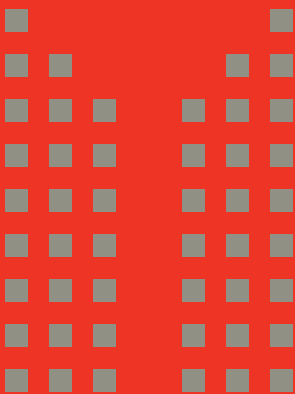


MAINSTREET



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FOR
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THAT
TRANSLATES
INTO
OPPORTUNITY

Fundamentals



- 1 Strong rental demand
- 2 Right markets
- 3 Immigration

Position of Stength

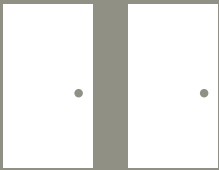


- 4 > \$50 million cash
- > CMHC-insured financing
- > Intellectual capital
- > Systems to operate
- > Opportunities for further leveraging

Strong Cash Position



Stock Purchase



Acquisitions

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.

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Bob Dhillon
President and CEO

Message to Shareholders

Wealth is created in Turbulent Times

The opportunity is now. Why? Because tough economic times create advantages for those who are positioned to capture them. Mainstreet is in a position of strength – with cash, intellectual capital and systems to operate – and the fundamentals of our business are strong.

CASH IS KING

Subsequent to our 2008 year-end¹ Mainstreet achieved a \$50 million cash position and mitigated risk by refinancing 32% of our floating rate and matured debt (about \$85 million) under fixed five-year to 10-year terms. The last \$16 million of financing was secured at an average interest rate of 3.9% for a five-year term. The new fixed financing is insured by Canada Mortgage and Housing Corporation (CMHC), with a reduced average interest rate of 4.84% compared to 5.42% before refinancing. Despite the significant drop in real estate valuation, our debt to market value² ratio is only 49% for our total portfolio, which gives us the opportunity to leverage more of our properties through refinancing, and extract cash to support growth.

THE OPPORTUNITY

Our primary competitors for property acquisition over the past three years – condo convertors and speculative investors – seem to be disappearing in some markets due to the tight debt market and economic downturn. As well, CMHC forecasts a decline in new construction of affordable housing. In these turbulent times, we believe Mainstreet will have opportunities to acquire real estate at reduced prices. At the same time, shares are trading at a discount to net asset value, so we are buying back Mainstreet stock at artificially low rates. As previously announced, through a Normal Course Issuer Bid, we have already bought back 700,000 shares during August to November 2008 at an average price of \$7.18 per share. We have also made a substantial issuer bid to purchase four million Mainstreet shares at \$6.25 per share by a closing date of January 20, 2009.

STRONG FUNDAMENTALS

Historically, apartment rentals are in the greatest demand during tough economic times. Not only are we in the right business, but 88% of Mainstreet's portfolio is situated in Western Canada, which is expected to weather the recession better than other provinces.³ In addition, strong immigration to Canada continues, with Alberta reporting the highest provincial growth rate so far in 2008.⁴ Saskatchewan – where Mainstreet has an established market position – is expected to lead the country in economic growth in 2009.³

2008 Highlights

Market Value. The value of Mainstreet's portfolio as of September 30, 2008 is estimated at \$625 million.²

Growth in portfolio. In light of price uncertainty in the real estate market in 2008, we took a more conservative approach to acquisitions. The size of our portfolio grew to 5,562 units in 2008, a 6% increase compared to fiscal year-end 2007. Subsequent to year-end, Mainstreet acquired two properties, consisting of 84 units of residential apartments in Abbotsford, B.C. and Saskatoon, Saskatchewan for consideration of \$7.2 million.

B.C. LOWER MAINLAND

- Mainstreet's British Columbia portfolio grew by 16% in 2008 to 1,281 units from 1,108 units in 2007.
- We acquired two properties in Abbotsford – one with 84 units and one with 89 units – for an average cost per door of just over \$100,000, which is below estimated market value and replacement cost; 89 of these units have condominium title.
- Approximately 12% of our B.C. properties have condominium title, which is very difficult to acquire, and makes the properties more valuable.
- Subsequent to year-end, Mainstreet acquired 60 units in Abbotsford for \$5.4 million; these are condo-quality buildings in which tenants are responsible for paying all utilities, including heat, which reduces energy price risk for Mainstreet.
- As Mainstreet has grown in Surrey and Abbotsford, we have clustered our properties to achieve greater operational efficiencies.

ALBERTA

- We acquired an additional 42 units in picturesque Cochrane, 18 kilometres northwest of Calgary, for an average cost per door of \$86,000 – below estimated market value and replacement cost.
- With this acquisition, our Alberta portfolio grew slightly to 3,066 rental units, a 1% increase from 3,024 units at fiscal year-end 2007.

SASKATCHEWAN

- Mainstreet acquired an additional 97 units in Saskatoon for an average cost per door of \$44,000 – below estimated market value and replacement cost. This acquisition brings our Saskatchewan portfolio to a total of 551 rental units, a 21% increase compared to 454 at fiscal year-end 2007.
- Subsequent to the year-end date, we acquired 24 units of residential apartments in Saskatoon for \$1.8 million. The new properties acquired were clustered with existing Mainstreet properties to achieve better operational efficiencies.

Revenue and Operating Income increased despite vacancy due to stabilization

Rental revenues increased. Mainstreet's rental revenues rose by 14% to \$46 million in 2008 from \$40 million in 2007, due to growth in our portfolio and increased rental rates.

"Same assets" rental revenue. This increased by 6% to \$39.9 million in 2008 compared to \$37.8 million in 2007. The increase was the result of newly renovated rental units being reintroduced into the market at higher rental rates – mainly in Alberta – and was offset by the rental loss due to high vacancy during renovations.

Net operating income was up. NOI from continuing operations rose by 8% to \$26.6 million compared to \$24.7 million in 2007.

"Same assets" NOI increased. This increased by 2% to \$24 million in 2008 compared to \$23.6 million in 2007.

Funds from operations declined. Total FFO was down 10% to \$4.5 million (\$31 per basic share) from \$5.0 million (\$0.46 per basic share) in 2007. FFO from stabilized properties in 2008 was \$5.8 million (\$0.40 per basic share). The decline in FFO is due mainly to increased one-time financing costs for refinancing short-term and matured mortgages, to increased G&A expenses, and to high vacancy due to stabilization in Edmonton (33% vacancy) and Saskatoon (40% vacancy).

Challenges

Stabilization. As of mid-December 2008, Mainstreet did not achieve its goal of 95% stabilization of Edmonton and Saskatoon properties. The bottom line is we did not have these suites ready in time for the peak rental season in July and August. We did, however, complete 90% of the renovations in Edmonton and 85% of renovations in Saskatoon by December 15, 2008. These units are ready for the next rental season. At fiscal year-end, 36% of our portfolio remained non-stabilized.

Labour availability. The human resource shortage we faced in the past two years appears to be almost behind us, due to the slowdown of the economy and increase in unemployment rate. In addition, Mainstreet has brought in 18 foreign contract laborers, and has begun their training program. We also plan to take advantage of the economic downturn and add more senior-level resources to our management team in preparation for future growth.

Positioning for 2009

With renovations substantially complete now for non-stabilized properties in Saskatoon and Edmonton, in 2009 we will focus on marketing and leasing the suites. Once stabilization of these properties is achieved, we expect a significant increase in revenues in 2009. We also expect increased revenues from our B.C. properties after they have been stabilized, which is expected within the next 6-24 months. Because ours is a fixed-cost business, all additional income resulting from each percentage point drop in vacancy rate will flow through to the bottom line.

In 2009 we will look at refinancing our B.C. portfolio to leverage the current low debt to market value ratio of 54%; the market value of our B.C. portfolio was determined by Colliers International Realty Advisors Inc. Refinancing these properties in 2009 under long-term, fixed mortgages at reduced interest rates will reduce our financing costs and is expected to give us more capital to expand. As well, Mainstreet's overall portfolio includes ten clear-title assets, which can be leveraged to raise cash for continued expansion.

Mainstreet will continue to pursue accretive acquisitions in this opportunistic environment, focusing on distressed, mid-market, multi-family buildings that we can add value to through our Value Chain process.

We will also continue working to mitigate our risk and reduce the cost of debt through refinancing. Our goal is to convert all floating rate debt in our existing portfolio to fixed rate, long-term CMHC debt. At year-end 2008, Mainstreet's floating rate debt stood at \$53 million. Subsequent to year-end, \$11.3 million or 21% of that has been refinanced at an average interest rate of 3.9% under long-term, CMHC-insured debt. As of the publication date of this report, our remaining floating rate debt was \$41.7 million.

In addition to our solid cash position and strong market fundamentals, our management team knows how to identify and acquire distressed properties and add value. We've been doing it successfully for more than 10 years. We also have the systems and people in place to operate our business efficiently and keep our costs down.

2009 will be a turbulent year for the global economy, and yet we believe it will be a year of opportunity for Mainstreet. In closing I would like to thank the Mainstreet team, our board of directors and shareholders. Your continued support has helped us realize another strong year in 2008.

[Signed]

"Bob Dhillon"
President & CEO

December 12, 2008
Calgary, Alberta

Notes:

1. Mainstreet's 2008 fiscal year covers the 12-month period ending September 30, 2008.
2. Portfolio value determined by five qualified appraisers (AACI – Accredited Appraiser Canadian Institute) based on properties held by Mainstreet on September 30, 2008. See MD&A for more details.
3. International Monetary Fund
4. Statistics Canada

1,281

total rental units

\$141 Million

3,066

total rental units

\$385 Million

551

total rental units

\$50 Million

BRITISH COLUMBIA

ALBERTA

SASKATCHEWAN

88% of Mainstreet's Portfolio



OIL & GAS
MINERALS



OIL & GAS



OIL & GAS
AGRICULTURE
POTASH
URANIUM
DIAMONDS



BC

AB

SK

ON



Economic Drivers for British Columbia,
Alberta and Saskatchewan

\$625 Million

total market value

5,562 units

total number of multi-family units
for revenue producing

22 units

total number of multi-family units
held for resale

Western Canada
is expected to
weather the
recession better
than other
provinces.

International Monetary Fund

RIGHT MARKETS



ONTARIO



PROPERTIES
HELD FOR RESALE

Strong immigration to Canada continues, with Alberta reporting the highest provincial growth rate so far in 2008.¹ Saskatchewan – where Mainstreet has an established market position – is expected to lead the country in economic growth in 2009.²

1 Statistics Canada / 2 International Monetary Fund

Green Initiatives Bring Operating Efficiencies

As part of the stabilization process, Mainstreet installs energy efficient equipment to substantially reduce the consumption of water, electricity and natural gas.

ANNUAL WATER SAVINGS

ULTRA LOW FLUSH TOILETS

66% reduction by replacing 18-litre units with six-litre models

ENERGY EFFICIENT FAUCET AERATORS

50% reduction by lowering flow from 15 litres per minute to 7.5 litres per minute

LOW FLOW SHOWERHEADS

66% reduction by lowering flow from 22.5 litres per minute to 7.5 litres per minute

LESS HOT WATER

40% of water used is heated, so a reduction in overall water usage creates added savings of CO₂ emissions and heating costs

ANNUAL ELECTRICITY SAVINGS

COMPACT FLUORESCENT LIGHT BULBS

\$10 to \$25 per fixture is saved by switching from 60-watt incandescent bulbs to 13-watt fluorescent bulbs, with an estimated savings of more than \$55 over the lifetime of a fluorescent bulb. There are approximately 55,000 bulbs in our properties, which represent millions of dollars in savings, and a significant reduction in energy requirements and carbon emissions.

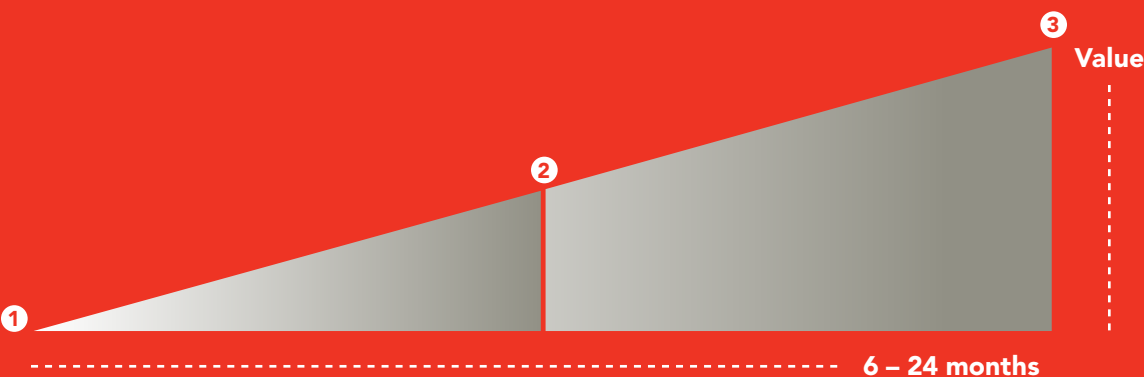
Mainstreet Stabilization Process

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. Value Chain – 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.



FUNDAMENTALS

ENERGY EFFICIENT APPLIANCES

75% reduction in electricity used to power fridges by switching to Energy Star units, resulting in a savings of \$250 per appliance

LED EMERGENCY EXIT SIGNS

\$35 per fixture is saved by changing 40-watt fixtures to 1.3 watt fixtures

ANNUAL NATURAL GAS SAVINGS

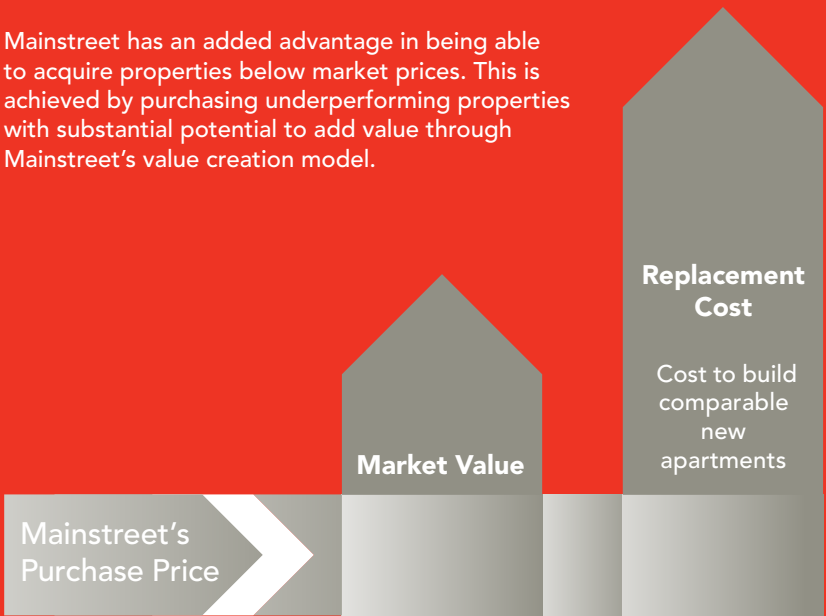
HIGH EFFICIENCY HEATING

30% reduction in natural gas consumption through our boiler replacement program, replacing old boilers running at 65% efficiency with new boiler systems operating at 85% to 90% efficiency. Seven buildings were upgraded in the past year, resulting in a significant reduction in the CO₂ emissions for these properties.

**The Number 1 Driver in the
Rental Apartment Business**
Replacement Cost

... is the fact that existing rental apartments are trading at prices significantly below replacement cost. 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.



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, 2008. The results from fiscal year 2008 are directly comparable with those from fiscal year 2007. This discussion should not be considered all-inclusive, as it excludes changes which may occur in general economic and political conditions. Additionally, other events may occur which could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's audited financial statements and the accompanying notes included in the annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. This MD&A is intended to provide information about the Corporation's performance, financial position and outlook, and was prepared as of December 5, 2008. All amounts expressed are in Canadian dollars. This MD&A was reviewed and approved by the Corporation's Audit Committee and Board of Directors on December 12, 2008. Additional information regarding the Corporation is available under the Corporation's profile at SEDAR at www.sedar.com.

Forward-Looking Information

Certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to general and administrative expenses, labour costs, future profitability, timing of re-financing of debt, stabilization rates, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations and other factors and events described in this document should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including, but without limitation, fluctuations in vacancy rates, unoccupation of units during renovations, fluctuations in utility and energy costs, credit risks of tenants, fluctuations in interest rates and availability of capital and such other business risks as discussed herein. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements there may be other factors that cause actions events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

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

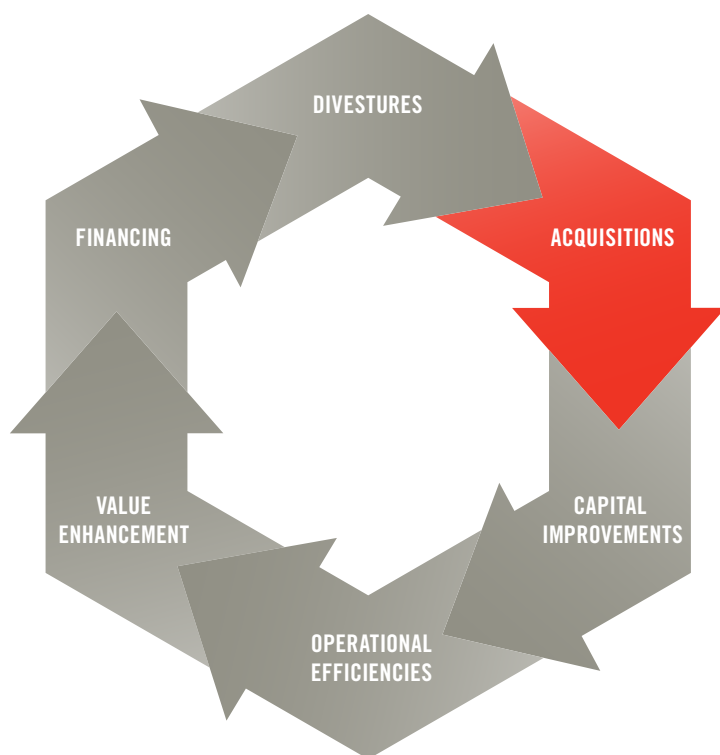
Business Overview

Based in Calgary, Alberta, Mainstreet Equity Corporation is a Canadian real estate corporation focused on acquiring, redeveloping, repositioning and managing 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 5,562 revenue producing multi-family residential units and 22 units held for resale. The types of buildings owned by Mainstreet include townhouses, garden-style apartments, and mid-rise and high-rise apartments. As of September 30, 2008, 83% of these units were rented, 9% were being renovated and the remainder was vacant because of market conditions. Since 1997, the Corporation's portfolio has increased from 10 buildings to 118 buildings, while the appraised value of properties within this portfolio has grown from about \$17 million to more than \$625 million¹ as of September 30, 2008.

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

1. Market value of the properties held on September 30, 2008 as determined by independent real estate appraisers (AACI – Accredited Appraiser Canadian Institute). The actual selling value of these properties may be substantially different and will depend on market conditions at the time of the sale. See Appraisal Report section for more information.



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 achieves this through its Value Chain business model, which involves the following six steps:

- 1. Acquisitions.** Identify and buy under-performing rental units at prices well below replacement costs.
- 2. Capital Improvements.** Increase the asset value of Mainstreet's portfolio by renovating acquired properties.
- 3. Operational Efficiencies.** Minimize operating costs through professional management, efficient technology and energy-saving equipment.
- 4. Value Enhancement.** Reposition renovated properties in the market, as a Mainstreet branded product, for higher rents, and maintain and build customer loyalty through high levels of service.
- 5. Financing.** Maintain a sound capital structure with access to capital markets.
- 6. Divestitures.** Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties.

Review of Financial and Operating Results

Fiscal year ended September 30, 2008

| (thousands of dollars except per share amounts) | 2008 | 2007 | 2006 | % change from 2007 | % change from 2006 |
|--|------------|------------|------------|-----------------------|-----------------------|
| Gross revenue | \$ 47,165 | \$ 40,775 | \$ 31,482 | 16% | 50% |
| Net loss | | | | | |
| – from continuing operations | \$ (4,890) | \$ (6,105) | \$ (3,544) | (20%) | 38% |
| – from discontinued operations | – | – | \$ 430 | – | – |
| – from sales of properties held for resale | \$ 610 | – | – | – | – |
| Total net loss | \$ (4,280) | \$ (6,105) | \$ (3,114) | (30%) | 37% |
| Net loss from continuing operations before stock compensation expense | \$ (4,890) | \$ (2,716) | \$ (3,544) | (80%) | 38% |
| Funds from operations ¹ | | | | | |
| – from continuing operations | \$ 3,783 | \$ 5,033 | \$ 1,269 | (25%) | 198% |
| – from discontinued operations | – | – | \$ (11) | – | – |
| – from sale of properties held for resale | \$ 726 | – | \$ 582 | – | 25% |
| Total funds from operations | \$ 4,509 | \$ 5,033 | \$ 1,840 | (10%) | 145% |
| Net operating income ² from continuing operations | \$ 26,608 | \$ 24,693 | \$ 18,257 | 8% | 46% |
| Net operating margin from continuing operations (%) | 58% | 61% | 59% | – | – |
| EBITDA from continuing operations ³ | \$ 21,504 | \$ 21,442 | \$ 15,837 | – | 36% |
| Net loss per share | | | | | |
| – basic from continuing operations | \$ (0.33) | \$ (0.56) | \$ (0.38) | (41%) | (13%) |
| Net income per share | | | | | |
| – basic from discontinued operations | – | – | \$ 0.05 | – | – |
| Net loss per share | | | | | |
| – from sale of properties held for resale | \$ 0.04 | – | – | – | – |
| Net loss per share | \$ (0.29) | \$ (0.56) | \$ (0.33) | (48%) | (12%) |
| Net loss per share | | | | | |
| – basic from continuing operations before stock compensation expense | \$ (0.29) | \$ (0.25) | \$ (0.38) | 16% | (24%) |
| Funds from operations per share | | | | | |
| – basic from continuing operations | \$ 0.26 | \$ 0.46 | \$ 0.14 | (43%) | 86% |
| Funds from operations per share | | | | | |
| – basic from discontinued operations | – | – | \$ 0.06 | – | – |
| Funds from operations per share | | | | | |
| – basic from sale of properties held for resale | \$ 0.05 | – | – | – | – |
| Funds from operations per share | | | | | |
| – basic | \$ 0.31 | \$ 0.46 | \$ 0.20 | (33%) | 55% |

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 revenue 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 on the previous page, 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 decreased by 25% from \$5 million in 2007 to \$3.8 million in 2008. Overall FFO, including funds from the sale of properties held for resale, decreased by 10% to \$4.5 million from \$5 million in 2007.

FUNDS FROM OPERATIONS

| (thousands of dollars) | 2008 | 2007 | % change |
|--|------------|------------|----------|
| Net (loss) from continuing operations | \$ (4,890) | \$ (6,105) | |
| Stock compensation expense | — | \$ 3,389 | |
| Non-cash portion of debenture interests | — | \$ 314 | |
| Depreciation | \$ 9,936 | \$ 8,085 | |
| Future income tax | \$ (1,263) | \$ (650) | |
| Funds from operations from continuing operations | \$ 3,783 | \$ 5,033 | (25%) |
| Funds from sale of properties held for resale | \$ 726 | — | — |
| Total funds from operations | \$ 4,509 | \$ 5,033 | (10%) |

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 6% to 5,562 units as of September 30, 2008 from 5,250 units as of September 30, 2007, while 36% of the portfolio remained non-stabilized as of the financial year ended September 30, 2008.

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 revenue, 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, especially in Saskatoon and Greater Toronto Area where the size of the portfolios is relatively small. As more properties are acquired in the future, the Corporation expects G&A expenses on a per unit basis to decrease. The Corporation also increased the scope of its management team by creating the position of Chief Operating Officer to manage the growth, and increased the salaries of senior management and the President and Chief Executive Officer. As a result, the payroll cost for senior management increased by about \$1 million compared to 2007.

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. Although, after the fiscal 2008, it had begun to show signs of improvement, the labour shortage in Alberta had serious adverse effects on the Corporation's performance in 2008. This included a substantial delay in the stabilization process and 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 effect is not expected to be an issue for Mainstreet in 2009 due to slow down of the economy and the Corporation's employment of foreign workers.

During the year, the Corporation refinanced approximately \$56 million of debt under CMHC-insured, long-term mortgage loans at an average interest rate of 4.45%. The refinancing raised about \$35 million of additional funds. In addition, Mainstreet obtained a \$50 million revolving line of credit. The funds raised will be used to finance the Corporation's future growth and stabilization program. The total cost of financing was \$2.6 million (\$1.5 million – 2007). Although this had a significant adverse impact on income and funds from operations in 2008, it is expected to create significant long-term benefits to the Corporation's future growth and profitability.

The Corporation expects to refinance an additional \$25 million in the first six months of the 2009 fiscal year and raise approximately \$53 million for future expansion.

Mainstreet reported a net loss of \$4.3 million (\$0.29 per share) in 2008, compared with a net loss of \$6.1 million (\$0.56 per share) in 2007. The net loss in 2007 included \$3.4 million stock compensation expense for stock options granted during the year.

Revenue

| (thousands of dollars) | 2008 | 2007 | % change |
|--|-----------|-----------|----------|
| Rental revenue | \$ 46,191 | \$ 40,385 | 14% |
| Interest income | \$ 248 | \$ 390 | (36%) |
| Net gain on sale of properties held for resale | \$ 726 | – | – |
| Gross revenues | \$ 47,165 | \$ 40,775 | 16% |

Rental revenue increased by 14% to \$46 million in 2008 compared to \$40 million in 2007. This resulted mainly from growth in the Corporation's property portfolio and the increase in rental rates.

During the year, the Corporation sold four properties held for resale, representing 86 residential apartment units, for a profit of \$726,000.

Rental Operations

| (thousands of dollars except as noted) | 2008 | 2007 | % change |
|--|-----------|-----------|----------|
| Same assets rental revenue | \$ 39,944 | \$ 37,831 | 6% |
| Acquisition rental revenue | \$ 6,247 | \$ 2,554 | 145% |
| Total rental revenue | \$ 46,191 | \$ 40,385 | 14% |
| Weighted average number of units | 5,353 | 4,791 | 12% |
| Average rental rate per unit per month (dollars) | \$ 719 | \$ 702 | 2% |

Overall, rental revenue rose 14% to \$46.2 million (\$719/unit/month) in 2008 from \$40.4 million (\$702/unit/month) in 2007.

Rental revenue from new property acquisitions increased by 145% to \$6.2 million as a result of 1,275 units acquired since the financial year ended September 30, 2006.

Rental revenues from "same assets" properties (properties owned for the entire years of 2007 and 2008) increased marginally by 6% in 2008 to \$39.9 million from \$37.8 million in 2007. This increase resulted mainly from newly renovated rental units being reintroduced into the market at higher rental rates, particular in Alberta. The increase, however, was largely offset by rental losses due to the high vacancy rate during the renovation period.

Operating Costs

| (thousands of dollars) | 2008 | 2007 | % change |
|---|-----------|-----------|----------|
| Same assets operating expenses | \$ 15,959 | \$ 14,219 | 12% |
| Acquisition operating expenses | \$ 3,624 | \$ 1,473 | 10% |
| Total operating costs | \$ 19,583 | \$ 15,692 | 25% |
| Weighted average number of units | 5,353 | 4,791 | 12% |
| Average operating cost per unit per month (dollars) | \$ 305 | \$ 273 | 12% |

Overall operating costs (after utility rebate¹) increased 25% to \$19.6 million in 2008 compared to \$15.7 million in 2007. 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 2007 through 2008) totaled \$15.9 million in 2008, an increase of 12% compared to \$14.2 million in 2007. The increase is due mainly to higher costs for repair and maintenance and building material and labour. In addition, advertising expenses and utility costs on vacant suites have increased substantially due to the higher vacancy rates and tenant turnover rates, especially in Edmonton as rental increases and the labour shortage delayed the stabilization process. Property tax, particularly in Alberta, has also increased substantially due to the higher value of properties and the respective tax rate.

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.

BRITISH COLUMBIA

Mainstreet continued to expand its British Columbia operations and produced promising results in 2008. The average number of rental units grew by 21% to 1,167 units in 2008 compared to 961 units in 2007. Rental revenue increased by 29% to \$10 million in 2008 compared to \$7.8 million in 2007. This resulted mainly from growth in the B.C. portfolio, an increase in rental rate and reduction in vacancy rate after stabilization. Average monthly rental revenue increased by 6% to \$717 per unit in 2008 from \$675 per unit in 2007. The operating cost per unit per month increased slightly by 4% over the year. The average vacancy rate dropped to 4.6% compared with 5.5% in 2007. The overall operating margin increased to 60% from 59% in 2007.

| (thousands of dollars except per unit data) | 2008 | 2007 | % change |
|---|-----------|----------|----------|
| Rental revenue | \$ 10,041 | \$ 7,785 | 29% |
| Operating expenses | \$ 3,986 | \$ 3,175 | 26% |
| Net operating income | \$ 6,055 | \$ 4,610 | 31% |
| Weighted average number of units | 1,167 | 961 | 21% |
| Average rent per unit per month | \$ 717 | \$ 675 | 6% |
| Operating costs per unit per month | \$ 285 | \$ 275 | 4% |
| Average vacancy rate | 4.6% | 5.5% | |
| Operating margins | 60% | 59% | |

ALBERTA

Mainstreet's Alberta operations grew slightly in 2008. The average number of units increased by 2% to 3,031 units in 2008 from 2,959 in 2007, while rental revenue increased by 7%. Overall financial performance, however, was offset by the severe labour shortage, which caused a substantial delay in the stabilization process. The Corporation experienced high turnover of tenants due to reduced customer service, high vacancy rates, operational inefficiencies, high labour costs, increased property tax, advertising expenses and utility costs for vacant suites. As a consequence, the average monthly operating cost per unit increased by 15% to \$283 per unit in 2008 from \$247 per unit in 2007, and the overall vacancy rate increased to 24.2% in 2008 from 17.6% in 2007. The overall operating margin fell to 62% from 65% in the previous year.

| (thousands of dollars except per unit data) | 2008 | 2007 | % change |
|---|-----------|-----------|----------|
| Rental revenue | \$ 27,335 | \$ 25,444 | 7% |
| Operating expenses | \$ 10,297 | \$ 8,780 | 17% |
| Net operating income | \$ 17,038 | \$ 16,664 | 2% |
| Weighted average number of units | 3,031 | 2,959 | 2% |
| Average rent per unit per month | \$ 752 | \$ 717 | 5% |
| Operating costs per unit per month | \$ 283 | \$ 247 | 15% |
| Average vacancy rate | 24.2% | 17.6% | |
| Operating margins | 62% | 65% | |

ONTARIO

Mainstreet's Ontario operations were adversely affected by the slow stabilization process. Rental revenue rose by 5% and the average number of rental units increased by 8% to 664 units in 2008 compared to 616 units in 2007. However, the average monthly rental revenue per unit dropped by 3% to \$810 in 2008 from \$833 in 2007 due to the higher vacancy rate as well as a rental incentive introduced to attract renters. The increase in crime rate in the area where one of Mainstreet's properties is located caused a sharp increase in the vacancy rate in 2008. The operating cost per unit per month increased by 9% due mainly to increases in maintenance, property tax and advertising expenses. The average vacancy rate increased to 16.3% from 10.9% in 2007. The operating margin dropped to 42% in 2008 compared to 48% in 2007. Subsequent to the year end, the Ontario operations had improved significantly, the vacancy rate has been reduced to 11% in December 2008.

| (thousands of dollars except per unit data) | 2008 | 2007 | % change |
|---|----------|----------|----------|
| Rental revenue | \$ 6,456 | \$ 6,155 | 5% |
| Operating expenses | \$ 3,750 | \$ 3,183 | 18% |
| Net operating income | \$ 2,706 | \$ 2,972 | (9%) |
| Weighted average number of units | 664 | 616 | 8% |
| Average rent per unit per month | \$ 810 | \$ 833 | (3%) |
| Operating costs per unit per month | \$ 471 | \$ 431 | 9% |
| Average vacancy rate | 16.3% | 10.9% | |
| Operating margins | 42% | 48% | |

SASKATCHEWAN

The Saskatoon market was Mainstreet's main focus of growth in 2008. The average number of units increased by 99% to 479 units in 2008 from 241 units in 2007. Rental revenue increased by 136% to \$2.4 million in 2008 from \$1 million in 2007. Although the operating cost and vacancy rate are still high during the stabilization process, the Corporation expects that most of the renovations will be completed in the first six months of the 2009 financial year and that the operating margin and vacancy rate will improve significantly.

| (thousands of dollars except per unit data) | 2008 | 2007 | % change |
|---|----------|----------|----------|
| Rental revenue | \$ 2,359 | \$ 1,001 | 136% |
| Operating expenses | \$ 1,550 | \$ 554 | 180% |
| Net operating income | \$ 809 | \$ 447 | 81% |
| Weighted average number of units | 479 | 241 | 99% |
| Average rent per unit per month | \$ 410 | \$ 346 | 18% |
| Operating costs per unit per month | \$ 270 | \$ 192 | 41% |
| Average vacancy rate | 40.3% | 30.3% | |
| Operating margins | 34% | 45% | |

GENERAL AND ADMINISTRATIVE EXPENSES

| (thousands of dollars except per unit data) | 2008 | 2007 | % change |
|---|----------|----------|----------|
| Total | \$ 5,722 | \$ 3,641 | 57% |
| Per unit per month | \$ 89 | \$ 63 | 41% |

General and administrative ("G&A") expenses, which include corporate costs such as salaries and professional fees, increased by \$2.1 million over the year. Approximately \$1 million was due to the increase in salaries for senior management and the President and Chief Executive Officer.

The remainder of the G&A expense increase was mainly the result of growth in Mainstreet's portfolio to 5,562 units as of September 30, 2008 from 5,250 units as of September 30, 2007, and increased staffing, travel and communication costs.

FINANCING COSTS

| (thousands of dollars) | 2008 | 2007 | % change |
|--|-----------|-----------|----------|
| Same assets mortgage interest | \$ 11,953 | \$ 11,868 | 1% |
| Acquisition mortgage interest ¹ | \$ 2,387 | \$ 1,047 | 128% |
| Finance charges | \$ 2,585 | \$ 1,527 | 69% |
| Debenture / line of credit interest | \$ 346 | \$ 2,161 | (84%) |
| Total financing costs | \$ 17,271 | \$ 16,603 | 4% |

1. Mortgage interest for properties acquired after the financial year ended September 30, 2006.

Overall, financing costs on long-term debt increased by 4% to \$17.2 million in 2008 compared to \$16.6 million in 2007.

The increase in financing charges related to the approximately \$56 million financing through CMHC-insured, long-term mortgage loans, and to a \$50 million revolving line of credit. It is the Corporation's policy to charge all financing costs to income. The interest on the previously outstanding convertible debentures and line of credit was reduced by 84% due to conversion of all debentures to common shares during the first quarter of 2008.

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 acquired 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 2008, the Corporation spent \$12 million on property improvements, especially for exterior upgrades such as new siding and insulation, and interior upgrades such as new laminate hardwood flooring, carpet and paint, new appliances and energy-efficiency measures.

About \$10 million of renovations mainly to our BC portfolio are planned for the 2009 fiscal year. These improvements will be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. With approximately 1,300 units remaining to be stabilized, substantial renovations will be required to upgrade these units to the standards of the Mainstreet brand. 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 6 to 24 months. Revenue and income will increase over time when more units are renovated and reintroduced to the market at higher rental rates. Uncertainties affecting future revenue and income include the turnover rate of 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, 2008 | June 30, 2008 | Mar. 31, 2008 | Dec. 31, 2007 | Sept. 30, 2007 | June 30, 2007 | Mar. 31, 2007 | Dec. 31, 2006 |
|--|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|
| | | | | | | | | restated |
| Rental revenue | \$ 12,213 | \$ 11,778 | \$ 11,020 | \$ 11,180 | \$ 10,580 | \$ 10,359 | \$ 10,001 | \$ 9,445 |
| Interest income | \$ 54 | \$ 13 | \$ 74 | \$ 107 | \$ 80 | \$ 57 | \$ 110 | \$ 143 |
| Net gain on sale of properties held for resale | – | – | – | \$ 726 | – | – | – | – |
| Total revenue from continuing operations | \$ 12,267 | \$ 11,791 | \$ 11,094 | \$ 12,013 | \$ 10,660 | \$ 10,416 | \$ 10,111 | \$ 9,588 |
| Loss from continuing operations | \$ (1,842) | \$ (725) | \$ (967) | \$ (1,356) | \$ (1,210) | \$ (585) | \$ (3,844) | \$ (466) |
| Net gain on sale of properties held for resale | – | – | – | \$ 610 | – | – | – | – |
| Net loss | \$ (1,842) | \$ (725) | \$ (967) | \$ (746) | \$ (1,210) | \$ (585) | \$ (3,844) | \$ (466) |
| Per share results – basic and diluted | | | | | | | | |
| Loss per share from continuing operations | \$ (0.13) | \$ (0.05) | \$ (0.07) | \$ (0.09) | \$ (0.10) | \$ (0.05) | \$ (0.38) | \$ (0.05) |
| Earnings per share on sale of properties held for resale | – | – | – | \$ 0.04 | – | – | – | – |
| Net loss per share – basic and diluted | \$ (0.13) | \$ (0.05) | \$ (0.07) | \$ (0.05) | \$ (0.10) | \$ (0.05) | \$ (0.38) | \$ (0.05) |

Activities in the fourth quarter of 2008 that have material effects on the Corporation's financial condition, cash flows or results of operations:

- Heating costs during the winter period from October to March were much higher than the summer period from April to September.
- During the quarter, the Corporation acquired six new buildings with a total of 195 units. All of these properties will require substantial renovation and capital improvement to bring them to the Corporation's standard. The rental rates will be increased substantially after the renovation. This stabilization process is expected to be completed in the next 6 to 24 months. The Corporation expects to have higher revenue and operating income generated from these properties thereafter.
- The average vacancy rate during the quarter was 18.5% compared with 20.1% for the financial year 2008.
- During the quarter, the Corporation refinanced \$18.3 million short-term and matured mortgage loans for \$50.2 million. The average interest rate for these mortgages dropped from 5.78% to 4.45% and funds of \$33 million were raised from the re-financing. The financing cost of \$1.3 million was incurred for the refinancing which was charged to the income for the quarter ended September 30, 2008.
- An additional provision of \$370,000 for salaries and bonus was made during the quarter.

Same Assets Properties

Same assets properties are defined as properties owned by the Corporation for the entire years of 2007 and 2008. As of September 30, 2008, 87 properties (4,287 units) out of 118 properties (5,562 units) were regarded as same assets properties.

| (thousands of dollars) | 2008 | 2007 | % change |
|------------------------------------|-----------|-----------|----------|
| Same assets – rental revenues | \$ 39,944 | \$ 37,831 | 6% |
| Same assets – operating costs | \$ 15,959 | \$ 14,219 | 12% |
| Same assets – net operating income | \$ 23,985 | \$ 23,612 | 2% |
| Same assets – operating margin | 60% | 62% | |

Same assets rental revenue increased marginally by 6% in 2008 to \$39.9 million from \$37.8 million in 2007. This was mainly the result of newly renovated rental units being reintroduced into the market at higher rental rates, particularly in Alberta. The increase, however, was largely offset by rental loss due to the high vacancy rate during the renovation period.

Same assets operating costs increased by 12% compared to 2007, mainly due to increased costs for repairs and maintenance, and building material and labour. In addition, advertising expenses and utility costs for vacant suites have increased substantially due to higher vacancy and tenant turnover rates, especially in Edmonton which experienced rent increases, delays in the stabilization process, and a labour shortage. Property tax, particularly in Alberta, has also increased substantially due to a jump in the value of properties and respective tax rate.

As a result, the operating margin dropped slightly to 60% in 2008 compared to 62% in 2007.

Stabilized Properties

A property is considered stabilized when 90% of its units have been renovated or repositioned in the market at market rents. Due to the tenancy acts, the time frame for the completion of the stabilization process varies. In Alberta and Saskatchewan, the stabilization process can be completed within one year, whereas in Toronto and British Columbia it can take more than three years due to a strict rent control. As of September 30, 2008, 71 properties (3,542 units) out of 118 properties (5,562 units) were stabilized. As previously noted, during the stabilization process Mainstreet's performance is affected adversely due to lower rental revenue, and higher vacancy rates and operating expenses. A more relevant performance measurement of the Corporation is funds from operations from the stabilized properties.

Funds from Operations for Stabilized Properties

| | For the three months ended September 30, 2008 | | | For the year ended September 30, 2008 | | |
|--|--|----------------------------------|----------|--|----------------------------------|-----------|
| (thousands of dollars except per share amount) | Stabilized properties | Non- Stabilized properties | Total | Stabilized properties | Non- Stabilized properties | Total |
| Rental revenue | \$ 9,295 | \$ 2,918 | \$12,213 | \$33,642 | \$12,549 | \$ 46,191 |
| Property operating expenses | \$ 3,450 | \$ 1,403 | \$ 4,853 | \$12,417 | \$ 7,166 | \$ 19,583 |
| Net operating income | \$ 5,845 | \$ 1,515 | \$ 7,360 | \$21,225 | \$ 5,383 | \$ 26,608 |
| Operating margin | 63% | 53% | 60% | 63% | 43% | 58% |
| Interest income | \$ 35 | \$ 19 | \$ 54 | \$ 158 | \$ 90 | \$ 248 |
| General & administrative expenses | \$ 1,141 | \$ 698 | \$ 1,839 | \$ 3,608 | \$ 2,114 | \$ 5,722 |
| Financing cost | \$ 1,156 | \$ 111 | \$ 1,267 | \$ 2,147 | \$ 438 | \$ 2,585 |
| Mortgage and other interest | \$ 2,712 | \$ 1,268 | \$ 3,980 | \$ 9,737 | \$ 4,949 | \$ 14,686 |
| Current income taxes | \$ (16) | \$ (9) | \$ (25) | \$ 51 | \$ 29 | \$ 80 |
| Funds from operations from continuing operations before sale of properties held for resale | \$ 887 | \$ (534) | \$ 353 | \$ 5,840 | \$ (2,057) | \$ 3,783 |
| Per share | | | | | | |
| – basic | \$ 0.06 | \$ (0.04) | \$ 0.02 | \$ 0.40 | \$ (0.14) | \$ 0.26 |
| – fully diluted | \$ 0.06 | \$ (0.04) | \$ 0.02 | \$ 0.40 | \$ (0.14) | \$ 0.26 |

The performance of stabilized properties for the year has been adversely affected by the following factors.

General and administrative (“G&A”) expenses increased due to expansion of Mainstreet’s overall portfolio, particularly in Saskatoon and 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. The Corporation also increased the scope of its management team by creating the position of Chief Operating Officer to manage the growth, and increased the salaries of senior management and the President and Chief Executive Officer. As a result, the payroll cost for senior management increased by about \$1 million compared to 2007.

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.

During the year, the Corporation refinanced approximately \$56 million of debt under CMHC-insured, long-term mortgage loans at an average interest rate 4.45%. The refinancing raised about \$35 million in additional funds. In addition, the Corporation obtained a \$50 million revolving line of credit. The funds raised will be used to finance the Corporation’s future growth and stabilization program. Total financing costs amounted to \$2.6 million (\$1.5 million – 2007).

Acquisitions

REVENUE PRODUCING PROPERTIES

| (thousands of dollars except as noted) | 2008 | 2007 |
|--|--------------------------------------|---|
| | Abbotsford, Calgary, Saskatoon | Abbotsford, Edmonton, Saskatoon, Toronto |
| Geographic markets | | |
| Rental units (number) | 312 | 963 |
| Total purchase costs | \$ 25,620 | \$ 56,028 |
| Average price per unit ¹ | \$ 82 | \$ 58 |

1. Does not include cost of significant capital improvements.

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 2008, the Corporation purchased nine buildings in Abbotsford, Calgary and Saskatoon for \$25.6 million, adding 312 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 \$82,000, well below the estimated market value and replacement cost.

Divestitures

The Corporation sold four properties (86 units) in Brooks, Alberta for a total consideration of \$7.3 million, resulting in a gain of \$726,000 before tax. These properties, which were not aligned with Mainstreet's Value Chain business model, were acquired in fiscal 2007 because of their high potential for resale at a considerable profit.

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 as income tax payments. In 2008, after payments of all required expenses, Mainstreet generated funds from operations of \$4.5 million. The Corporation expects that funds generated from operations will be sufficient to meet the working capital requirements in 2009. The Corporation also has operating lines of credit of \$53.5 million. As of the year-end date, no amount was drawn on these credit facilities.

OTHER CAPITAL REQUIREMENTS AND MANAGEMENT OF CAPITAL

Mainstreet also requires sufficient capital to finance continued growth and capital improvements.

Management monitors liquidity and capital resources very closely to ensure that the Corporation has sufficient liquid resources to fund the day-to-day operations, capital expenditure and future growth.

At September 30, 2008, the Corporation had a cash balance of \$8.5 million and unused credit facilities of \$53.5 million.

The Corporation also has ability to raise substantial amount of fund through refinancing of the existing short-term and maturing mortgage loans through CHMC long-term insured mortgages. Even with the recent changes in economic conditions which led to major financial institutions tightening their borrowing requirements, the Corporation was able to obtain approximately \$81 million in long-term, CMHC-insured mortgages through financing of properties after stabilization, and refinancing of short-term and matured mortgages subsequent to the year-end date. Of the \$81 million mortgages, \$30 million was funded, \$43 million was committed and expected to be funded by the first quarter of 2009, and the balance is expected to be committed by the end of December 2008. Additional funds of \$53 million are expected to be raised through refinancing. Management believes these resources will be sufficient to meet other capital requirements.

CONTRACTUAL OBLIGATIONS

As of September 30, 2008, 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 | 2009 | 2010 | 2011 | 2012 | 2013 | Subsequent |
|------------------------|------------|-----------|-----------|----------|----------|-----------|------------|
| Mortgages payable | \$ 308,313 | \$ 93,463 | \$ 15,561 | \$ 5,636 | \$ 9,906 | \$ 54,459 | \$ 129,288 |

DEBT

| (thousands of dollars) | Amount | Average interest rate (%) |
|------------------------|------------|---------------------------|
| Fixed rate debt | | |
| – CMHC-insured | \$ 231,435 | 4.94% |
| – non-CMHC-insured | \$ 24,047 | 5.48% |
| Total fixed rate debt | \$ 255,482 | 4.99% |
| Floating rate debt | | |
| – non-CMHC-insured | \$ 52,831 | 6.00% |
| | \$ 308,313 | 5.17% |

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, 2008, mortgages payable were \$308 million, compared with \$270 million at September 30, 2007. 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, 2008, Mainstreet's financial position was stable with overall mortgage levels reported at 98% of depreciated book value and 49% of estimated market value. About 75% 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 rate debt. During the year ended September 30, 2008, the Corporation converted and refinanced \$21 million of short-term and matured mortgages to \$56 million long-term (five-year to 10-year term) CMHC-insured mortgages. The average interest rate of these mortgages was reduced from 5.74% to 4.45%. As well, \$35 million of additional funds were raised for capital improvements and acquisitions.

MORTGAGE MATURITY SCHEDULE

| Year of maturity | Balance maturing (thousands of dollars) | % of debt maturing | Weighted average rate on expiry (%) |
|------------------|--|-----------------------|---|
| 2009 | \$ 84,858 | 27% | 5.48% |
| 2010 | \$ 15,295 | 5% | 6.25% |
| 2011 | \$ 1,843 | 1% | 6.32% |
| 2012 | \$ 4,660 | 2% | 4.60% |
| 2013 | \$ 53,949 | 17% | 4.46% |
| Subsequent | \$ 147,708 | 48% | 5.14% |
| Total | \$ 308,313 | 100% | 5.17% |

Approximately 27% of mortgage loans will mature within the next 12 months. Most of these mortgages are short-term, floating rate loans raised for acquisition of non-stabilized properties. When these properties are stabilized, these loans will be converted to long-term, CMHC-insured mortgages.

Subsequent to the year-end date, the Corporation obtained approval from CMHC to convert and refinance approximately \$25 million short-term and matured mortgage loans to long-term CMHC-insured mortgages

for about \$81 million. The average interest rate for these mortgage loans is expected to drop from 6.13% to 4.4%, and \$53 million of additional funds will be raised for Mainstreet's future expansion.

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 fiscal year-end dated September 30, 2008 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, 2008. There were no significant changes to Mainstreet's disclosure controls and procedures in 2008.

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 which has materially affected, or is reasonable likely to materially affect, Mainstreet's internal control over financial reporting.

While the CEO and CFO 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.

Financial Instruments and Their Risk Management

Mainstreet's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, other receivable, deposits, accounts payable, accrued liabilities and mortgages. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows.

The fair values of cash and cash equivalents, accounts receivable, other receivable, deposits, accounts payable, accrued liabilities and mortgages approximate their carrying amount due to the short-term maturity of those instruments.

The fair value of financial assets and liabilities were as follows:

| (000s) | September 30, 2008 | | September 30, 2007 | |
|-------------------------------|--------------------|------------|--------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets: | | | | |
| Restricted cash | \$ 1,576 | \$ 1,576 | \$ 1,967 | \$ 1,967 |
| Cash and cash equivalents | 8,485 | 8,485 | 3,223 | 3,223 |
| Accounts receivable | 219 | 219 | 306 | 306 |
| Other receivable and deposits | 5,399 | 5,399 | 2,471 | 2,471 |
| Financial liabilities: | | | | |
| Mortgages | 308,313 | 307,994 | 269,627 | 271,033 |
| Convertible debentures | – | – | 16,295 | 16,295 |
| Accounts payable | 5,345 | 5,345 | 5,024 | 5,024 |
| Refundable security deposits | \$ 2,066 | \$ 2,066 | \$ 1,967 | \$ 1,967 |

RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk.

MARKET RISK

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, is comprised of the following:

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$85 million are subject to renewal in the next 12-month period. 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. A 1% change in the prime lending rate would have resulted in a change of \$528,000 in interest expense for the year ended September 30, 2008.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Corporation incurring a financial loss. 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. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management. In managing liquidity risk, the Corporation has access to mortgage refinancing at competitive rates and a line of credit facility. As at September 30, 2008, Mainstreet had available unused bank credit facilities in the amount of \$53.5 million.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

| (thousands of dollars) | 1 year | 2 years | 3 years | 4 years | Beyond 4 years | Total |
|------------------------------|-----------|-----------|----------|----------|-------------------|------------|
| Mortgages payable | \$ 93,463 | \$ 15,560 | \$ 5,636 | \$ 9,906 | \$ 183,748 | \$ 308,313 |
| Accounts payable | 5,345 | — | — | — | — | 5,345 |
| Refundable security deposits | \$ 2,066 | — | — | — | — | \$ 2,066 |

Share Capital

Authorized and issued:

Unlimited number of common voting shares

Unlimited number of preferred shares

| | 2008 | | 2007 | |
|--|---------------------|-----------|---------------------|-----------|
| (thousands of dollars except for number of shares) | Number of shares | Amount | Number of shares | Amount |
| Issued and outstanding, beginning of the year | 11,910,393 | \$ 18,837 | 9,534,493 | \$ 3,901 |
| Issued pursuant to conversion of debenture | 2,853,280 | 18,794 | 2,394,400 | 14,965 |
| Purchase and cancellation of shares | (275,797) | (703) | (18,500) | (29) |
| Issued and outstanding, end of year | 14,487,876 | \$ 36,928 | 11,910,393 | \$ 18,837 |

On June 28, 2007, the Corporation obtained approval from the Toronto Stock Exchange (TSX) to purchase up to 500,000 common shares under a Normal Course Issuer Bid, expiring July 2, 2008. During the financial year ended September 30, 2008, the Corporation purchased for cancellation 275,797 shares for cash consideration of \$3,790,000, of which \$703,000 has been charged to share capital, representing the average value of the common shares repurchased, and \$3,087,000 has been charged to contributed surplus, which represents the excess of average value of the common shares purchased for cancellation.

The Corporation also obtained approval from the TSX to continue the share repurchase of up to 700,000 common shares under a Normal Course Issuer Bid commencing August 1, 2008. All 700,000 common shares were purchased by November 25, 2008.

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 options 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, 2008 and 2007, and changes during the years ended on those dates is presented below:

| | 2008 | | 2007 | |
|--|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Stock option | | | | |
| Outstanding and exercisable, beginning of year | 318,700 | \$ 15.02 | – | – |
| Granted | – | – | 318,700 | \$ 15.02 |
| Exercised | – | – | – | – |
| Outstanding and exercisable, end of year | 318,700 | \$ 15.02 | 318,700 | \$ 15.02 |

In 2007, the Corporation granted stock options to the President and Chief Executive Officer to purchase 318,700 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 options 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: a risk free interest rate of 3.95%; expected life of the option of five years; annualized expected volatility rate of 88%; and an 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 in 2007. As of September 30, 2008, none of the share options had been exercised.

Significant Accounting Policies and Estimates

GENERAL

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

BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("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 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 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 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 are 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 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 intangible assets acquired.

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 that 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.

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. For the years ended September 30, 2008 and 2007, there were no other comprehensive income items.

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 income. 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.

The Corporation has elected to account for all transaction costs in net income.

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:

| | 2008 | | 2007 | |
|------------------------|----------------|-------------------|----------------|-------------------|
| (thousands of dollars) | Carrying value | Fair market value | Carrying value | Fair market value |
| Mortgages payable | \$ 308,313 | \$ 307,944 | \$ 269,627 | \$ 271,033 |
| Convertible debentures | – | – | \$ 16,295 | \$ 16,295 |

EARNINGS PER SHARE

Basic net (loss) earnings per share are 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 is 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 substantively 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 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 2008 fiscal year amounted to \$355,000 (2007 – \$623,000).

The Corporation paid legal and professional fees and reimbursements amounting to \$113,000 (2007 – \$159,000) 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 purchased by the participants.

Proposed Transactions

Subsequent to the year ended September 30, 2008, and the date on which the Board of Directors approved these financial statements on December 12, 2008, the Corporation acquired two properties, consisting of 84 units of residential apartments in Abbotsford, British Columbia and Saskatoon, Saskatchewan for consideration of \$7.2 million. The transactions were completed in cash on October 22, 2008 and November 12, 2008 respectively.

On December 9, 2008, the Corporation announced its intention to offer to purchase up to 4,000,000 common shares of the Corporation at a purchase price of \$6.25 per common share on an aggregate amount of \$25 million. The offer expires on or about January 20, 2009.

Appraisal Report

The market value of Mainstreet’s properties held on September 30, 2008 was determined by the following qualified appraisers:

| Location | Name of appraisers | Qualification | Firm |
|--|---------------------------|---------------|---|
| Vancouver Lower Mainland (Abbotsford and Surrey) | Ben McCallum & James Glen | AACI | Colliers International Realtors Advisors Inc. |
| Calgary and Edmonton | Tony Omura & Ken Ho | AACI | Wernick Omura Ltd, Calgary |
| Saskatoon | Tony Omura | AACI | Wernick Omura Ltd, Calgary |
| Greater Toronto Area | Sanford Mandel | AACI | Sanford Mandel & Associates Inc.,Toronto |

Mainstreet’s total portfolio is valued at \$625 million. The breakdown of the market value by cities is as follows:

| | Number of units | Market value (\$ million) | Average value per unit (\$) | Average value capitalization rate |
|--|-----------------|---------------------------|-----------------------------|-----------------------------------|
| Calgary, Alberta | 1,277 | \$ 190 | \$ 149,000 | 6.25% |
| Edmonton, Alberta | 1,789 | \$ 195 | \$ 109,000 | 7.00% |
| Saskatoon, Saskatchewan | 551 | \$ 50 | \$ 91,000 | 6.58% |
| Greater Toronto Area, Ontario | 664 | \$ 46 | \$ 69,000 | 6.50% |
| Vancouver/Lower Mainland (Abbotsford and Surrey), B.C. | 1,281 | \$ 141 | \$ 110,000 | 5.96% |
| Property held for resale (Calgary, Alberta) | 22 | \$ 3 | \$ 136,000 | 6.00% |
| Total | 5,584 | \$ 625 | \$ 112,000 | 6.46% |

- 1. AACI is an Accredited Appraiser of the Canadian Institute.
- 2. The appraised value above does not include excess land and condo conversion values.
- 3. The actual selling value of these properties, which may be eventually realized by the Corporation, may be substantially different from the appraised values and will depend on market conditions at the time of the sale.

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 and economic conditions, are affordable when financing is available and interest rates are low. 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 encourage 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 \$85 million are subject to renewal in the 2009 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 Canada Mortgage and Housing Corporation (CMHC) under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

UTILITIES 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 contracts, 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 RISK

Mainstreet anticipates that it will make substantial capital expenditures for the acquisition of properties in the future. There can be no assurance that debt or equity financing, or cash generated by operations, will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Mainstreet. Moreover, future activities may require Mainstreet to alter its capitalization significantly. The inability of Mainstreet to access sufficient capital for its operations could have a material adverse effect on Mainstreet's financial condition, 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 a material adverse effect on the Corporation. Mainstreet does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations are likely to be of central importance. In addition, 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 RISK

Mainstreet intends to file all required income tax returns and believes that it will be in full compliance with the provisions of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Mainstreet, whether by re-characterization and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

LEGISLATIVE CHANGES

On June 1, 2007, the Tenancies Statutes Amendment Act, R.S.A. 2007, c. 11 (the "TSAA") received Royal Assent, and the Residential Tenancies Ministerial Amendment Regulation, Alta. Reg. 115/2007 (the "RTMAR") was filed. Both the TSAA and the RTMAR were deemed to have come into force on April 24, 2007, making significant amendments to the legislation relating to rental accommodation in Alberta.

The most significant changes focused on: (1) the frequency at which an owner can increase rents, and (2) the notice period required when an owner is contemplating a demolition, a significant renovation or a condominium conversion.

- (1) *Rental increase limited to once per year* – In general terms, the legislation now 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 the new provisions do not limit the amount by which rents can be increased at these intervals.
- (2) *Notice for extensive renovations or condominium conversion* – In general terms, the legislation now stipulates that, when an owner wishes to convert an existing rental property to a condominium, when an owner wishes to demolish a building in which the residential premises of a tenant are located, or when an owner wishes to make major renovations to the residential premises of a tenant, that owner must give each tenant a notice of at least one year in order to terminate the tenant's tenancy. Furthermore, the owner will not be able to increase its tenants' rents at any time during the notice period. Previously, the legislation only required a notice period of six months.

It should be emphasized that the amendments have not made changes to or imposed any new limitations regarding the amount of rent that can be charged in Alberta. Thus, the amendments do not place any new limitations upon the amounts that can be charged to new renters renting from Mainstreet.

Currently, more than 55% of Mainstreet's rental portfolio is in Alberta. However, the change in the legislation does not have any material financial impact on Mainstreet, as the amendments will simply delay rent increases to existing tenants in Alberta.

On October 25, 2007, the Alberta Government released a new policy with respect to the royalty policy relating to oil and natural gas production in the Province of Alberta. The new policy increased the royalties charged on oil and gas on a sliding scale basis based on the price of the related commodity, which increased royalties changed to approximately 50% from 35% for natural gas and conventional oil and makes provisions for additional royalties to be charged for oil production from 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 rise in 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.

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed the changeover to International Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also used Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations.

Although the Corporation has not completed development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, prior to December 31, 2009.

Challenges

Stabilization. As of mid-December 2008, Mainstreet did not achieve its goal of 95% stabilization of Edmonton and Saskatoon properties. The bottom line is Mainstreet did not have these suites ready in time for the peak rental season in July and August. The corporation did, however, complete 90% of the renovations in Edmonton and 85% of renovations in Saskatoon by December 15, 2008. These units are ready for the next rental season. At fiscal year-end, 36% of our portfolio remained non-stabilized.

Labour availability. The human resource shortage Mainstreet faced in the past two years appears to be almost behind the corporation, due to the slowdown of the economy and increase in unemployment rate. In addition, Mainstreet has brought in 18 foreign contract laborers, and has begun their training program. Mainstreet also plans to take advantage of the economic downturn and add more senior-level resources to its management team in preparation for future growth.

Outlook

With renovations substantially complete now for non-stabilized properties in Saskatoon and Edmonton, in 2009 Mainstreet will focus on marketing and leasing the suites. Once stabilization of these properties is achieved, Management expects a significant increase in revenues in 2009. Management also expects increased revenues from the Corporation's B.C. properties after they have been stabilized, which is expected within the next 6-24 months. Because it is a fixed-cost business, all additional income resulting from each percentage point drop in vacancy rate will flow through to the bottom line.

The Corporation has the ability to raise more cash in 2009 by refinancing its B.C. portfolio, which is currently under-leveraged with a debt to market value ratio of 54%; the market value of the B.C. portfolio was determined by Colliers International Realty Advisors Inc. Refinancing these properties in 2009 under long-term, fixed mortgages at reduced interest rates is expected to reduce financing costs and give Mainstreet more capital to expand. As well, Mainstreet's overall portfolio includes ten clear-title assets, which can be leveraged to raise cash for continued expansion.

Management feels Mainstreet stock is extremely undervalued, and has made a substantial issuer bid to purchase four million shares by a closing date of January 20, 2008.

Mainstreet will continue to pursue accretive acquisitions in this opportunistic environment, focusing on distressed, mid-market, multi-family buildings that it can add value to through its Value Chain process.

The Corporation will also continue working to mitigate risk and reduce the cost of debt through refinancing. Management's goal is to convert all floating debt in the existing portfolio to fixed, long-term CMHC debt. At year-end, Mainstreet's floating rate debt stood at \$53 million. Subsequent to year-end, \$11.3 million or 21% of that has been refinanced at an average interest rate of 3.9% under long-term, CMHC-insured debt. As of the publication date of this report, our remaining floating rate debt was \$41.7 million.

In addition to the Corporation's solid cash position and strong market fundamentals, Mainstreet has a successful 10-year record of acquiring distressed properties and adding value. The Corporation also has the systems and people in place to operate its business efficiently and keep costs down. 2009 will be a turbulent year for the global economy, and yet Management believes it will be a year of opportunity for Mainstreet.

ADDITIONAL INFORMATION

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

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

December 12, 2008

[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, 2008 and 2007 and the statements of loss, comprehensive loss 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, 2008 and 2007 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

December 8, 2008
Calgary, Alberta

Balance Sheets

(Thousands of dollars)

As at September 30

2008

2007

ASSETS

| | | |
|--|-------------------|-------------------|
| Real estate properties [Note 2] | \$ 314,242 | \$ 285,834 |
| Properties held for resale [Note 1] | 2,100 | 8,377 |
| Other assets [Note 3] | 5,688 | 2,803 |
| Future income tax recoverable [Note 7] | 5,424 | 4,276 |
| Restricted cash [Note 4] | 1,576 | 1,967 |
| Cash and cash equivalents [Note 1, 15] | 8,485 | 3,223 |
| | \$ 337,515 | \$ 306,480 |

LIABILITIES

| | | |
|--------------------------------|-------------------|-------------------|
| Mortgages payable [Note 5] | \$ 308,313 | \$ 269,627 |
| Convertible Debenture [Note 6] | – | 16,295 |
| Accounts payable | 5,345 | 5,024 |
| Refundable security deposits | 2,066 | 1,967 |
| | \$ 315,724 | \$ 292,913 |

SHAREHOLDERS' EQUITY

| | | |
|---|-------------------|-------------------|
| Share capital [Note 8] | \$ 36,928 | \$ 18,837 |
| Equity component of convertible debenture | – | 2,500 |
| Contributive surplus | 302 | 3,389 |
| Deficit | (15,439) | (11,159) |
| | 21,791 | 13,567 |
| | \$ 337,515 | \$ 306,480 |

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 | 2008 | 2007 |
|---|--------------------|--------------------|
| Revenue | | |
| Rental income | \$ 46,191 | \$ 40,385 |
| Net gain on sale of properties held for resale | 726 | – |
| Interest income | 248 | 390 |
| | 47,165 | 40,775 |
| Expenses | | |
| Property operating expenses | 19,777 | 15,930 |
| Utility rebate | (194) | (238) |
| General and administrative expenses | 5,722 | 3,641 |
| Financing costs | 2,585 | 1,527 |
| Mortgage and debenture interest | 14,686 | 15,076 |
| Depreciation | 9,936 | 8,085 |
| Stock compensation expense [Note 9] | – | 3,389 |
| | 52,512 | 47,410 |
| Loss before income taxes | (5,347) | (6,635) |
| Income taxes (recovery) expense [Note 7] | | |
| – current | 80 | 120 |
| – future | (1,147) | (650) |
| | (1,067) | (530) |
| Net loss for the year including comprehensive income | (4,280) | (6,105) |
| (Deficit) Retained earnings, beginning of year | (11,159) | (1,659) |
| Prior period adjustment [Note 1] | – | (3,123) |
| (Deficit) retained earnings, beginning of year restated | (11,159) | (4,782) |
| Excess over the average value of the shares purchased for cancellation [Note 8] | – | (272) |
| Deficit, end of year | \$ (15,439) | \$ (11,159) |
| Loss per share – Basic and diluted [Note 10] | \$ (0.29) | \$ (0.56) |

See accompanying notes to the financial statements.

Statements of Cash Flows

(Thousands of dollars)

For the years ended September 30

2008

2007

Cash obtained from (used in):

Operating activities

| | | |
|---|-----------------|-----------------|
| Net loss | \$ (4,280) | \$ (6,105) |
| Items not affecting cash | | |
| Stock compensation expense | – | 3,389 |
| Accretion of debentures charged to interest | – | 314 |
| Depreciation | 9,936 | 8,085 |
| Future income taxes | (1,147) | (650) |
| Gain on sale | (726) | – |
| | \$ 3,783 | \$ 5,033 |

Cash from discontinued operations

| | | |
|---------------------------------------|--------------|--------------|
| Change in non-cash operating balances | | |
| Other assets | (2,886) | 656 |
| Restricted cash | 391 | (610) |
| Accounts payable | 321 | 1,637 |
| Refundable security deposits | 99 | 610 |
| Cash flow from operating activities | 1,708 | 7,326 |

Financing activities

| | | |
|---|---------------|---------------|
| Financing of real estate properties | 89,223 | 90,087 |
| Repayment of secured debts on revenue producing properties, and other debts | (50,537) | (41,262) |
| Shares purchased for cancellation | (3,791) | (302) |
| | 34,895 | 48,523 |

Investing activities

| | | |
|---|-----------------|-----------------|
| Net proceeds on sale of real estate property | 7,145 | – |
| Purchase of and addition to real estate properties | (38,344) | (58,292) |
| Purchase of and addition to real estate held for resale | (142) | (8,377) |
| | (31,341) | (66,669) |

| | | |
|--|-------|----------|
| Net increase (decrease) in cash and cash equivalents | 5,262 | (10,820) |
|--|-------|----------|

| | | |
|--|-------|--------|
| Cash and cash equivalents, beginning of year | 3,223 | 14,043 |
|--|-------|--------|

| | | |
|--|-----------------|-----------------|
| Cash and cash equivalents, end of year | \$ 8,485 | \$ 3,223 |
|--|-----------------|-----------------|

Cash and cash equivalents (bank indebtedness) comprise of:

| | | |
|---------------------|-----------------|-----------------|
| Cash | \$ 3 | \$ 114 |
| Bank Indebtedness | \$ (608) | \$ (1,860) |
| Short-term deposits | \$ 9,090 | \$ 4,969 |
| | \$ 8,485 | \$ 3,223 |

| | | |
|-------------------|--------|--------|
| Income taxes paid | \$ 120 | \$ 120 |
|-------------------|--------|--------|

| | | |
|---------------|-----------|-----------|
| Interest paid | \$ 15,116 | \$ 16,851 |
|---------------|-----------|-----------|

See accompanying notes to the financial statements.

Notes to Financial Statements

For the years ended September 30, 2008 and 2007

(Tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

GENERAL

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

BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("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 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 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 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 are 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 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 intangible assets acquired.

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.

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. For the financial year ended September 30, 2008 and 2007, there were no other comprehensive income items.

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. Financial assets available for sale are measured at fair value, with changes in those fair values recorded directly in net income. 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.

The Corporation has elected to account for all transaction costs in net income. 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.

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:

| | 2008 | | 2007 | |
|------------------------|----------------|-------------------|----------------|-------------------|
| | Carrying value | Fair market value | Carrying value | Fair market value |
| Mortgages payable | \$ 308,313 | \$ 307,944 | \$ 269,627 | \$ 271,033 |
| Convertible debentures | – | – | \$ 16,295 | \$ 16,295 |

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 substantively enacted tax rates that will be in effect when the differences are expected to reverse.

2. REAL ESTATE PROPERTIES

| 2008 | | | | 2007 | | |
|------------------------|------------|--------------------------|----------------|------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Land | \$ 101,646 | \$ – | \$ 101,646 | \$ 91,309 | \$ – | \$ 91,309 |
| Buildings | 210,493 | 21,095 | 189,398 | 194,300 | 16,015 | 178,285 |
| Building improvements | 40,145 | 18,205 | 21,940 | 29,000 | 13,610 | 15,390 |
| Furniture and fixtures | 2,191 | 933 | 1,258 | 1,523 | 673 | 850 |
| | \$ 354,475 | \$ 40,233 | \$ 314,242 | \$ 316,132 | \$ 30,298 | \$ 285,834 |

ACQUISITIONS OF APARTMENT BUILDINGS

| | 2008 | 2007 |
|----------------------------------|-----------|-----------|
| Mortgages arranged | \$ 2,899 | \$ 29,033 |
| Debt assumed at fair value | 3,999 | 7,462 |
| Cash paid | 18,722 | 19,533 |
| Total purchase price | \$ 25,620 | \$ 56,028 |
| Allocation of the purchase price | | |
| Land | \$ 10,337 | \$ 22,518 |
| Buildings | \$ 15,283 | \$ 33,510 |
| | \$ 25,620 | \$ 56,028 |
| Units acquired | 312 | 963 |

The properties purchased during the year require 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.

3. OTHER ASSETS

| | 2008 | 2007 |
|-------------------------------|-----------------|-----------------|
| Accounts receivable | \$ 219 | \$ 306 |
| Other receivable | 3,314 | 596 |
| Loans to employees [note 14c] | 980 | 980 |
| Deferred rent concession | 70 | 26 |
| Deposits and prepayments | 1,105 | 895 |
| | \$ 5,688 | \$ 2,803 |

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 5.17% (2007 – 5.86%) per annum, are payable in monthly principal and interest installments totaling \$1,724,000 (2007 – \$1,652,000), maturing from 2009 to 2018 and are secured by specific charges against specific properties, having a carrying value of \$316,342,000 (2007 – \$294,211,000) and several personal guarantees of certain directors to the extent of \$9,912,000 (2007 – \$15,355,000).

| | 2008 | 2007 |
|--|-------------------|-------------------|
| | \$ 308,313 | \$ 269,627 |

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

| Year | Amount |
|------------|-------------------|
| 2009 | \$ 93,463 |
| 2010 | 15,561 |
| 2011 | 5,636 |
| 2012 | 9,906 |
| 2013 | 54,459 |
| Subsequent | 129,289 |
| | \$ 308,313 |

6. CONVERTIBLE DEBENTURES

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 commons shares with the exception of \$1,000 principal amount, which was redeemed on November 6, 2007.

7. INCOME TAXES

The income tax recovery

| | 2008 | 2007 |
|---------------------|-----------------|---------------|
| Income tax recovery | \$ 1,067 | \$ 530 |

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:

| | 2008 | 2007 |
|--|-------------------|------------|
| Statutory tax rate | 31.74% | 34.54% |
| Computed expected tax recovery | \$ (1,697) | \$ (2,292) |
| Non-taxable portion of capital gain | (97) | – |
| Non deductible interest on convertible debenture | – | 99 |
| Stock compensation expense not deductible | – | 1,704 |
| Others | 5 | (339) |
| Adjustment for change in statutory tax rate | 642 | 178 |
| Large corporation tax | 80 | 120 |
| Income tax recovery | \$ (1,067) | \$ (530) |

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

| | 2008 | 2007 |
|---|-----------------|----------|
| Tax assets related to operating losses | \$ – | \$ – |
| Tax assets related to differences in tax and book basis | 5,424 | 4,276 |
| | \$ 5,424 | \$ 4,276 |

8. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and outstanding:

| | 2008 | | 2007 | |
|---|-------------------|------------------|------------------|-----------|
| | Number of shares | Amount | Number of shares | Amount |
| Issued and outstanding, beginning of the year | 11,910,393 | \$ 18,837 | 9,534,493 | \$ 3,901 |
| Issued pursuant to conversion of debenture | 2,853,280 | 18,794 | 2,394,400 | 14,965 |
| Purchase and cancellation of shares | (275,797) | (703) | (18,500) | (29) |
| Issued and outstanding, end of year | 14,487,876 | \$ 36,928 | 11,910,393 | \$ 18,837 |

On June 28, 2007, the Corporation obtained approval from the TSX to purchase for up to 500,000 common shares under a Normal Course Issuer Bid, expiring July 2, 2008. During the financial year ended September 30, 2008, the Corporation purchased for cancellation 275,797 shares for cash consideration of \$ \$3,790,000. \$703,000 has been charged to share capital, representing the average value of the common shares redeemed and \$ 3,087,000 has been charged to contributed surplus, which represents the excess of average value of the shares purchased for cancellation.

The Corporation has also obtained approval from the TSX to continue the share repurchase up to 700,000 common shares under a Normal Course Issuer Bid commencing August 2008 till July 2009.

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 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, 2008 and 2007, and changes during the years ended on those dates is presented below:

| | 2008 | | 2007 | |
|--|------------------|---------------------------------|------------------|---------------------------------|
| Stock option | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Outstanding and exercisable, beginning of year | 318,700 | \$ 15.02 | – | – |
| Granted | – | – | 318,700 | \$ 15.02 |
| Exercised | – | – | – | – |
| Expired | | | | |
| Outstanding and exercisable, end of year | 318,700 | \$ 15.02 | 318,700 | \$ 15.02 |

In 2007, the Corporation granted stock options to the President and Chief Executive Officer to purchase 318,700 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 5 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 in 2007. As of September 30, 2008, 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 year.

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:

| | 2008 | 2007 |
|--|------------|------------|
| Numerator | | |
| Net loss | \$ (4,280) | \$ (6,105) |
| Denominator | | |
| – Denominator for basic earnings per share | | |
| Weighted average shares | 14,560,145 | 10,836,293 |
| Effect of diluted earnings per share | – | – |
| – Denominator for diluted earnings per share | 14,560,145 | 10,836,294 |
| Basic earnings per share | \$ (0.29) | \$ (0.56) |
| Diluted earnings per share | \$ (0.29) | \$ (0.56) |

Due to reported losses, the dilution calculation does not include the stock options of 318,700 shares. If included, this item would be anti-dilutive and therefore it is not included in the computation of diluted loss per share.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Mainstreet’s financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, other receivable, deposits, accounts payable, accrued liabilities and mortgages. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows.

The fair values of cash and cash equivalents, accounts receivable, other receivable, deposits, accounts payable, accrued liabilities and mortgages approximate their carrying amount due to the short-term maturity of those instruments.

The fair value of financial assets and liabilities were as follows:

| | September 30, 2008 | | September 30, 2007 | |
|-------------------------------|--------------------|------------|--------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets: | | | | |
| Restricted cash | \$ 1,576 | \$ 1,576 | \$ 1,967 | \$ 1,967 |
| Cash and cash equivalents | 8,485 | 8,485 | 3,223 | 3,223 |
| Accounts receivable | 219 | 219 | 306 | 306 |
| Other receivable and deposits | 5,399 | 5,399 | 2,471 | 2,471 |
| Financial liabilities: | | | | |
| Mortgages | 308,313 | 307,994 | 269,627 | 271,033 |
| Convertible debentures | – | – | 16,295 | 16,295 |
| Accounts payable | 5,345 | 5,345 | 5,024 | 5,024 |
| Refundable security deposits | \$ 2,066 | \$ 2,066 | \$ 1,967 | \$ 1,967 |

RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk.

MARKET RISK

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, is comprised of the following:

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$85 million are subject to renewal in the next 12 month period. 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. A 1% change in the prime lending rate would have resulted in a change of \$528,000 in interest expense for the year ended September 30, 2008.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Corporation incurring a financial loss. 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. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management. In managing liquidity risk, the Corporation has access to mortgage refinancing at competitive rates and a line of credit facility. As at September 30, 2008, Mainstreet had available unused bank credit facilities in the amount of \$53.5 million.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

| | 1 year | 2 years | 3 years | 4 years | Beyond 4 years | Total |
|------------------------------|-----------|-----------|----------|----------|-------------------|------------|
| Mortgages payable | \$ 93,463 | \$ 15,560 | \$ 5,636 | \$ 9,906 | \$ 183,748 | \$ 308,313 |
| Accounts payable | 5,345 | – | – | – | – | 5,345 |
| Refundable security deposits | 2,066 | – | – | – | – | 2,066 |

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

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

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 commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. The commissions received during the year amounted to \$355,000 (2007 – \$623,000).
- b) The Corporation paid legal and professional fees and reimbursements amounted to \$113,000 (2007 – \$159,000) 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 (2007 – \$980,000), 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 purchased by the participants.

15. BANKING FACILITIES

The Corporation has an operating line of credit of \$3.5 million (2007 – \$3.5 million) carrying interest at the prime rate and a revolving line of credit of \$50 million (2007 NIL) carrying interest at the prime plus 1%. As at September 30, 2008 and 2007, no amount has been drawn on these lines of credit. A general security agreement with charges against certain specific properties, a demand debenture in the amount of \$3.5 million and an assignment of rents have been given as collateral for these lines 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 four provinces located in Canada. The following summary presents segmented financial information for the Corporation's operations by geographic location:

| | 2008 | 2007 |
|--------------------------|-----------|-----------|
| RENTAL OPERATIONS | | |
| Alberta | | |
| Rental income | \$ 27,335 | \$ 25,444 |
| Operating expenses | 10,297 | 8,780 |
| Net operating income | 17,038 | 16,664 |
| British Columbia | | |
| Rental income | 10,041 | 7,785 |
| Operating expenses | 3,986 | 3,175 |
| Net operating income | 6,055 | 4,610 |
| Ontario | | |
| Rental income | 6,456 | 6,155 |
| Operating expenses | 3,750 | 3,183 |
| Net operating income | 2,706 | 2,972 |
| Saskatchewan | | |
| Rental income | 2,359 | 1,001 |
| Operating expenses | 1,550 | 554 |
| Net operating income | 809 | 447 |
| Total | | |
| Rental income | 46,191 | 40,385 |
| Operating expenses | 19,583 | 15,692 |
| Net operating income | \$ 26,608 | \$ 24,693 |

IDENTIFIABLE ASSETS AND LIABILITIES

| | | |
|-------------------------|------------|------------|
| Alberta | | |
| Real estate properties | \$ 148,873 | \$ 144,145 |
| Mortgages payable | 180,879 | 161,748 |
| British Columbia | | |
| Real estate properties | 92,148 | 74,573 |
| Mortgages payable | 75,769 | 61,204 |
| Ontario | | |
| Real estate properties | 48,135 | 47,961 |
| Mortgages payable | 37,484 | 41,005 |
| Saskatchewan | | |
| Real estate properties | 25,086 | 19,155 |
| Mortgages payable | 14,181 | 5,670 |
| Total | | |
| Real estate properties | 314,242 | 285,834 |
| Mortgages payable | \$ 308,313 | \$ 269,627 |

18. SUBSEQUENT EVENTS

Subsequent to the year end September 30, 2008, the Corporation acquired two properties, consisting of 84 units of residential apartments in Saskatoon, Saskatchewan and Abbotsford, British Columbia for the consideration of \$7.2 million. The acquisitions were settled by cash payments on October 22, and November 12, 2008 respectively.

On December 9, 2008, the Corporation announced its intention to offer to purchase up to 4,000,000 common shares of the Corporation at a purchase price of \$6.25 per common share on an aggregate amount of \$25 million. The offer expires on or about January 20, 2009.

Corporate Information

Officers

President and CEO

Bob Dhillon
Calgary, AB

Secretary

Joe Amantea
Calgary, AB

Chief Financial Officer & Chief Operating 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
Calgary, AB

Rich Grimaldi
Westport, CT

Lawrence Tapp
Langley, BC

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Calgary, AB

Solicitors

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

Borden, Ladner & Gervais
1000 Canterra Tower
400 Third Avenue SW
Calgary, AB

Banker

TD Canada Trust
335 – 4 Avenue SW
Calgary, AB

Stock Exchange

Toronto Stock
Exchange
(TRADING SYMBOL: MEQ)

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DESIGN & PRODUCTION

ion communications inc.

Reasons to Invest in Apartments and Mainstreet

WHY APARTMENTS?

Below Replacement Cost

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 2009 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 2009, 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 2008 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 43% 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.

www.mainst.biz