bedroom apartments. Great location in quiet neighborhood. Renovated hallways. New flooring, paint, bathrooms, baseboard, lighting and appliances in the suites.

Red Deer, AB

Highland Terrace, 3916, 3920, 3924 – 50 Ave, 66 units. Bachelor, one, two and four bedroom apartments. Great location next to the hospital. Renovated suites with new flooring, countertops, bathrooms, paint, window coverings and lights.

Surrey, BC

Imperial, 9555 – 128 Street., 204 units. One, two and three bedroom apartments. Fantastic renovations with new hallway carpet, laundry facilities, lights and finishing. Suites have hardwood and carpet flooring. New tile, countertop, DISHWASHERS, lighting upgrade, bathroom, window coverings, and paint.

Toronto Area, ON

Westdale Apartments, 1175 West Dundas Street, Mississauga, 104 units. Close to Credit River and Erindale park as well as the Mississauga and Credit River Golf and Country Clubs.

Caravelle Apartments, 5 Dufresne Court, Toronto, 218 units. Located in the city of Toronto, minutes from the heart of downtown. Excellent views of downtown Toronto. Suites are spacious and newly renovated.

Capital Improvement

We upgrade buildings with energy-efficient fixtures and branded interior and exterior designs. It's one of the ways we enhance the quality of our portfolio and build for the future. Over the past six years, we have spent more than $16 million on renovations, enhancing the quality and appeal of our units. During the same period, the estimated market value of our properties has climbed from $17 million to $178 million.