

Mainstreet is creating more shareholder value than ever before. Our ability to acquire a large number of under-valued properties resulted in 44% of our portfolio undergoing stabilization at the end of fiscal 2007.¹ When we have completed renovating and repositioning these properties in 2008, we expect to see substantial increases in our net operating income, funds from operations and net asset value.

We have built a solid platform in the fastest growing cities in Western Canada – according to the Conference Board of Canada – with Saskatoon leading the way, followed by Calgary, Edmonton and Vancouver.



At fiscal year-end, the market value of Mainstreet's total portfolio was appraised at \$710 million.² We have created this substantial value with minimal equity dilution, having financed acquisitions with internally generated cash flow. We are so confident in the strength of our asset base, and our ability to continue our rapid growth, that we initiated a normal course issuer bid in July 2007 for the purchase of up to 500,000 common shares prior to July 2, 2008. During 2007, 18,500 shares were purchased for cancellation.

Despite the higher vacancies and higher costs related to stabilization, we were successful in achieving the following positive results in 2007.

2007 HIGHLIGHTS

Portfolio grows to 5,250 units. We grew our portfolio by 22% in 2007 at an average price of \$58,000 per door, well below estimated market value and replacement cost. We added 135 units in Edmonton and 82 units in the Greater Toronto Area – two of our existing markets. Mainstreet also established positions in two attractive markets: Saskatoon, Saskatchewan (acquired 454 units) and Abbotsford, British Columbia (acquired 292 units, a combination of apartments and condominiums). Saskatoon's thriving economy also features low vacancy rates and an inventory of distressed mid-market properties that align with Mainstreet's acquisition strategy. Our Abbotsford properties are clustered with our Surrey properties, presenting operational efficiencies. These two B.C. markets share the common characteristic of very low rental supply.

Rental revenues increase. Mainstreet's rental revenues rose by 31% to \$40.4 million in 2007 from \$30.9 million in 2006. This resulted mainly from growth in Mainstreet's property portfolio and the increase in rental rates.

"Same assets" rental revenue rose. This increased by 17% to \$33.3 million in 2007 compared to \$28.4 million in 2006.

Net operating income up. NOI from continuing operations rose by 35% to \$24.7 million compared to \$18.3 million in 2006. This was the case for all of our operating regions.

"Same assets" net operating income also up. Same assets NOI increased by 26% to \$21.5 million in 2007 compared to \$17 million in 2006.

Funds from operations increase. In 2007, FFO from continuing operations increased by 297% to \$5 million (\$0.46 per basic share) from \$1.3 million (\$0.14 per basic share) in 2006. Total

FFO was \$5 million (\$0.46 per basic share), a 174% increase from \$1.8 million (\$0.20 per basic share) in 2006. FFO from stabilized properties for 2007 was \$7.3 million (\$0.68 per basic share).

Stabilization efforts continue. In 2007, we stabilized 12 properties (302 units) in Edmonton. As of fiscal year-end 2007, 68 properties (2,939 units) out of a total 115 properties (5,250 units) were stabilized.

Generated funds through refinancing. Mainstreet converted and refinanced \$20 million of short-term and matured mortgages on stabilized properties to 10-year-term mortgages insured by Canada Mortgage and Housing Corporation (CMHC). The average interest rate was reduced from 7.57% to 4.89%, which will result in annual interest savings of \$546,000 over the next 10 years. This also generated additional funds of \$12 million, which will be used to support our ongoing growth and capital improvements.

Convertible debenture converted and redeemed. On October 9, 2007, the Corporation gave notice of its intention to redeem all outstanding debentures as of November 6, 2007. Prior to this day, all debentures were converted to common shares with the exception of \$1,000 principal amount, which was redeemed on November 6, 2007. This results in savings of interest expense of \$2.5 million per year.

CHALLENGES

We experienced a number of significant challenges in 2007 that we have taken steps to address, chiefly:

Labour Shortage

The continued severe labour shortage, especially in Alberta, is Mainstreet's number one challenge. This has substantially slowed down our stabilization process, with the greatest impact felt in Edmonton where the process has been delayed by about six months. We made a strategic decision to grow this portfolio aggressively in a short period of time, which created a large proportion of non-stabilized properties. This also caused high turnover in tenants due to reduced customer services, as well as high vacancy rates, operational inefficiency and high labour costs. To address this problem with a longer-term solution, in June 2007 we initiated the process to bring in foreign workers who will work on Mainstreet renovation projects and provide maintenance and cleaning services. We are still waiting for final approval from the federal government regarding this application.

Despite the critical labour shortage created by the Alberta boom, we have managed to keep our operations costs low in the province. As well, costs in B.C. and Ontario have been maintained at a level similar to 2006.

Rising Natural Gas Costs

Heating costs continue to increase, which increased Mainstreet's operating costs. We have taken steps to mitigate the impact of natural gas prices by locking in favorable long-term utility contracts for the next five years.

OUR VISION FOR 2008

Mainstreet's vision going forward is to leverage cash flow from our Western Canada portfolio, mitigate long-term risks, and continue to generate funds to support aggressive growth. To achieve our growth plan, we will focus on three key activities in 2008:

1. **Growth.** With Western Canadian markets achieving a more balanced condition after a period of unprecedented price increases, especially in Alberta, now is the time to capture growth opportunities. We will continue to pursue accretive acquisitions in Western Canada, especially in Edmonton, Saskatoon and Vancouver/Lower Mainland. In these markets, where we feel there is less competition for mid-market properties that require repositioning, we have been highly successful in acquiring properties that fit with our value-add strategy.
2. **Cash flow.** The stabilization process will continue to be a priority. The vast majority of our non-stabilized portfolio as of fiscal year-end 2007 was in Edmonton, where the provincial residential tenancy act provides advantages in advancing renovations. Our goal is to stabilize all of our Alberta properties by fiscal year-end 2008. As mentioned, this is expected to have a positive effect on cash flow.
3. **Mitigating risk.** Mainstreet will convert interim financing on non-stabilized assets to long-term, CMHC-insured financing. This will lower our debt costs and will generate additional funds to support continued growth.

Management believes our company will continue to grow at a robust pace in 2008 and beyond. Our confidence is due to:

- Demonstrated strength of Mainstreet's Value Chain business model in all types of economic conditions and geographic locations;
- Sufficient capital on hand to sustain the activity levels of our acquisition program;
- A 38% debt to equity ratio based on the appraised market value of the portfolio;
- Strong economic indicators; and
- The right board, management team and staff to execute our strategy.

I would like to thank the Mainstreet team and our shareholders for their continued support. In 2007 we have built a platform for growth, with a great asset base and ability to generate strong cash flow. Now we're ready to launch to the next level.

[signed]

"Bob Dhillon"

President & CEO

December 13, 2007

Calgary, Alberta

Notes:

1. *Mainstreet's 2007 fiscal year refers to the period ending September 30, 2007.*
2. *Portfolio value is determined by four qualified appraisers (AACI – Accredited Appraiser Canadian Institute) based on properties held by Mainstreet on September 30, 2007. See page 47 in the MD&A for more information.*

Forward-looking Statements

In various places in this Message to Shareholders, management discusses its expectations regarding future performance. These “forward-looking” statements are based on current available competitive, financial and economic data and operating plans, which are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of the Corporation, as well as statements preceded by, followed by, or that include the words “believes”, “expects”, “anticipates”, “estimates”, “projects”, “intends”, “should” or similar expressions. These statements, by their very nature, are not guarantees of the Corporation’s future operational or financial performance, and are subject to risks and uncertainties and other important factors that could cause the Corporation’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Management believes the expectations reflected in its forward-looking statements are reasonable, but no assurance can be given that expectations will prove to be correct, and forward-looking statements in this message to shareholders should not be unduly relied upon. Forward-looking statements speak only as of the date of this message, and actual results could differ materially from those anticipated in forward-looking statements as a result of a number of factors. Investors should not place undue reliance on forward-looking statements because the plan, intentions or expectations on which they are based may not occur. As of the date of this message, management believes the expectations reflected in its forward-looking statements are still reasonable and the actual results to date do not differ materially from those anticipated.

2005

\$310
million

market value

3,550
units

total number
of units



\$1.1
million

funds from
operations

Mainstreet's substantial growth has taken place with minimal equity dilution, financing acquisitions with internally generated cash flow. For 2008, we are positioned to continue our growth with internal funds.

\$23.5
million

rental
revenue

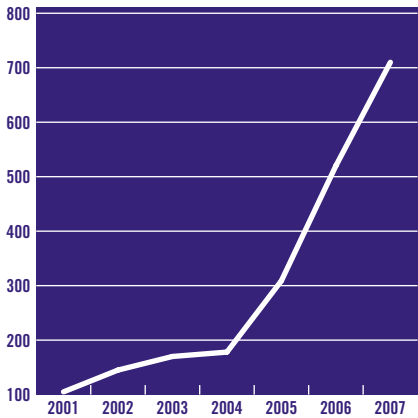
FINANCIAL
& OPERATIONAL
HIGHLIGHTS

Performance Highlights

Fiscal year ended September 30, 2007

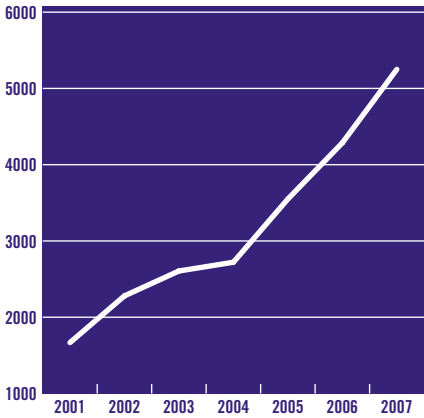
(thousands of dollars except for share amounts)	2007	2006	2005	% change from 2006	% change from 2005
Gross revenue	\$ 40,775	\$ 31,482	\$ 24,204	30%	68%
Net loss					
– from continuing operations	\$ (6,105)	\$ (3,544)	\$ (3,449)	(72%)	(77%)
– from discontinued operations	–	\$ 430	\$ (20)	–	2,250%
Total net loss	\$ (6,105)	\$ (3,114)	\$ (3,469)	(96%)	(76%)
Net loss from continuing operation before stock compensation expense	\$ (2,716)	\$ (3,544)	\$ (3,449)	23%	21%
Funds from operations					
– from continuing operations excluding gains on disposition	\$ 5,033	\$ 1,269	\$ 965	297%	422%
– from discontinued operations excluding gains on disposition	–	\$ (11)	\$ 21	–	(152%)
– from gain on disposition	–	\$ 582	\$ 64	–	809%
Total funds from operations	\$ 5,033	\$ 1,840	\$ 1,050	174%	379%
Net operating income from continuing operations	\$ 24,693	\$ 18,257	\$ 13,813	35%	79%
Net operating margin from continuing operations (%)	61%	59%	59%	3%	3%
EBITDA from continuing operations	\$ 21,442	\$ 15,837	\$ 12,464	35%	72%
Net loss per share					
– basic from continuing operations	\$ (0.56)	\$ (0.38)	\$ (0.38)	(47%)	(47%)
Net income per share					
– basic from discontinued operations	–	\$ 0.05	–	–	–
Net loss per share	\$ (0.56)	\$ (0.33)	\$ (0.38)	(70%)	(47%)
Net loss per share – basic from continuing operation before stock compensation expense	\$ (0.25)	\$ (0.38)	\$ (0.38)	34%	34%
Funds from operations per share					
– basic from continuing operations	\$ 0.46	\$ 0.14	\$ 0.11	229%	318%
Funds from operations per share					
– basic from discontinued operations	–	\$ 0.06	–	–	–
Funds from operations per share					
– basic	\$ 0.46	\$ 0.20	\$ 0.11	130%	318%
Total assets	\$ 306,480	\$ 253,774	\$ 214,837	21%	43%
Total liabilities	\$ 292,913	\$ 247,500	\$ 207,285	18%	41%

Market Value
of Portfolio (\$ million)



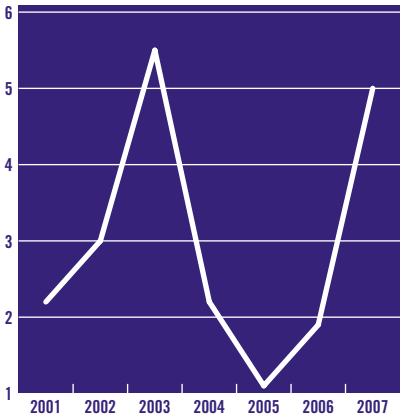
37% ▲

Total Number of Units



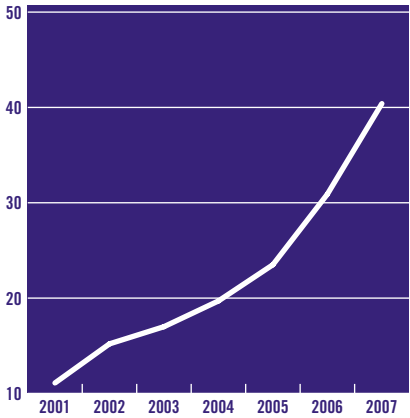
22% ▲

Funds from Operations
(\$ million)



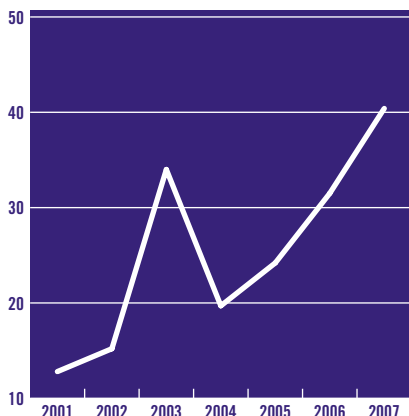
174% ▲

Rental Revenue
(\$ million)



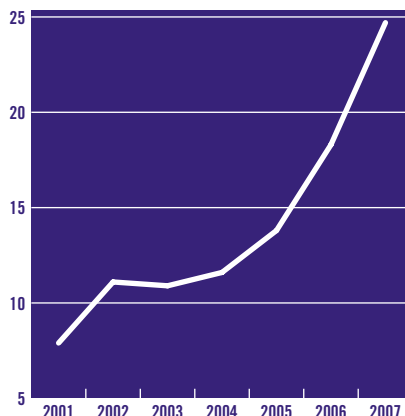
31% ▲

Gross Revenue Including Sale of Real Estate Property and Interest Income (\$ million)



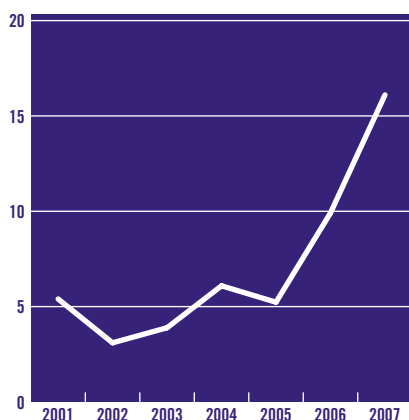
30% ▲

Net Operating Income



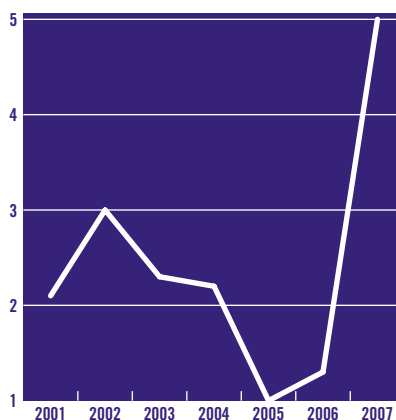
35% ▲

Share Price (\$ per share as at September 30)



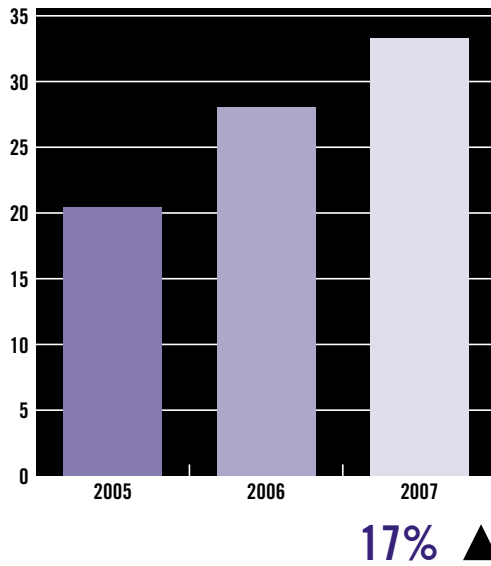
62% ▲

Funds from Continuing Operations Before Gain on Disposition (\$ million)

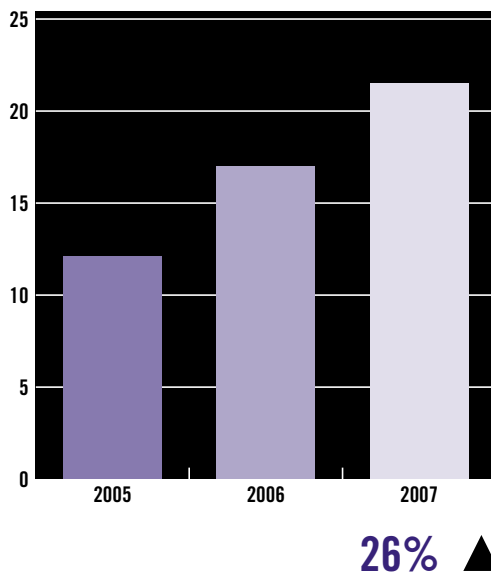


297% ▲

Same Assets Rental Revenue (\$ million)



Same Assets Net Operating Income (\$ million)



Market Value by City & Geographic Distribution of Units

\$710 million

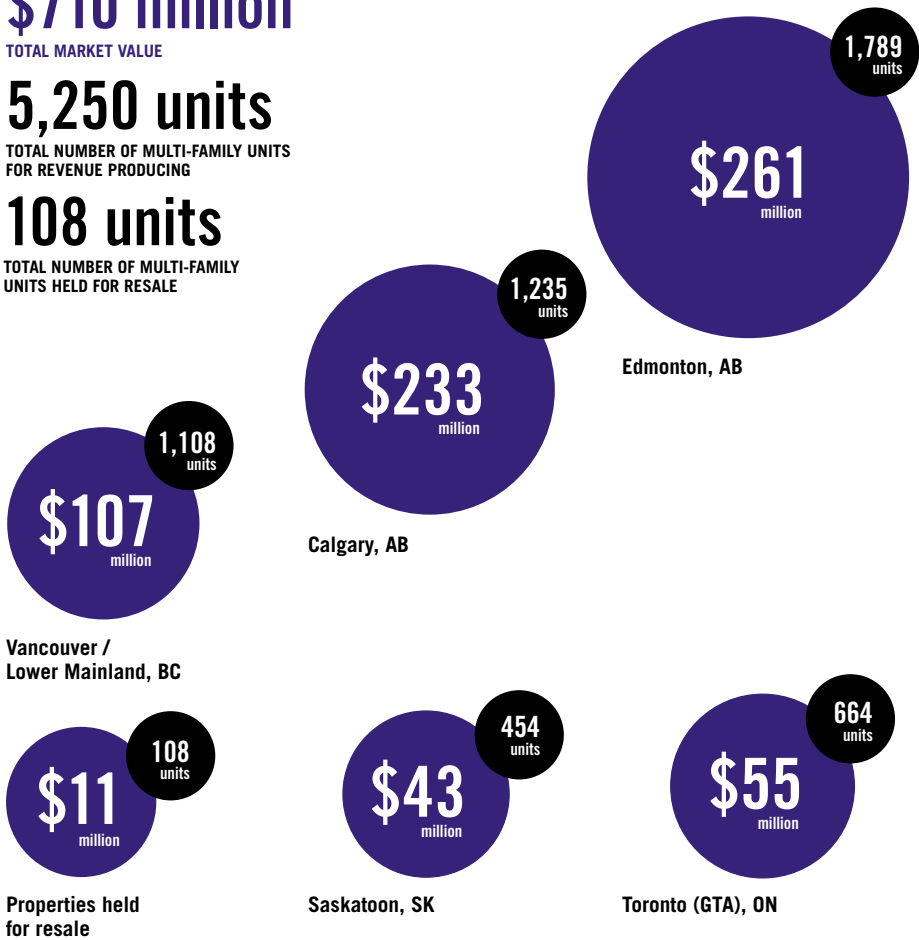
TOTAL MARKET VALUE

5,250 units

TOTAL NUMBER OF MULTI-FAMILY UNITS FOR REVENUE PRODUCING

108 units

TOTAL NUMBER OF MULTI-FAMILY UNITS HELD FOR RESALE



Note 1 The primary method used in the appraisal report is the Income Capitalization Approach. In this approach, the net income of the property generated before payment of any debt service is converted into value by direct capitalization in which net income is divided by a capitalization rate.

Note 2 Portfolio value is determined by four qualified appraisers (AACI – Accredited Appraiser Canadian Institute) based on properties held by Mainstreet on September 30, 2007. See page 47 in the MD&A for more information.

Note 3 The above appraised value does not include residual land and condo conversion values.

2006

\$520
million

market value

4,286
units

total number
of units



\$1.8
million

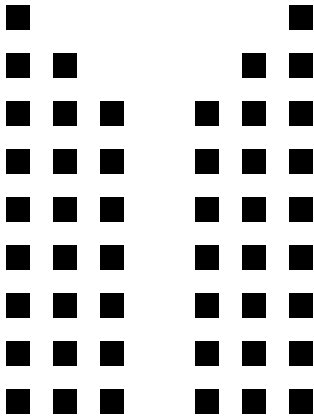
funds from
operations

Mainstreet's value creation process starts with being highly skilled at identifying and acquiring high-potential properties at below-market prices. In 2007 our average purchase price was \$58,000 per door – well below estimated market value and replacement cost.

\$30.9
million

rental
revenue

HOW
MAINSTREET
CREATES
VALUE

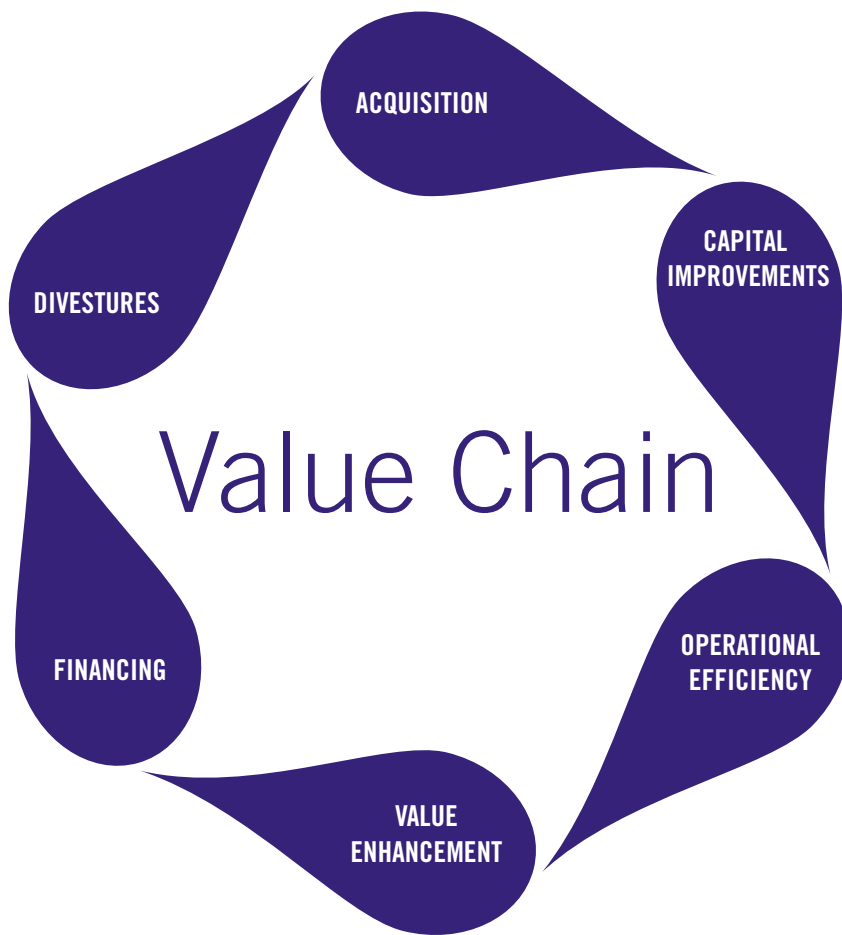


Corporate Profile

Mainstreet Equity Corp. is a Canadian real estate company focused on acquiring and managing mid-market rental apartment buildings in major markets across Canada. Founded in 1997, Mainstreet creates value by purchasing under-performing properties, renovating them to a branded standard, improving operating efficiencies and repositioning them in the market for greater returns.

Our Strategy

Mainstreet builds value by acquiring underperforming mid-market apartment buildings, renovating them, improving operating efficiencies, securing attractive financing and repositioning the properties in the market for higher revenues. Occasionally, Mainstreet will divest properties to redirect capital into newer, high potential properties.



The Mainstreet Value Chain has helped us consistently build value over the past 10 years. Our strategic business model has proven itself year after year in all kinds of economic conditions and different types of markets. It is our competitive advantage as a leader in the mid-market apartment rental segment.

1. Acquisition

Identify and acquire under-performing properties at below-market prices.

2. Capital Improvements

Upgrade buildings with branded interior designs.

3. Operational Efficiency

Minimize operating costs through clustering properties, professional management, advanced information systems and energy-saving features.

4. Value Enhancement

Reintroduce the property to the market with improved customer service, increased tenant occupancy and higher rents in keeping with the standard of product.

5. Financing

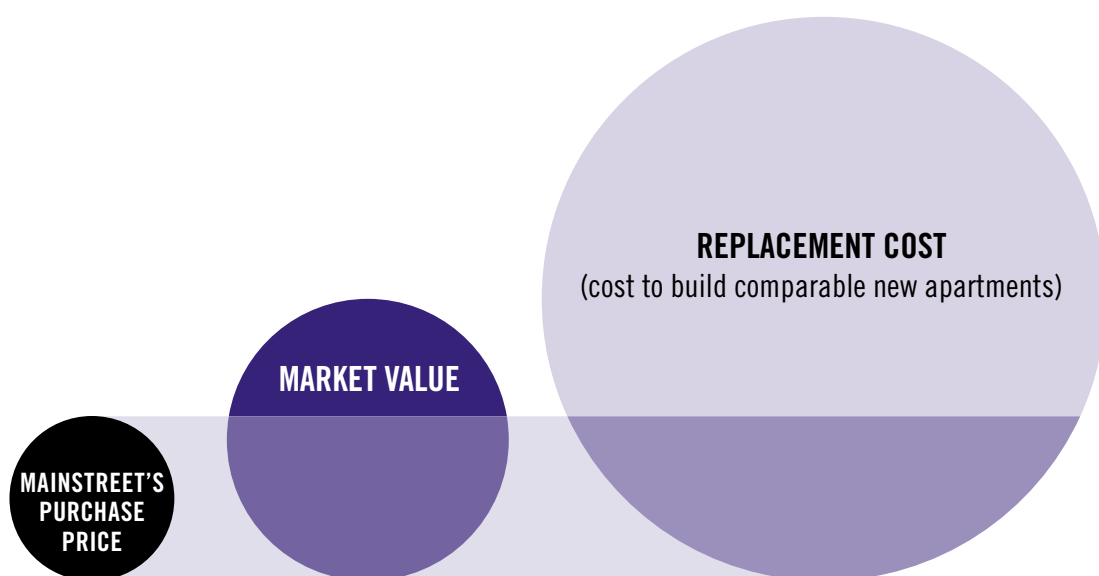
Refinance repositioned properties at improved cash flow levels to release equity that will fund future acquisitions.

6. Divestiture

Occasionally divest properties in fully valued markets to redirect capital to opportunities with greater potential.

The Number 1 Driver in the Rental Apartment Business

... is the fact that existing rental apartments are trading at prices significantly below replacement cost (the cost of building new rental apartments). It is difficult to attract investment in building new rental apartments because replacement cost is so high and prevailing market rental rates do not reasonably support the high investment. Increasing demand and limited supply in the rental market are expected to create favourable market conditions for existing rental apartments in years to come.



Mainstreet has an added advantage in being able to acquire properties below market prices. This is achieved by purchasing underperforming properties with substantial potential to add value through Mainstreet's value creation model.

Mainstreet Stabilization Process

The reason Mainstreet's stabilization process is successful is because we know how to identify and buy distressed mid-market properties that have high potential for adding significant value. We start with a building that we have acquired at a price well below market value and apply our proven expertise in renovating and repositioning them in the market. Here's how it works.

1. Acquisition

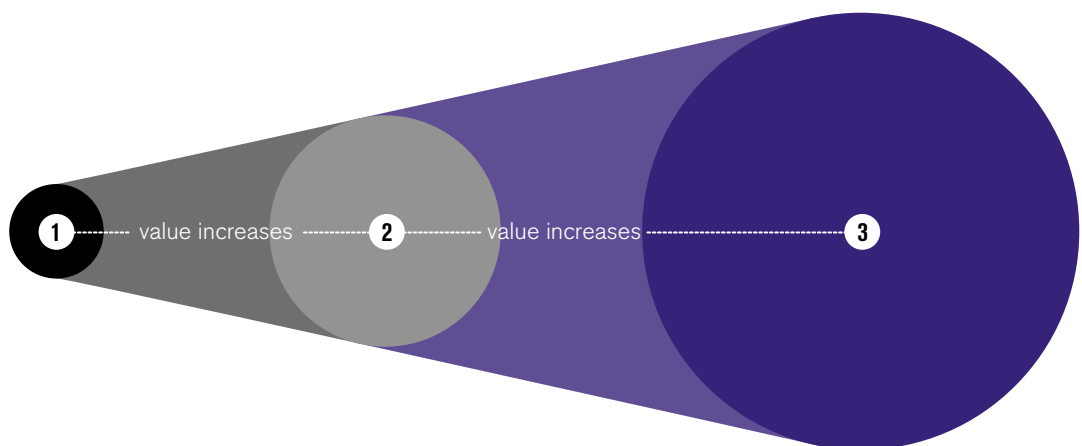
Value creation starts with the acquisition of under-performing, multi-family properties that can be transformed into high-performing assets.

2. Renovation

These properties undergo renovations and enhanced operating efficiencies to raise the properties to the high standards of the Mainstreet brand. During this stage, units are vacant, resulting in low occupancy, additional capital investment and temporarily reduced cash flow.

3. Stabilization

Once 90% of units in a property have been renovated, the property is considered stabilized. It is repositioned in the market as an attractive choice for renters, resulting in higher occupancy, higher rents and increased market value.



12 – 18 Months

Managing Costs Through Operational and Energy Efficiencies

Mainstreet has a track record of keeping operating costs low. We do this by meticulously managing the way we run our buildings, while maintaining high standards for our tenants. We continually look for new and better ways to improve operating efficiencies. At the same time, we do our part for the environment by conserving valuable resources.

Operating Efficiencies

- Advanced software systems
- Information technology
- Clustering properties in a geographic area to achieve economies of scale
- Economical use of superintendents and maintenance staff assigned to a cluster of buildings
- Efficient marketing and rental processes

Energy Efficiencies

- Water: low flow toilets, shower heads and aerators
- Heating fuel: high-efficiency heating systems
- Insulation: new windows and insulation of building exterior
- Electricity: compact fluorescent light bulbs, energy efficient fridges, stoves, dishwashers and laundry facilities

10 Reasons to Invest in Apartments and Mainstreet

Why Apartments?

Below Replacement Cost. The whole multi-family rental investment market trades below replacement costs.

Need. There will always be a need for comfortable, affordable rental housing.

Continued Low Interest Rates. Mortgage interest rates are expected to remain near current low levels through 2008 and insured mortgage loans at attractive rates are available to multi-family investors through the Canada Mortgage and Housing Corporation (CMHC).

Positive Demographics. People who prefer rental housing – including singles, the 50-65 age group and the 20-29 year old “echo boomers” – are increasing in numbers. The number of echo boomers alone is projected to rise by about 200,000 (Stats Canada). As well, strong rental demand across Canada’s metropolitan centres is expected to continue in 2008, due to high immigration into Canada, especially Ontario and B.C., and inter-provincial migration into Alberta and B.C. (CMHC).

Classified as a “Safe Asset.” In 2007 Moody’s Investors Service ranked the multi-family rental market at 99 points out of 100. The score is the strongest amongst all property types measured by Moody’s.

Why Mainstreet?

Track Record of Growth. Since 1998, Mainstreet has achieved a 52% average compound annual growth rate in the value of its portfolio.

Shares Trading Below NAV. Mainstreet shares currently trade below its estimated net asset value.

Non-dilutive Growth. The company has achieved substantial growth with minimal equity dilution, financing acquisitions with internally generated cash flow.

Strong Management Alignment. The CEO is highly vested in the success of the company.

Competitive Advantage. In addition to the reasons above, Mainstreet has the necessary elements for success – infrastructure, software systems, capital, and proven experience acquiring high-potential properties, renovating them and managing them cost-effectively.

2007

\$710
million

market value

5,250
units

total number
of units



\$5.0
million

funds from
operations

87% of Mainstreet's portfolio is in Western Canada as of September 30, 2007.

\$40.4
million

rental
revenue

Mainstreet is aggressively building its portfolio through accretive acquisitions in the fastest growing cities in Western Canada – with Saskatoon leading the way, followed by Calgary, Edmonton and Vancouver/Lower Mainland. As well, our other core market, the Greater Toronto Area, continues to be a growth leader in Central Canada.

MD&A /
FINANCIAL
INFORMATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis "MD&A" provides an explanation of Mainstreet Equity Corp.'s ("Mainstreet" or "Corporation") financial condition and results of operations for the fiscal year ended September 30, 2007. The results from fiscal year 2007 are directly comparable with those from fiscal year 2006. This MD&A should be read in conjunction with the Corporation's audited financial statements and the accompanying notes included in the annual report. This MD&A is intended to provide information about the Corporation's performance, financial position and outlook, and was prepared as of December 7, 2007. All amounts expressed are in Canadian dollars. In various places in this MD&A, management discusses its expectations regarding future performance. These "forward-looking" statements are based on current available competitive, financial and economic data and operating plans, which are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of the Corporation, as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "projects", "intends", "should" or similar expressions. These statements, by their very nature, are not guarantees of the Corporation's future operational or financial performance, and are subject to risks and uncertainties and other important factors that could cause the Corporation's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Management believes the expectations reflected in its forward-looking statements are reasonable, but no assurance can be given that expectations will prove to be correct, and forward-looking statements in this MD&A should not be unduly relied upon. Forward-looking statements speak only as of the date of this MD&A, and actual results could differ materially from those anticipated in forward-looking statements as a result of a number of factors. Investors should not place undue reliance on forward-looking statements because the plan, intentions or expectations on which they are based may not occur. As of the date of filing this MD&A, management believes the expectations reflected in its forward-looking statements are still reasonable and the actual results to date do not differ materially from those anticipated.

Business Overview

Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/Lower Mainland (Abbotsford and Surrey), Calgary, Edmonton, Saskatoon and the Greater Toronto Area.

The total portfolio includes 5,250 revenue producing multi-family residential units (4 million square feet) and 108 units held for resale, consisting of townhouses, garden-style apartments, and mid-rise and high-rise apartments. As of September 30, 2007, 86% of these units were rented, 7% were being renovated and the remainder was vacant because of market conditions. Since 1997, the Corporation's portfolio has increased from 10 buildings to 115 buildings, while the appraised value of properties within this portfolio has grown from about \$17 million to more than \$710 million¹ as of September 30, 2007.

Mainstreet is listed on the Toronto Stock Exchange ("TSX") under the symbol "MEQ".

1. Portfolio value is determined by four qualified appraisers (AACI – Accredited Appraiser Canadian Institute) based on properties held by Mainstreet on September 30, 2007. See page 47 in the MD&A for more information. The actual selling value of these properties may be substantially different and will depend on market conditions at the time of the sale.

Business Strategy

Mainstreet's goal is to be the leading provider of affordable mid-market rental apartments in Canada, typically properties with less than 100 units. The Corporation uses the following business strategy to achieve this goal:

- Identify and buy under-performing rental units at prices well below replacement costs;
- Increase the asset value of Mainstreet's portfolio by renovating acquired properties and repositioning a branded product in the market for higher rents;
- Minimize operating costs through professional management, efficient technology and energy-saving equipment;
- Maintain and build customer loyalty through high levels of service; and
- Maintain a sound capital structure with access to capital markets.

Review of Financial and Operating Results

Fiscal year ended September 30, 2007

(thousands of dollars except for share amounts)	2007	2006	2005	% change from 2006	% change from 2005
Gross revenue	\$ 40,775	\$ 31,482	\$ 24,204	30%	68%
Net loss					
– from continuing operations	\$ (6,105)	\$ (3,544)	\$ (3,449)	(72%)	(77%)
– from discontinued operations	–	\$ 430	\$ (20)	–	2,250%
Total net loss	\$ (6,105)	\$ (3,114)	\$ (3,469)	(96%)	(76%)
Net loss from continuing operation before stock compensation expense	\$ (2,716)	\$ (3,544)	\$ (3,449)	23%	21%
Funds from operations ¹					
– from continuing operations excluding gains on disposition	\$ 5,033	\$ 1,269	\$ 965	297%	422%
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– from gain on disposition	–	\$ 582	\$ 64	–	809%
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Net operating income ² from continuing operations	\$ 24,693	\$ 18,257	\$ 13,813	35%	79%
Net operating margin from continuing operations (%)	61%	59%	59%	3%	3%
EBITDA from continuing operations ³	\$ 21,442	\$ 15,837	\$ 12,464	35%	72%
Net loss per share					
– basic from continuing operations	\$ (0.56)	\$ (0.38)	\$ (0.38)	(47%)	(47%)
Net income per share					
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Net loss per share	\$ (0.56)	\$ (0.33)	\$ (0.38)	(70%)	(47%)
Net loss per share – basic from continuing operation before stock compensation expense	\$ (0.25)	\$ (0.38)	\$ (0.38)	34%	34%
Funds from operations per share					
– basic from continuing operations	\$ 0.46	\$ 0.14	\$ 0.11	229%	318%
Funds from operations per share – basic from discontinued operations	–	\$ 0.06	–	–	–
Funds from operations per share – basic	\$ 0.46	\$ 0.20	\$ 0.11	130%	318%
Total assets	\$ 306,480	\$ 253,774	\$ 214,837	21%	43%
Total liabilities	\$ 292,913	\$ 247,500	\$ 207,285	18%	41%

1. Funds from operations ("FFO") are calculated as net earnings before the non-cash portion of debenture interest, depreciation of real estate properties and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance, but is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). The GAAP measurement most directly comparable to FFO is net income (for 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.

2. 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. It is used by Mainstreet to measure its operational performance. Net operating income is not a recognized measure under GAAP. The GAAP measure most directly comparable to it is net income. Net operating income should not be construed as an alternative to net income determined in accordance to GAAP. Readers are cautioned that net operating income may differ from similar calculations used by other comparable entities.
3. EBITDA is earnings before interest, 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.

Funds from operations (FFO), defined in the footnote above, is a key performance measure of real estate companies. Mainstreet generates FFO from two sources: rental income from properties and the periodic sale of properties. Proceeds from these occasional sales are generally reinvested in properties with higher potential for long-term returns.

For continuing operations, FFO before gain on disposition increased by 297% from \$1.3 million in 2006 to \$5.0 million in 2007. Overall FFO including funds from discontinued operations and net gain on disposition jumped by 174% in 2007, an increase of \$3.2 million. This reflects an increase from \$1.84 million in 2006 to \$5.0 million in 2007. The increase in FFO is due mainly to continued growth in the Corporation's portfolio, increased rental rates for renovated units, and an overall increase in rental rates particularly in Calgary and Edmonton as a result of the thriving provincial economy.

Funds from Operations

(thousands of dollars)	2007	2006	% change
Net (loss) from continuing operations	\$ (6,105)	\$ (3,544)	–
Stock compensation expense	3,389	–	–
Non-cash portion of debenture interests	314	510	–
Depreciation	8,085	6,443	–
Future income tax	(650)	(2,140)	–
Funds from operations from continuing operations	5,033	1,269	297%
Funds from operations from discontinued operations	–	(11)	–
Funds from operations before gain on disposition	5,033	1,258	–
Funds from operations from gain on disposition	–	582	–
Total funds from operations	\$ 5,033	\$ 1,840	174%

Mainstreet's financial performance has been and will continue to be affected adversely by the following factors that result from rapid growth and costs associated with the property stabilization process. Stabilization refers to renovating and improving operating efficiencies of acquired properties and repositioning them in the market, as a Mainstreet branded product, for higher rents and improved asset value. The Corporation's portfolio increased by 22% to 5,250 units as of September 30, 2007 from 4,286 units as of September 30, 2006, while 44% of the portfolio remained non-stabilized as of the financial year ended September 30, 2007.

All acquired properties needed substantial exterior and interior renovations. During stabilization, the Corporation's financial performance is affected adversely by higher vacancy rates and lower rental income, as well as higher operational costs, such as bad debts and marketing expenses. As more units are stabilized, the Corporation expects to strengthen financial performance by offsetting high operating expenses with additional rental revenues generated later in the fiscal year.

Higher interest rates are incurred on short-term financing for properties undergoing stabilization. The longer it takes to stabilize a property, the longer Mainstreet pays higher interest rates for the interim financing.

General and administrative ("G&A") expenses increased due to expansion of Mainstreet's overall portfolio, particularly in cities such as Saskatoon and the Greater Toronto Area where the size of the portfolios is relatively small. As more properties are acquired in the future, G&A expenses on a per unit basis are expected to decrease.

Labour and material costs for building repairs and maintenance have increased substantially due to a continued shortage of labour and materials in the construction industry across Canada. Shortage of labour in Alberta has had serious adverse effects on the Corporation's performance. This caused a substantial delay in the stabilization process and also caused high turnover in tenants due to reduced customer service, as well as high vacancy rate, operational inefficiencies and high

labour costs for the existing stabilized portfolio. This trend is expected to continue for the foreseeable future and will be the number one challenge faced by management in 2008.

On October 1, 2006, the Corporation adopted a policy recommended in the CICA Handbook Section 3855.57(a) to account for transaction costs for financial assets and liabilities classified other than as held for trading. Under this policy, all transaction costs are recognized in net income. Had the change in standard not been effective, the funds from operations for the financial year ended 2007 would have been \$5,611,000 (\$0.52 per basic share).

Mainstreet reported a net loss of \$6.1 million (\$0.56 per share) from continuing operations in 2007, compared with a net loss of \$3.1 million (\$0.33 per share) in 2006. The net loss for the year included \$3.4 million stock compensation expense for stock option granted during the year.

Revenues

(thousands of dollars)	2007	2006	% change
Rental revenues	\$ 40,385	\$ 30,905	31%
Interest income	390	577	(32%)
Gross revenues	\$ 40,775	\$ 31,482	30%

Rental income increased by 31% to \$40.4 million in 2007 compared to \$30.9 million in 2006. This resulted mainly from growth in the Corporation's property portfolio and the increase in rental rates.

Rental Operations

(thousands of dollars except as noted)	2007	2006	% change
Same assets rental revenues	\$ 33,291	\$ 28,389	17%
Acquisition rental revenues	7,094	2,516	182%
Total rental income	40,385	30,905	31%
Weighted average number of units	4,791	3,955	21%
Average rental rate per unit per month (dollars)	\$ 702	\$ 651	8%

Overall, rental income rose 31% to \$40.3 million (\$702/unit/month) in 2007 from \$30.9 million (\$651/unit/month) in 2006.

Rental revenues from new property acquisitions increased by 182% to \$7.1 million as a result of 1,766 units acquired since the financial year ended September 30, 2005.

Rental revenues from "same assets" properties (properties owned for the entire years of 2006 and 2007) increased 17% in 2007 to \$33.3 million from \$28.4 million in 2006. This increase resulted mainly from newly renovated rental units being reintroduced into the market at higher rental rates, particular in the Alberta portfolio.

Operating Costs

(thousand of dollars)	2007	2006	% change
Same assets operating expenses	\$ 11,760	\$ 11,357	4%
Acquisition operating expenses	3,932	1,291	205%
Total operating costs	15,692	\$ 12,648	24%
Weighted average number of units	4,791	3,955	21%
Average operating cost per unit per month (dollars)	\$ 273	\$ 267	2%

Overall operating costs (after utility rebate¹) increased 24% to \$15.7 million in 2007 compared to \$12.6 million in 2006. Most of this increase was due to the growth in the Corporation's property base.

Operating costs for "same assets" properties (properties owned for the entire period of 2006 through 2007) totaled \$11.8 million in 2007, which was fairly consistent with 2006 results.

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

Rental Operations by Province

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

ALBERTA

Mainstreet's Alberta operations showed strong growth in 2007 as a result of the province's booming economy. Rental income increased by 29% to \$25.4 million in 2007 compared to \$19.7 million in 2006. The average number of rental units increased by 14% to 2,959 units in 2007 from 2,588 units in 2006. Overall financial performance, however, is offset to an extent by the severe labour shortage – an issue that caused a substantial delay in the stabilization process and also caused high turnover in tenants due to reduced customer service, as well as high vacancy rate, operational inefficiencies and high labour costs for the existing stabilized portfolio. As a consequence, the average monthly operating cost per unit increased by 10% to \$247 per unit in 2007 from \$224 per unit in 2006 and the overall vacancy rate increased to 14.3% in 2007 from 6.3% in 2006. The overall operating margin remained constant at 65%.

(thousands of dollars except per unit data)	2007	2006	% change
Rental income	\$ 25,444	\$ 19,721	29%
Operating expenses	\$ 8,780	\$ 6,969	26%
Net operating income	\$ 16,664	\$ 12,752	31%
Weighted average number of units	2,959	2,588	14%
Average rent per unit per month	\$ 717	\$ 635	13%
Operating costs per unit per month	\$ 247	\$ 224	10%
Average vacancy rate	14.3%	6.3%	127%
Operating margins	65%	65%	–

BRITISH COLUMBIA

Mainstreet's British Columbia operations continued to expand and produced promising results in 2007. The average number of rental units grew by 22% to 961 units in 2007 compared to 785 units in 2006. Rental income increased by 36% to \$7.8 million in 2007 compared to \$5.7 million in 2006. This resulted mainly from the growth in B.C.'s property portfolio, an increase in rental rate and reduction in vacancy rate after stabilization. The average monthly rental income increased by 11% to \$675 per unit in 2007 from \$607 per unit in 2006. The operating cost per unit per month remained fairly constant as compared to 2006. The average vacancy rate dropped to 5.5% compared to 13.4% in 2006. The overall operating margin increased to 59% from 55% in 2006.

(thousands of dollars except per unit data)	2007	2006	% change
Rental income	\$ 7,785	\$ 5,716	36%
Operating expenses	\$ 3,175	\$ 2,549	25%
Net operating income	\$ 4,610	\$ 3,167	46%
Weighted average number of units	961	785	22%
Average rent per unit per month	\$ 675	\$ 607	11%
Operating costs per unit per month	\$ 275	\$ 271	1%
Average vacancy rate	5.5%	13.4%	59%
Operating margins	59%	55%	7%

ONTARIO

Mainstreet's Ontario operations continued to grow steadily through acquisition and stabilization in 2007. Rental income rose 13%. The average number of rental units increased by 6% to 616 units in 2007 compared to 582 units in 2006. The average monthly rental income per unit increased by 6% to \$833 in 2007 from \$783 in 2006. The operating cost per unit per month decreased by 4%. The average vacancy rate for the year dropped significantly to 10.9% from 17.2% in 2006. The operating margin improved to 48% in 2007 compared to 43% in 2006. Rental market conditions in Ontario remained soft in 2007.

(thousands of dollars except per unit data)	2007	2006	% change
Rental income	\$ 6,155	\$ 5,468	13%
Operating expenses	\$ 3,183	\$ 3,130	2%
Net operating income	\$ 2,972	\$ 2,338	27%
Weighted average number of units	616	582	6%
Average rent per unit per month	\$ 833	\$ 783	6%
Operating costs per unit per month	\$ 431	\$ 448	(4%)
Average vacancy rate	10.89%	17.2%	37%
Operating margins	48%	43%	12%

SASKATCHEWAN

The Corporation entered the Saskatchewan market in 2007 by acquiring 454 residential apartment units in Saskatoon, which became Mainstreet's fifth core market area. Market conditions in Saskatoon are an excellent fit with Mainstreet's strategy of value creation. The current rental rate is low and all units require substantial renovation, presenting high potential to create value.

(thousands of dollars except per unit data)	2007	2006	% change
Rental income	\$ 1,001	–	–
Operating expenses	\$ 554	–	–
Net operating income	\$ 447	–	–
Weighted average number of units	241	–	–
Average rent per unit per month	\$ 346	–	–
Operating costs per unit per month	\$ 192	–	–
Average vacancy rate	30.3%	–	–
Operating margins	45%	–	–

General and Administrative Expenses

(thousands of dollars except per unit per month data)	2007	2006	% change
Total	\$ 3,641	\$ 2,997	21%
Per unit per month	\$ 63	\$ 64	(2%)

General and administrative ("G&A") expenses include corporate costs such as salaries and professional fees. G&A costs increased by 21% to \$3.6 million in 2007 compared to \$3.0 million in 2006.

This was due mainly to growth in Mainstreet's portfolio to 5,250 units as of September 30, 2007 from 4,286 units as of September 30, 2006, and also due to continued increases in legal and professional fees associated with more thorough, timely and accurate reporting requirements of public companies, as well as increased staffing costs. Monthly G&A costs, however, decreased by 2% to \$63 per unit in 2007 compared to \$64 per unit in 2006. As the number of units increases, and greater economies of scale are achieved, G&A expenses per unit are expected to decline in the future.

Financing Costs

(thousands of dollars)	2007	2006	% change
Same assets mortgage interest	\$ 9,737	\$ 9,705	1%
Acquisition mortgage interest ¹	3,178	635	401%
Finance charges	1,527	891	71%
Debenture interest	2,161	2,896	(25%)
Cost and additional interest expenses on refinancing mortgages prior to maturity	–	757	–
Total financing costs	\$ 16,603	\$ 14,884	12%

1. Mortgage properties acquired after the financial year ended September 30, 2005.

Overall, financing costs on long-term debt increased by 12% to \$16.6 million in 2007 compared to \$14.9 million in 2006.

The increase was due to additional mortgage loans for properties acquired and the increase in finance charges by 71% to \$1.5 million in 2007 from \$0.9 million in 2006. The substantial increase in the finance charge was due to the adoption of a policy recommended in the CICA Handbook Section 3855.57(a) to account for transaction costs for financial assets and liabilities classified other than as held for trading. Under this policy, all transaction costs are recognized in net income. Had the change in standard not been effective, the finance charges for 2007 would have been \$0.9 million.

The interest on the convertible debentures is reduced by 25% due to conversion of \$15 million in debentures to common shares.

Capital Investment

Mainstreet's "Value Chain" business model focuses on building the value of its capital assets by renovating newly acquired properties and enhancing operating efficiencies. As part of the stabilization process, each new building is upgraded to Mainstreet's branded standard, which improves the attractiveness of properties to tenants, reduces operating costs and enhances the long-term value of capital assets.

In 2007, the Corporation spent \$8.6 million on property improvements, especially for exterior upgrades such as new siding and insulation, and interior upgrades such as new hardwood laminate flooring, carpet and paint, new appliances and energy-efficiency measures. This enabled the Corporation to reintroduce 580 renovated apartments, or 11% of the portfolio, into the market at higher rental rates during the year.

About \$9.7 million of renovations are planned for the 2008 fiscal year. These improvements will be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. With approximately 1,600 units remaining to be stabilized, substantial renovations will be required to upgrade these units to Mainstreet's branded standard. During the renovation period, revenue is expected to be low because these units cannot be rented. The Corporation expects to complete the stabilization of these properties in the next 12 to 18 months. Revenue and income will increase over time when more and more units are renovated and reintroduced to the market at higher rental rates. Uncertainties affecting future revenue and income include the turnover rate of the existing tenants, availability of renovation workers, and increasing labour and material costs, all of which will have a material impact on the timing and cost of renovations.

Summary of Quarterly Results

(thousands of

dollars except per
share amounts)

	Sept. 30 2007	June 30 2007	March 31 2007	Dec. 31 2006	Sept. 30 2006	June 30 2006	March 31 2006	Dec. 31 2005
				restated				restated
Rental income	\$ 10,580	\$ 10,359	\$ 10,001	\$ 9,445	\$ 8,563	\$ 8,067	\$ 7,354	\$ 6,919
Interest income	\$ 80	\$ 57	\$ 110	\$ 143	\$ 177	\$ 99	\$ 144	\$ 128
Total revenue from continuing operations	\$ 10,660	\$ 10,416	\$ 10,111	\$ 9,588	\$ 8,740	\$ 8,166	\$ 7,498	\$ 7,047
Net loss from continuing operations	\$ (1,210)	\$ (585)	\$ (3,844)	\$ (466)	\$ (352)	\$ (996)	\$ (1,136)	\$ (1,065)
Net earnings (loss) from discontinued operations net of tax	—	—	—	—	—	—	\$ 440	\$ (5)
Net loss	\$ (1,210)	\$ (585)	\$ (3,844)	\$ (466)	\$ (352)	\$ (996)	\$ (696)	\$ (1,070)
Earning per share for continuing operations								
– basic & diluted	\$ (0.10)	\$ (0.05)	\$ (0.38)	\$ (0.05)	\$ (0.04)	\$ (0.11)	\$ (0.12)	\$ (0.11)
Earning per share for discontinued operations								
– basic & diluted	—	—	—	—	—	—	\$ 0.05	—

Activities in Q4 2007 should be noted for comparison with the quarterly results over the past two years:

- During the quarter, Mainstreet acquired nine new buildings with a total of 292 units;
- Average vacancy rate for the Corporation's properties was 17% for Q4 compared with 12.8% for the financial year 2007;
- Heating costs during the winter period from October to March were much higher than the summer period from April to September;
- Effective October 1, 2006, the Corporation adopted a policy recommended in the CICA Handbook Section 3855.57(a) to account for transaction costs for financial assets and liabilities classified other than as held for trading. Under this policy, all transaction costs are recognized in net income. The Corporation applied this standard retroactively with no restatement of prior periods. Quarterly information for the quarter ended December 31, 2006 has been restated to reflect the change of this policy; and
- Quarterly information for the quarter ended December 31, 2005 has been restated above to reflect the results of operations of the disposed long-lived assets reported separately as discontinued operations.

Same Assets Properties

Same assets properties are defined as properties owned by the Corporation for the entire years of 2006 and 2007. As of September 30, 2007, 62 properties (3,484 units) out of 115 properties (5,250 units) were regarded as same assets properties.

(thousands of dollars)	2007	2006	% change
Same assets – rental revenues	\$ 33,291	\$ 28,389	17%
Same assets – operating costs	\$ 11,760	\$ 11,357	4%
Same assets – net operating income	\$ 21,531	\$ 17,032	26%
Same assets – operating margin	65%	60%	8%

"Same assets" rental revenues increased by 17% to \$33.3 million in 2007 from \$28.4 million in 2006. "Same assets" net operating income increased by 26% to \$ 21.5 million in 2007 from \$17.0 million in 2006 and the operating margin improved to 65% from 60%. The improved performance of same assets properties is mainly attributable to the increase in rental income when more renovated units were returned to the market at higher rents – particularly in the Alberta portfolio.

Stabilized Properties

A property is considered stabilized when 90% of its units have been renovated or repositioned in the market at market rents. As of September 30, 2007, 68 properties (2,939 units) out of 115 properties (5,250 units) were regarded as being stabilized. As previously noted, during the stabilization process Mainstreet's performance is affected adversely due to lower rental income, and higher vacancy rates and operating expenses. A more fair performance measurement of the Corporation is funds from operations from the stabilized properties.

Funds from Operations for Stabilized Properties

(thousands of dollars except per share amount)	For the three months ended September 30, 2007			For the year ended September 30, 2007		
	Stabilized properties	Non- stabilized properties	Total	Stabilized properties	Non- stabilized properties	Total
Rental income	\$ 6,814	\$ 3,766	\$ 10,580	\$ 25,875	\$ 14,510	\$ 40,385
Property operating expenses	\$ 2,240	\$ 1,709	\$ 3,949	\$ 8,328	\$ 7,364	\$ 15,692
Net operating income	\$ 4,574	\$ 2,057	\$ 6,631	\$ 17,547	\$ 7,146	\$ 24,693
Operating margin	67%	55%	63%	68%	49%	61%
Interest income	\$ 11	\$ 8	\$ 19	\$ 57	\$ 42	\$ 99
General & administrative expenses	\$ 676	\$ 495	\$ 1,171	\$ 2,105	\$ 1,536	\$ 3,641
Financing cost	\$ 2,572	\$ 1,528	\$ 4,100	\$ 8,156	\$ 6,174	\$ 14,330
Current income taxes	\$ 3	\$ 17	\$ 20	\$ 20	\$ 100	\$ 120
Funds from operations from continuing operations before convertible debentures	\$ 1,334	\$ 25	\$ 1,359	\$ 7,323	\$ (622)	\$ 6,701
Unallocated funds from operations for convertible debentures	–	–	\$ (277)	–	–	\$ (1,668)
Funds from operations from continuing operations	–	–	\$ 1,082	–	–	\$ 5,033
Per share						
– basic	\$ 0.12	–	\$ 0.10	\$ 0.68	\$ (0.06)	\$ 0.46
– fully diluted	\$ 0.09	–	\$ 0.07	\$ 0.50	\$ (0.04)	\$ 0.34

Funds from operations for Mainstreet's stabilized portfolio, excluding the adverse impact of the convertible debenture interest on funds from operations for the year and quarter ended September 30, 2007, amounted to \$7.3 million (\$0.68 per basic share) and \$1.3 million (\$0.12 per basic share) respectively.

The performance of the stabilized properties for the quarter has been adversely affected by the following factors:

- A severe labour shortage, particularly in Alberta, has caused operational inefficiency. As a result, the vacancy rate for the stabilized portfolio in Q4 2007 increased to 12.1% compared to 5.1% in the corresponding period of 2006. Over the year, the vacancy rate increased to 8.2% in 2007 compared to 5.5% in 2006.
- The weighted average number of shares over the year has increased to 10,836,293 from 9,272,540 due to conversion of the debenture. This reduced the per share results for the year and quarter ended September 30, 2007 by \$0.11 and \$0.03 respectively.
- The Corporation adopted a policy recommended in the CICA Handbook Section 3855.57(a) to account for transaction costs for financial assets and liabilities classified other than as held for trading. Under this policy, all transaction costs are recognized in net income. Had the change in standard not been effective, the funds from operations for the stabilized portfolio for the quarter and year ended September 30, 2007 would have been \$1,935,000 (\$0.18 per basic share) and \$7,901,000 (\$0.73) respectively.
- The fully diluted FFO per share was calculated based on 14,763,673 common shares, which included 2,853,280 common shares issued pursuant to conversion of debenture subsequent to the year-end date.

Acquisitions

Revenue Producing Properties

(thousands of dollars except as noted)

	2007	2006
	Abbotsford, Edmonton, Saskatoon and Toronto	Edmonton and Surrey
GEOGRAPHIC MARKETS		
Rental units (number)	963	802
Total purchase costs	\$ 56,028	\$ 41,487
Average price per unit ¹	\$ 58	\$ 52

1. Does not include cost of significant capital improvements.

Properties Held for Resale

(thousands of dollars except as noted)

	2007	2006
	Brooks and Calgary	
GEOGRAPHIC MARKETS		
Units (number)	108	–
Total purchase costs	\$ 8,214	–
Average price per unit	\$ 76	–

Mainstreet acquires rental properties that offer high potential to increase both the asset value and long-term rental rates. The Corporation follows strict criteria to identify and acquire these kinds of properties. In 2007, the Corporation purchased 21 buildings in Abbotsford, Edmonton, Saskatoon and the Greater Toronto area for \$56.0 million, adding 963 units to its portfolio. The acquired buildings are located in attractive areas of each market, where they are clustered with nearby Mainstreet properties to achieve operating efficiencies.

The average purchase price per unit was \$58,000, well below the estimated market value and replacement cost.

The Corporation also acquired 108 units, which are not aligned with Mainstreet's Value Chain business model, but which have great potential for resale at considerable profit. Of these, 86 units were held for a short period of two months and sold for a before-tax profit of \$900,000 subsequent to the 2007 financial year-end.

Divestitures

There were no divestitures during 2007.

Liquidity and Capital Resources

Working Capital Requirements

The Corporation requires sufficient working capital to cover day-to-day operating, mortgage and debenture interest expenses as well income taxes payments. In 2007, after payments of all required expenses, Mainstreet generated funds from operations of \$5.0 million. The Corporation expects that funds generated from operations will be sufficient to meet the working capital requirements in 2008. The Corporation also has an operating line of credit of \$3.5 million against which \$1.8 was drawn as of the 2007 financial year-end.

Other Capital Requirements

Mainstreet also requires sufficient capital to finance continued growth and capital improvement. At year-end September 30, 2007, the Corporation had a cash balance of \$3.2 million and expects to raise a substantial amount of funds by refinancing existing properties as they mature. In addition, after newly acquired properties are stabilized, the Corporation expects to raise funds by refinancing these properties. Mainstreet believes these resources will be sufficient to meet other capital requirements.

Contractual Obligations

As of September 30, 2007, the Corporation had the following contractual obligations. These obligations will be met using existing cash balances, funds from operations and funds generated from the renewal of mortgage loans as they mature.

Payments Due by Period

(thousands of dollars)	Total	2008	2009	2010	2011	2012	Subsequent
Mortgages payable	\$ 269,627	\$ 124,483	\$ 14,183	\$ 14,136	\$ 6,709	\$ 6,849	\$ 103,267
Debentures	16,295	–	–	–	16,295	–	–
Total contractual obligations	\$ 285,922	\$ 124,283	\$ 14,183	\$ 14,136	\$ 23,004	\$ 6,849	\$ 103,267

Long-term Debt

(thousands of dollars)	Amount	Average interest rate (%)
Fixed rate debt		
– CMHC-insured	\$ 170,401	5.17%
– non-CMHC-insured	\$ 21,705	5.64%
Total fixed rate debt	\$ 191,106	5.22%
Floating rate debt		
– non-CMHC-insured	\$ 77,521	7.44%
	\$ 269,267	5.86%

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

As of September 30, 2007, mortgages payable were \$269 million, compared with \$213 million at September 30, 2006. This increase is the result of the Corporation's continued growth, including refinancing existing debt, raising new mortgage loans, and assuming debt to fund new acquisitions.

At September 30, 2007, Mainstreet's financial position was stable with overall mortgage levels reported at 94% of depreciated book value and 38% of estimated market value. About 63% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with interest rates lower than those available through conventional financing.

To maintain cost-effectiveness and flexibility of capital, Mainstreet continually monitors short-term and long-term interest rates. Where it provides a benefit, the Corporation looks for opportunities to convert short-term floating rate debt to long-term, CMHC-insured fixed debt. During the year ended September 30, 2007, the Corporation converted and refinanced \$20 million of short-term and matured mortgages to 10-year term, CMHC-insured mortgages. The average interest rate of these mortgages was reduced from 7.57% to 4.89%. As well, \$12 million of additional funds were raised for capital improvements and acquisitions.

Mortgage Maturity Schedule

Year of maturing	Balance maturing (thousands of dollars)	% of debt maturing	Weighted average rate of expiry (%)
2008	\$ 113,961	42%	6.57%
2009	18,254	7%	6.11%
2010	11,445	4%	6.30%
2011	1,891	1%	6.32%
2012	4,798	2%	4.64%
Subsequent	\$ 119,278	44%	5.14%
Total	\$ 269,627	100%	5.86%

Approximately 42% of mortgage loans will mature within the next 12 months. Most of these mortgages are short-term, floating loans raised for acquisition of non-stabilized properties. When these properties are stabilized, these loans will be converted to long-term, CMHC-insured mortgages.

Conclusion Regarding Effectiveness of Disclosure Controls and Procedures

The Corporation's Chief Executive Officer (the "CEO"), Chief Financial Officer (the "CFO") and other key management personnel have conducted an evaluation of the effectiveness of the Corporation's disclosure controls and procedures. Based on the evaluation conducted, the CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures were effective as of the year-end dated September 30, 2007 to provide reasonable assurance that all material financial information relating to the Corporation, including material financial information required to be disclosed, was made known to the CEO and CFO by others within the Corporation in order for the CEO and CFO to complete their analysis and review of the financial position and results of operations of the Corporation for the year ended September 30, 2007.

Internal Control Over Financial Reporting

There were no significant changes in Mainstreet's internal control over financial reporting that occurred during the Corporation's most recent interim period that has materially affected, or is reasonable likely to materially affect, Mainstreet's internal control over financial reporting.

While the CEO and CFO do believe the internal control over financial reporting does provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian generally accepted accounting principles ("Canadian GAAP"), due to the relative small size of the accounting department of the Corporation, the segregation of duties is not always practical which results in overlapping of duties. Senior management closely monitors and reviews all operations, accounting activities and financial reports on a regular basis.

Share Capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	2007		2006	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of the year	9,534,493	\$ 3,901	9,238,333	\$ 2,050
Issued pursuant to conversion of debenture	2,394,400	14,965	32,160	201
Issued pursuant to exercise of brokers' warrant	–	–	264,000	1,650
Purchase and cancellation of shares	(18,500)	(29)	–	–
Issued and outstanding, end of year	11,910,393	\$ 18,837	9,534,493	\$ 3,901

The Corporation obtained approval from the Toronto Stock Exchange to purchase up to 500,000 common shares under a Normal Course Issuer Bid, expiring on July 2, 2008. During the year ended September 30, 2007, the Corporation purchased for cancellation 18,500 shares for cash consideration of \$302,000. The amount of \$29,000 has been charged to share capital, representing average value of the common shares redeemed, and \$272,000 has been charged to retained earnings, which represents the excess of average value of the share purchased and cancelled.

Stock Options

Under the stock option plan approved by the shareholders on April 24, 2007, Mainstreet may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of Mainstreet's issued and outstanding common stock. The exercise price of the option shall equal the market-trading price of the Corporation's common share on the date of grant.

A summary of the Corporation's stock option plan as of September 30, 2007 and 2006, and changes during the years ended on those dates is presented below:

	2007		2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Stock option				
Outstanding, beginning of year	–	–	50,000	\$ 3.82
Granted	318,700	\$ 15.02	–	–
Exercised	–	–	–	–
Expired	–	–	(50,000)	\$ 3.82
Options exercisable, end of year	318,700	\$ 15.02	–	–

During the year ended September 30, 2007, the Corporation granted an option to the President and Chief Executive Officer to purchase 318,700 (2006 – Nil) common shares at the market price of \$15.06 per share at the date of the grant. The stock options expire on February 14, 2012 and all of them are fully vested at the time of issue. The fair value of the option was determined at the date of the grant using the Black-Scholes option pricing model. The assumptions used in determining the fair value of the options include: a risk-free interest rate of 3.95%; expected life of the option of five years; annualized expected volatility rate of 88%; and annualized expected dividend rate of zero per cent. The fair value amounting to \$3,389,000 is recognized as stock compensation expense in the income with a corresponding increase to contributed surplus. As of September 30, 2007, none of the stock options were exercised.

Significant Accounting Policies

General

Mainstreet Equity Corp. 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 ("Canadian GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of amortization periods for income properties, determination of impairment on real estate properties, and the allocation of purchase costs on the acquisition of real estate properties.

Revenue Recognition

Revenue from a rental property is recognized when a tenant begins occupancy of a rental unit and rent is due. All residential leases are for one-year terms or less; 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 charges. 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. Significant areas requiring the use of management estimates relate to the determination of amortization periods for income properties, determination of impairment on real estate properties, and the allocation of purchase costs on the acquisition of real estate properties.

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. Impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties plus their residual value.

The purchase price of revenue producing real estate properties is 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 is recorded and amortized to rental income over the remaining term of the associated lease. The value associated with 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.

On an ongoing basis, the Corporation purchases properties requiring a considerable amount of capital improvement. This often involves the replacement of the tenants occupying buildings at the time of acquisition. Upon review of the leases and the tenant relationships relating to the acquired buildings, the Corporation 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 Corporation has placed a nominal value on the tangible assets acquired.

Properties Held for Resale

Periodically, Mainstreet assesses its portfolio and determines whether properties should be retained or sold in order to redeploy capital to investments with higher potential. When a determination is made to sell a property it is transferred to properties held for sale. In certain other situations, the Corporation also purchases buildings with the intention of selling the property within a pre-determined period of time. 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.

The current year balance of properties held for resale consists of properties which were purchased for the purpose of resale.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of three months or less.

Amortization

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

Buildings	Over the estimated useful lives, not exceeding 40 years
Building improvements	20% – Declining balance
Furniture and fixtures	20%-40% – Declining balance

Estimated useful lives of buildings and non-building assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

Changes in New Accounting Policies

Accounting Changes

The CICA issued Section 1506 of the CICA Handbook, Accounting Changes, which establishes criteria for changing accounting policies and describes how to apply changes in accounting policies, accounting estimates, and changes resulting from the correction of errors. These changes, including the related disclosure requirements, came into effect as of October 1, 2006.

Financial Instruments and Comprehensive Income

The Corporation adopted the following CICA Handbook sections as of October 1, 2006:

- Section 1530, Comprehensive Income
- Section 3855, Financial Instruments – Recognition and Measurement
- Section 3865, Hedges

These sections establish standards for recognizing, measuring and presenting financial instruments and non-financial derivatives and identifies information that should be disclosed.

COMPREHENSIVE INCOME

Comprehensive income is comprised of net earnings and other comprehensive income ("OCI"), which represents changes in retained earnings during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments arising from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

FINANCIAL INSTRUMENTS AND HEDGES

All financial instruments must initially be recognized at fair value on the balance sheet. The Corporation has classified each financial instrument into the following categories:

- Financial assets and financial liabilities held for trading
- Loans or receivables
- Held to maturity
- Financial assets available for sale
- Other financial liabilities

Subsequent measurement of the financial instruments is based on their classification. Financial assets and financial liabilities held for trading are measured at fair value and changes in those fair values are recognized in investment income or deferred contributions. Financial assets available for sale are measured at fair value, with changes in those fair values recorded directly in net assets. Financial assets held to maturity, loans or receivables and other financial liabilities are measured at amortized cost using the effective interest rate method of amortization.

Upon adoption, the Corporation has classified all financial assets as loans or receivables, with the exception of cash, which has been classified as held-for-trading. The Corporation has classified all financial liabilities as other financial liabilities.

Specifically, the Corporation has elected to account for all transaction costs, which are recognized in net income.

The Corporation applied this standard retroactively with no restatement of prior periods. The cumulative effect of the change in transaction costs is reflected as an adjustment of \$3,123,000 to the opening balance of retained earnings as of October 1, 2006. Had the change in standard not been effective, the net loss for the financial year ended would have been \$5,710,000 and the basic and diluted loss per share would have been \$0.52.

Stock Option Plan

The Corporation has a stock option plan, which is described in Note 9 of the financial statements. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options are issued.

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 recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration paid on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

Income Taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured, subject to a valuation allowance, using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Transactions with Related Parties

The President and Chief Executive Officer receives no compensation for his services as an officer of the Corporation; rather, he receives commissions directly from the vendors at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. These commissions are part of the normal transaction costs for these deals. The commissions received during the 2007 fiscal year amounted to \$623,000 (2006 – \$381,000).

The Corporation paid legal and professional fees and reimbursements amounting to \$159,000 (2006 – \$143,000) to a law firm of which a director and officer of the Corporation is a partner.

The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans of \$980,000 (2006 – \$1.25 million), included in other assets, were advanced on October 31, 2005. The loans are interest free with a repayment period over four years and secured against the common shares of the Corporation purchases by the participants.

Proposed Transactions

Subsequent to the year ended September 30, 2007, and the date on which the Board of Directors approved these financial statements on December 7, 2007, the Corporation acquired one property, consisting of 11 units of residential apartments in Saskatoon, Saskatchewan, for consideration of \$237,400. The transaction was completed in cash on October 31, 2007.

On October 9, 2007, the Corporation gave notice of its intention to redeem all outstanding debentures as of November 6, 2007. Prior to this day, all debentures were converted to common shares with the exception of \$1,000 principal amount, which was redeemed on November 6, 2007.

Four properties (86 units) held for resale at the cost of \$6.3 million have been sold for a consideration of \$7.3 million on November 15, 2007.

Appraisal Report

The primary method used in the appraisal report is the Income Capitalization Approach. In this approach, the net income of the property generated before payment of any debt service is converted into value by direct capitalization in which net income is divided by a capitalization rate.

Net income is gross income (apartment rental and other sources of income) less allowance for vacancy and collection losses and operating costs.

Capitalization rate is derived from the real estate market wherein the property is located. Sales of similar properties are examined to establish a relationship between the amount of income a property can earn and its value; that is, by taking the net income and dividing it by the sale price. By applying capitalization rate from sales of similar properties within the same market place, the value of the subject property can be determined.

The market value of Mainstreet's properties held on September 30, 2007 was determined by the following qualified appraisers:

Location	Name of the appraisers	Qualification	Firm
Calgary and Edmonton	Tony Omura and Ken Ho	AACI ¹	Wernick Omura Limited, Calgary
Saskatoon	Tony Omura and Ken Ho	AACI	Wernick Omura Limited, Calgary with an assistance from Brunsdon Junor Johnson Appraisals, Saskatoon
Greater Toronto Area	Sanford Mandel	AACI	Sanford Mandel & Associate Inc., Toronto
Vancouver Lower Mainland (Abbotsford and Surrey)	Michael Oord	AACI	Grover, Elliott Co. Ltd., Vancouver

Mainstreet's total portfolio is valued at \$710 million. The break down of the market value by cities is as follows:

	Number of units	Market value \$ million	Average value per unit	Average cap. rate
Calgary, Alberta	1,235	\$ 233	\$ 188,000	5.1%
Edmonton, Alberta	1,789	\$ 261	\$ 146,000	5.6%
Saskatoon, Saskatchewan	454	\$ 43	\$ 94,000	5.4%
Greater Toronto Area, Ontario	664	\$ 55	\$ 83,000	6.3%
Vancouver/ Lower Mainland (Abbotsford and Surrey), British Columbia	1,108	\$ 107	\$ 97,000	5.6%
Property held for resale – Calgary, Alberta	22	\$ 4	\$ 182,000	5.1%
Properties sold on October 31, 2007 – Brooks, Alberta ²	86	\$ 7	\$ 85,000	N/A
Total	5,358	\$ 710	\$ 133,000	

Note 1 AACI – An Accredited appraiser of the Appraisal Institute of Canada.

Note 2 The value of 86 residential units was the actual selling price.

Note 3 The above appraised value does not include residual land and condo conversion values.

Off Balance Sheet Arrangements

No off balance sheet arrangements have been made by the Corporation.

Risk Management

Vacancy Risk

The Corporation is subject to tenant vacancy risk when renters become first-time home buyers, purchasing low-cost housing/condominiums, which, in some markets, are affordable at today's low interest rates. This creates increased vacancy rates and decreased rental income cash flow.

Vacancy rates can be affected negatively by increased supply of condominium units in major market areas. At the same time, lower interest rates encouraged some tenants to purchase homes for the first time.

The Corporation manages this risk by enhancing customer satisfaction, diversifying its portfolio in different geographic markets in Canada, maintaining its focus on affordable mid-market, multi-family accommodation, and advertising and offering competitive market pricing to attract new tenants.

Financial Risk

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. 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 is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$114 million are subject to renewal in the 2008 financial year. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages are insured by CMHC under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

Utilities Risk

The business also is exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. Mainstreet has entered into a number of natural gas supply contacts, which provide a degree of price certainty in the next five years. In addition, installing energy-saving measures in all buildings during renovations is a key priority.

Credit Risk

Mainstreet 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 in-depth credit assessment of all tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk.

Financing

Mainstreet anticipates that it will make substantial capital expenditures for the acquisition of properties in the future. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Mainstreet. Moreover, future activities may require Mainstreet to alter its capitalization significantly. The inability of Mainstreet to access sufficient capital for its operations could have a material adverse effect on Mainstreet's financial condition, results of operations or prospects.

Reliance on Key Employees

Mainstreet's success depends in large measure on certain key executive personnel. The loss of the services of such key personnel could have material adverse effect on Mainstreet. Mainstreet does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the industry is intense and there can be no assurance that it will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretions, integrity and good faith of the management of Mainstreet.

Income Taxes

Mainstreet intends to file all required income tax returns and believes that it will be in full compliance with the provisions of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to

reassessment by the applicable taxation authority. In the event of a successful reassessment of Mainstreet, whether by re-characterization and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Legislative Changes

On April 24, 2007, the Alberta Provincial Government announced its intention to alter the existing legislation with respect to rental accommodation in Alberta. Bill 34 was tabled to the Alberta Legislature on May 2, 2007. The most significant changes to the legislation focused on two key areas, the first being the number of rental increases that an owner could issue to a renter on an annual basis and the second being the notice period required if an owner is contemplating a significant renovation or condominium conversion.

Rental increase limited to once per year – the legislation stipulates that an owner may increase existing renters' rents not more than one time per year; previously, owners were able to increase rents once every six months, or twice per year. It should be noted that in this legislation, there is no limitation placed on how much rents can increase to these renters.

Notice for extensive renovations or condominium conversion – the legislation introduced limitations on an owner that wishes to convert an existing rental property to a condominium. Under the legislation, an owner is required to give the existing tenants a notice of one year and, during the one year, the owner will not be able to increase the said rents at any time during the notice period. Previous legislation required only a notice period of six months and there was no limitation as to rental increases other than existing rental increase laws.

It should be emphasized that there have been no changes or limitations as to the market rents charged in Alberta. Thus, this implies that there are no new limitations placed on the amounts charged to new renters renting from Mainstreet.

These legislative changes came into effect on April 24, 2007.

Mainstreet currently has over 58% of its rental portfolio in Alberta and, as such, any change to existing legislation needs to be reviewed and any impact considered. The change in the legislation does not have any material financial impact on Mainstreet as it will only delay the rent increases to existing tenants in Alberta by a maximum period of six months.

On October 25, 2007, the Alberta Government released a new policy with respect to the royalty policy relating to the oil and natural gas production in the Province of Alberta. The new policy proposes to increase the royalties charges on oil and gas on a sliding scale basis based on the price of the related commodity. The new scale will now increase to approximately 50%, from 35%, on natural gas and conventional oil, and will add royalties charges on the Alberta Oil Sands. For more details on this policy, we refer you to the following link: http://www.energy.gov.ab.ca/Org/Publications/royalty_Oct25.pdf.

Although Mainstreet is not a direct investor in the oil and natural gas market, it has been an indirect beneficiary of the continued investment in the oil and natural gas industry in Alberta. Investment in this area has spearheaded continued economic growth for the province and is a major contributor to the increased net migration the province has experienced over the past few years. The increased migration has helped Mainstreet as it has resulted in increased demand for rental apartments. Although it is still too early to predict the longer-term impact of this new policy, and potential decrease in the amount of direct investment in the province, Mainstreet will be monitoring the situation on an ongoing basis and alter existing policies to minimize the financial impact.

Challenges

Mainstreet experienced a number of significant challenges in 2007 that the Corporation has taken steps to address, chiefly:

- Labour shortage.** The continued severe labour shortage, especially in Alberta, is Mainstreet's number one challenge. This has substantially slowed down the stabilization process, with the greatest impact felt in Edmonton where the process has been delayed by about six months. Mainstreet made a strategic decision to grow this portfolio aggressively in a short period of time, which created a large proportion of non-stabilized properties. This also caused high turnover in tenants due to reduced customer services, as well as high vacancy rates, operational inefficiency and high labour costs. To address this problem with a longer-term solution, in June 2007 the Corporation initiated the process to bring in foreign workers who will work on Mainstreet renovation projects and provide maintenance and cleaning services. Mainstreet is still waiting for final approval from the federal government regarding this application.

Despite the critical labour shortage created by the Alberta boom, Mainstreet has managed to keep its operations costs low in the province. As well, costs in B.C. and Ontario have been maintained at a level similar to 2006.
- Rising natural gas costs.** Heating costs continue to increase, which increased Mainstreet's operating costs. The Corporation has taken steps to mitigate the impact of natural gas prices by locking in favorable long-term utility contracts for the next five years.

Outlook

Mainstreet's vision going forward is to leverage cash flow from its Western Canada portfolio, mitigate long-term risks, and continue to generate funds to support aggressive growth. To achieve its growth plan, the Corporation will focus on three key activities in 2008:

1. **Growth.** With Western Canadian markets achieving a more balanced condition after a period of unprecedented price increases, especially in Alberta, Mainstreet believes now is the time to capture growth opportunities. The Corporation will continue to pursue accretive acquisitions in Western Canada, especially in Edmonton, Saskatoon and Vancouver/Lower Mainland. In these markets, where Mainstreet feels there is less competition for mid-market properties that require repositioning, the Corporation has been highly successful in acquiring properties that fit with its value-add strategy.
2. **Cash flow.** The stabilization process will continue to be a priority. The vast majority of the Corporation's non-stabilized portfolio as of fiscal year-end 2007 was in Edmonton, where the provincial residential tenancy act provides advantages in advancing renovations. Mainstreet's goal is to stabilize all of its Alberta properties by fiscal year-end 2008. As mentioned, this is expected to have a positive effect on cash flow.
3. **Mitigating risk.** Mainstreet will convert interim financing on non-stabilized assets to long-term, CMHC-insured financing. This will lower debt costs and will generate additional funds to support continued growth.

Management believes the Corporation will continue to grow at a robust pace in 2008 and beyond. This confidence is due to:

- Demonstrated strength of Mainstreet's Value Chain business model in all types of economic conditions and geographic locations;
- Sufficient capital on hand to sustain the activity levels of the Corporation's acquisition program;
- A 38% debt to equity ratio based on the appraised market value;
- Strong economic indicators; and
- The right board, management team and staff to execute Mainstreet's strategy.

Additional Information

Additional information about Mainstreet is available at mainst.biz and www.sedar.com.

Financial Statements and Notes to the Financial Statements

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 properly 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 has 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, 2007 and 2006 and the statements of loss and comprehensive income and (deficit) 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, 2007 and 2006 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 23, 2007
Calgary, Alberta

Balance Sheets

(thousands of dollars)

As at September 30,	2007	2006
Assets		
Real estate properties <i>[note 2]</i>	\$ 285,834	\$ 228,165
Properties held for resale <i>[note 1]</i>	8,377	–
Other assets <i>[note 3]</i>	2,803	3,459
Future income tax recoverable <i>[note 7]</i>	4,276	1,879
Deferred charges	–	4,871
Restricted cash <i>[note 4]</i>	1,967	1,357
Cash and cash equivalents <i>[notes 1 & 15]</i>	3,223	14,043
	\$ 306,480	\$ 253,774
Liabilities		
Mortgages payable <i>[note 5]</i>	\$ 269,627	\$ 213,341
Convertible debenture <i>[note 6]</i>	16,295	29,415
Accounts payable	5,024	3,387
Refundable security deposits	1,967	1,357
	\$ 292,913	\$ 247,500
Shareholder's Equity		
Share capital <i>[note 8]</i>	\$ 18,837	\$ 3,901
Equity component of convertible debenture	2,500	4,032
Contributive surplus <i>[note 9]</i>	3,389	–
Deficit	(11,159)	(1,659)
	13,567	6,274
	\$ 306,480	\$ 253,774

See accompanying notes to the financial statements.

[signed]

"Bob Dhillon"
Director

[signed]

"Joe Amantea"
Director

Statements of Loss and Comprehensive Deficit

(thousands of dollars, except per share amounts)

For the years ended September 30,	2007	2006
Revenue		
Rental income	\$ 40,385	\$ 30,905
Interest income	390	577
	40,775	31,482
Expenses		
Property operating expenses	15,930	12,981
Utility rebate	(238)	(333)
General and administrative expenses	3,641	2,997
Financing costs	16,603	14,884
Depreciation	8,085	6,443
Stock compensation expense [note 9]	3,389	–
	47,410	36,972
Loss before income taxes	(6,635)	(5,490)
Income taxes (recovery) expense [note 7]		
– current	120	194
– future	(650)	(2,140)
	(530)	(1,946)
Net loss from continuing operations	(6,105)	(3,544)
Net income (loss) from discontinued operations [note 11]	–	430
Net loss for the year including comprehensive income	(6,105)	(3,114)
(Deficit) retained earnings, beginning of year	(1,659)	1,455
Prior period adjustment [note 1]	(3,123)	–
(Deficit) retained earnings, beginning of year restated	(4,782)	1,455
Excess over the average value of the shares purchased for cancellation [note 8]	(272)	–
Deficit end of year	\$ (11,159)	\$ (1,659)
Loss per share – Basic and diluted [note 10]		
– from continuing operations	\$ (0.56)	\$ (0.38)
– from discontinued operations	\$ 0.00	\$ 0.05
Loss per share – Basic and diluted	\$ (0.56)	\$ (0.33)

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of dollars)

For the years ended September 30,	2007	2006
Cash obtained from (used in):		
Operating activities		
Net loss	\$ (6,105)	\$ (3,114)
Items not affecting cash		
(Income) loss from discontinued operations, net of tax	–	(430)
Stock compensation expense	3,389	–
Accretion of debentures charged to interest	314	510
Depreciation	8,085	6,443
Future income taxes	(650)	(2,140)
	\$ 5,033	\$ 1,269
Cash from discontinued operations	–	(11)
Net change in non-cash operating balances		
Other assets	656	(1,959)
Restricted cash	(610)	(454)
Accounts payable	1,637	1,270
Refundable security deposits	610	454
Cash flow from operating activities	7,326	569
Financing activities		
Financing of real estate properties	90,087	78,000
Repayment of secured debts on revenue producing properties, and other debts	(41,262)	(42,308)
Issue of shares	–	1,650
Shares purchased for cancellation	(302)	–
Deferred charges (net of amortization)	–	(162)
	48,523	37,180
Investing activities		
Net proceeds on sale of real estate property	–	440
Purchase of and addition to real estate properties	(58,292)	(42,665)
Purchase of real estate held for resale	(8,377)	–
	(66,669)	(42,225)
Net (decrease) in cash and cash equivalents	(10,820)	(4,476)
Cash and cash equivalents, beginning of year	14,043	18,519
Cash and cash equivalents, end of year	\$ 3,223	\$ 14,043
Cash and cash equivalents (bank indebtedness) comprise of:		
Cash	\$ 114	\$ 9,074
Bank indebtedness	\$ (1,860)	–
Short-term deposits	\$ 4,969	\$ 4,969
	\$ 3,223	\$ 14,043
Income taxes paid	\$ 120	\$ 353
Interest paid	\$ 16,851	\$ 13,652

See accompanying notes to the financial statements.

Notes to Financial Statements

For the years ended September 30, 2007 and 2006
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies

General

Mainstreet Equity Corp. 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 ("Canadian GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of amortization periods for income properties, determination of impairment on real estate properties, and the allocation of purchase costs on the acquisition of real estate properties. Actual results may differ from those estimates.

Revenue Recognition

Revenue from a rental property is recognized when a tenant commences occupancy of a rental suite and rent is due. All residential leases are for one-year terms or less and 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. Impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties plus their residual value.

The purchase price of revenue producing real estate properties are 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.

On an ongoing basis, the Corporation 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 Corporation 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 Corporation has placed a nominal value on the tangible assets acquired through acquisitions.

Properties Held for Resale

Periodically, the Corporation makes an assessment of its portfolio and determines whether properties should be retained or sold in order to redeploy capital to investments with higher potential. When a determination is made to sell a property it is transferred to properties held for sale. In certain other situations, the Corporation also purchases buildings with the intention of selling the property within a pre-determined period of time. 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.

The current year balance of properties held for resale consists of properties which were purchased for the purpose of resale.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of three months or less.

Amortization

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

Buildings	Over the estimated useful lives, not exceeding 40 years
Building improvements	20% – Declining balance
Furniture and fixtures	20%-40% – Declining balance

Estimated useful lives of buildings and non-building assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

Changes in New Accounting Policies

Accounting Changes

The CICA issued Section 1506 of the CICA Handbook, Accounting Changes, which establishes criteria for changing accounting policies and describes how to apply changes in accounting policies, accounting estimates, and changes resulting from the correction of errors. These changes, including the related disclosure requirements, came into effect as of October 1, 2006.

Financial Instruments and Comprehensive Income

The Corporation adopted the following CICA Handbook sections as of October 1, 2006:

- Section 1530, Comprehensive Income
- Section 3855, Financial Instruments – Recognition and Measurement
- Section 3865, Hedges

These sections establish standards for recognizing, measuring and presentation of financial instruments and non-financial derivatives and identifies information that should be disclosed.

COMPREHENSIVE INCOME

Comprehensive income is comprised of net earnings and other comprehensive income ("OCI"), which represents changes in retained earnings during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments arising from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

FINANCIAL INSTRUMENTS AND HEDGES

All financial instruments must initially be recognized at fair value on the balance sheet. The Corporation has classified each financial instrument into the following categories:

- Financial assets and financial liabilities held for trading;
- Loans or receivables;
- Held to maturity;
- Financial assets available for sale; and
- Other financial liabilities.

Subsequent measurement of the financial instruments is based on their classification. Financial assets and financial liabilities held for trading are measured at fair value and changes in those fair values are recognized in investment income or deferred contributions. Financial assets available for sale are measured at fair value, with changes in those fair values recorded directly in net assets. Financial assets held to maturity, loans or receivables and other financial liabilities are measured at amortized cost using the effective interest rate method of amortization.

Upon adoption, the Corporation has classified all financial assets as loans or receivables, with the exception of cash which has been classified as held-for-trading. The Corporation has classified all financial liabilities as other financial liabilities.

Specifically, the Corporation has elected to account for all transaction costs in net income in accordance with the recommendations. The Corporation applied this standard retroactively with no restatement of prior periods. The cumulative effect of the change in transaction costs is reflected as an adjustment of \$3,123,000 to the opening balance of retained earnings as of October 31, 2006. Had the change in standard not been effective, the net loss for the financial year ended would have been \$5,710,000 and the basic and diluted loss per share \$0.52.

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.

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 recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration paid on exercise of stock options is credited to share capital, as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

Fair Value

In accordance with the disclosure requirements of the CICA Handbook, the Corporation is required to disclose certain information concerning its "financial instruments", defined as a contractual right to receive or deliver cash or another financial asset. The carrying value of the Corporation's accounts receivable, other receivables, loans to employees, restricted cash and accounts payable approximates their fair value due to the short-term maturity of these items.

The fair value of mortgages payable and convertible debentures are disclosed below:

	2007		2006	
	Carrying value	Fair market value	Carrying value	Fair market value
Mortgages payable	\$ 269,627	\$ 271,033	\$ 213,341	\$ 217,208
Convertible debentures	\$ 16,295	\$ 16,295	\$ 29,415	\$ 29,415

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.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured, subject to a valuation allowance, using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. Real Estate Properties

	2007			2006		
	Cost	Accum. amortization	Net book value	Cost	Accum. amortization	Net book value
Land	\$ 91,309	\$ –	\$ 91,309	\$ 68,791	\$ –	\$ 68,791
Buildings	194,300	16,015	178,285	159,033	11,492	147,541
Building improvements	29,000	13,610	15,390	21,473	10,250	11,223
Furniture and fixtures	1,523	673	850	1,081	471	610
	\$ 316,132	\$ 30,298	\$ 285,834	\$ 250,378	\$ 22,213	\$ 228,165

Acquisitions of Apartment Buildings

	2007	2006
Mortgages arranged	\$ 29,033	\$ 28,121
Debt assumed at fair value	7,462	3,176
Cash paid	19,533	10,189
Total purchase price	\$ 56,028	\$ 41,486
Allocation of the purchase price		
Land	\$ 22,518	\$ 17,465
Buildings	\$ 33,510	\$ 24,021
	\$ 56,028	\$ 41,486
Units acquired	963	802

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.

Disposition

	2007	2006
Net cash received	\$ –	\$ 440
Debt assumed at fair value	–	2,538
Net proceeds	–	2,978
Net book value	–	2,396
Gain on disposition	\$ –	\$ 582
Units disposed	\$ –	\$ 66

3. Other Assets

	2007	2006
Accounts receivable	\$ 306	\$ 260
Other receivable	596	612
Loans to employees	980	1,250
Deferred rent concession	26	96
Deposits and prepayments	895	1,241
	\$ 2,803	\$ 3,459

4. Restricted Cash

Restricted cash represents deposits from tenants for apartment security deposits.

5. Mortgages Payable

Mortgages payable bearing interest at a weighted average rate of 5.86% (2006 – 5.87%) per annum, are payable in monthly principal and interest installments totalling \$1,652,000 (2006 – \$1,178,000), maturing from 2008 to 2018 and are secured by specific charges against specific properties, having a carrying value of \$294,211,000 (2006 – \$228,165,000) and several personal guarantees of certain directors to the extent of \$15,355,000 (2006 – \$16,902,000).

	2007	2006
	\$ 269,627	\$ 213,341

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

Year	Amount
2008	\$ 113,961
2009	18,254
2010	11,445
2011	1,891
2012	4,798
Subsequent	119,278
	<u>\$ 269,627</u>

6. Convertible Debentures

On October 8, 2004, the Corporation completed a private placement of 33,000, 7.25% convertible debentures at a price of \$1,000 per debenture for the total gross proceeds of \$33,000,000. The debentures are unsecured and ranked subordinate to all liabilities of the Corporation. The debentures mature on September 30, 2011, and interest is payable semi-annually on March 31 and September 30. The debentures will be convertible at the holder's option into fully-paid common shares at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date fixed for redemption at the conversion price of \$6.25 per share. The debentures will not be redeemable on or before September 30, 2007. On and after September 30, 2007 and prior to September 30, 2009, the debentures may be redeemed in whole or in part at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest provided that the market price of the share is not less than 125% of the conversion price. On and after September 30, 2009 and prior to the maturity date, the debentures may be redeemed in whole or in part at the Corporation's option at a price equal to their principal amount plus accrued and unpaid interest. The Corporation has an option to satisfy its obligation to repay the principal or interest amounts of the debentures, in whole or in part, by issuing and delivering to the holders that number of common shares obtained by dividing the principal amount of the debentures by 95% of the current market price of the common share at that time.

As of September 30, 2007, \$15,166,000 debentures have been converted to 2,426,560 common shares.

7. Income Taxes

The income tax recovery is comprised as follows:

	2007	2006
Continuing operations	\$ (530)	\$ (1,946)
Discontinued operations	–	97
	<u>\$ (530)</u>	<u>\$ (1,849)</u>

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

	2007	2006
Statutory tax rate	34.54%	34.54%
Computed expected tax	\$ (2,292)	\$ (1,714)
Non-taxable portion of capital gain	–	(123)
Non deductible interest on convertible debenture	99	176
Stock compensation expense not deductible	1,704	–
Others	(339)	(382)
Adjustment for change in statutory tax rate	178	–
Large corporation tax	120	194
Income tax recovery	<u>\$ (530)</u>	<u>\$ (1,849)</u>

The future income tax (asset) liability is comprised of the following:

	2007	2006
Tax assets related to operating losses	–	\$ (438)
Tax assets liabilities related to differences in tax and book basis	(4,276)	(1,441)
	\$ (4,276)	\$ (1,879)

8. Share Capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	2007		2006	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of the year	9,534,493	\$ 3,901	9,238,333	\$ 2,050
Issued pursuant to conversion of debenture	2,394,400	14,965	32,160	201
Issued pursuant to exercise of brokers' warrant	–	–	264,000	1,650
Purchase and cancellation of shares	(18,500)	(29)	–	–
Issued and outstanding, end of year	11,910,393	\$ 18,837	9,534,493	\$ 3,901

On June 28, 2007, the Corporation obtained approval from the TSX to purchase up to 500,000 common shares under a Normal Course Issuer Bid, expiring July 2, 2008. During the year ended September 30, 2007, the Corporation purchased for cancellation 18,500 shares for cash consideration of \$302,000. \$29,000 has been charged to share capital, representing the average value of the common shares redeemed and \$272,000 has been charged to retained earnings, which represents the excess of average value of the share purchased for cancellation.

9. Stock Option Plan

Under the stock option plan approved by the shareholders on April 24, 2007, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of the issued and outstanding common shares. The exercise price of the option shall equal the market trading price of the Corporation's common share on the date of grant.

A summary of the Corporation's stock option plan as of September 30, 2007 and 2006, and changes during the years ended on those dates is presented below:

	2007		2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Stock option				
Outstanding and exercisable, beginning of year	–	–	50,000	\$ 3.82
Granted	318,700	\$ 15.02	–	–
Exercised	–	–	–	–
Expired	–	–	(50,000)	\$ 3.82
Outstanding and exercisable, end of year	318,700	\$ 15.02	–	–

During the year ended September 30, 2007, the Corporation granted stock options to the President and Chief Executive Officer to purchase 318,700 (2006 – NIL) common shares at the market price of \$15.06 per share at the date of the grant. The stock options expire on February 14, 2012 and all of them are fully vested at the date of grant. The fair value of the option was determined at the date of the grant using the Black-Scholes model. The assumptions used in determining the fair value of the options include risk free interest rate of 3.95%; expected life of the option of five years; annualized expected volatility rate of 88% and annualized expected dividend rate of 0% which resulted in a grant date fair value of \$10.63 per option. The fair value amounted to \$3,389,000 and was recognized as stock compensation expense in income with a corresponding increase to contributed surplus. As of September 30, 2007, none of the stock options were exercised.

10. Loss Per Share

Basic loss per share is 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:

	2007	2006
Numerator		
Net loss	\$ (6,105)	\$ (3,114)
Denominator		
– Denominator for basic earnings per share		
Weighted average shares	10,836,293	9,272,540
Effect of diluted earnings per share	–	–
– Denominator for diluted earnings per share	10,836,294	9,272,540
Basic earnings per share	\$ (0.56)	\$ (0.33)
Diluted earnings per share	\$ (0.56)	\$ (0.33)

Due to reported losses, the dilution calculation does not include the stock options of 318,700 shares and the shares of 2,853,400 for the \$17.8 million convertible debentures if converted at \$6.25. If included, these items would be anti-dilutive and therefore are not included in the computation of diluted loss per share.

11. Disposal of Long-lived Assets and Discontinued Operations

The results of operations associated with the long-lived asset, separately reported as discontinued operations for the prior period are as follows:

	2007	2006
Rental income	\$ –	\$ 203
Property operating expenses	–	148
Utility rebate	–	(11)
General and administrative expenses	–	20
Financing cost	–	57
Depreciation	–	44
	–	258
Loss from discontinued operations before income taxes	–	(55)
Future income taxes	–	13
Income from discontinued operations	–	(68)
Gain on disposition	–	582
Future income taxes	–	84
Gain on disposition after income taxes	–	498
Income from discontinued operations	\$ –	\$ 430

12. 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 Corporation to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

In the ordinary course of business, the Corporation provides indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements require the Corporation to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by 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.

13. Commitments and Contingencies

In the normal course of operations, the Corporation will become subject to a variety of legal and other claims against the Corporation. Management and the Corporation's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Corporation will not be material.

The Corporation has entered into a number of natural gas supply contracts, which provide a degree of price certainty for the natural gas usage in the provinces of Alberta, British Columbia, Ontario and Saskatchewan. All the supply contracts are five-year terms, and for 100% of the Corporation's natural gas requirements for each of the provinces. For accounting purposes, all settlements are recorded as utility expense in the period the settlement occurs.

14. Related Party Transactions

- a) The President and Chief Executive Officer receives no compensation for his services as an officer of the Corporation, rather, he receives commissions directly from the vendors at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. These commissions are part of the normal transaction costs for these deals. The commissions received during the year amounted to \$623,000 (2006 – \$381,000).
- b) The Corporation paid legal and professional fees and reimbursements amounting to \$159,000 (2006 – \$143,000) to a law firm of which a director and officer of the Corporation is a partner.
- c) The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans of \$980,000 (2006 – \$1.25 million), included in other assets, were advanced on October 31, 2005. The loans are interest free with a repayment period over four years and secured against the common shares of the Corporation purchases by the participants.

15. Banking Facilities

The Corporation has an operating line of credit of \$3.5 million (2006 – \$820,000) carrying interest at the prime rate. As at September 30, 2007, \$1.86 million (2006 – Nil) has been drawn on this line of credit. General security agreements with charges against three specific properties, demand debenture in the amount of \$3.5 million and assignment of rents are given as collateral for this line of credit.

16. Utility Rebate

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

17. 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:

	2007	2006
RENTAL OPERATIONS		
ALBERTA		
Rental income	\$ 25,444	\$ 19,721
Operating expenses	8,780	6,969
Net operating income	16,664	12,752
BRITISH COLUMBIA		
Rental income	7,785	5,716
Operating expenses	3,175	2,549
Net operating income	4,610	3,167
ONTARIO		
Rental income	6,155	5,468
Operating expenses	3,183	3,130
Net operating income	2,972	2,338
SASKATCHEWAN		
Rental income	1,001	–
Operating expenses	554	–
Net operating income	447	–
TOTAL		
Rental income	40,385	30,905
Operating expenses	15,692	12,648
Net operating income	\$ 24,693	\$ 18,257

	2007	2006
IDENTIFIABLE ASSETS AND LIABILITIES		
ALBERTA		
Real estate properties	\$ 144,145	\$ 135,220
Mortgages payable	161,748	136,686
BRITISH COLUMBIA		
Real estate properties	74,573	50,451
Mortgages payable	61,204	40,487
ONTARIO		
Real estate properties	47,961	42,494
Mortgages payable	41,005	36,168
SASKATCHEWAN		
Real estate properties	19,155	–
Mortgages payable	5,670	–
TOTAL		
Real estate properties	285,834	228,165
Mortgages payable	\$ 269,627	\$ 213,341

18. Subsequent Events

Subsequent to the year-end September 30, 2007, the Corporation acquired one property, consisting of 11 units of residential apartments, for consideration of \$237,400 in Saskatoon, Saskatchewan. The acquisition was completed in cash on October 31, 2007.

On October 9, 2007, the Corporation gave notice of its intention to redeem all outstanding debentures as of November 6, 2007. Prior to this day, all debentures were converted to common shares with the exception of \$1,000 principal amount, which was redeemed on November 6, 2007.

Four properties (86 units) purchased for \$6.3 million were held for a two-month period and have been sold for \$7.3 million on November 15, 2007.

Corporate Information

Officers

President and CEO

Bob Dhillon
Calgary, AB

Secretary

Joe Amantea
Calgary, AB

Chief Financial Officer

Johnny Lam
Calgary, AB

VP, Operations

Don Murray
Calgary, AB

Board of Directors

Joe Amantea
Calgary, AB

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

Lawrence Tapp
Langley, BC

Directors' Committees

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair
Lawrence Tapp
Langley, BC

Rich Grimaldi
Westport, CT

John Irwin
London, ON

Karanveer Dhillon
San Francisco, CA

Human Resource Committee

Chair
Joe Amantea
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Rich Grimaldi
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TSX symbol: MEQ

DESIGN & PRODUCTION

ion communications inc.

MEQ

TSX SYMBOL

37% ▲

MARKET VALUE

174% ▲

FUNDS FROM OPERATIONS

22% ▲

PORTFOLIO GROWTH

31% ▲

RENTAL REVENUE

35% ▲

NET OPERATING INCOME

26% ▲

SAME ASSETS NET OPERATING INCOME

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